

INSTRUCTIONS FOR AMENDING  
SOUTH TEXAS PROJECT APPLICATION

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to incorporate Amendment 6 to this Application.

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Insert:

HI Annual Report-1978  
HI Form S-16 10/16/79  
HL&P Form 10K-12/31/78  
HL&P Prospectus 1/30/79  
CPS Official Statement 6/6/79  
CP&L Annual Report-1978  
COA Notice of Bond Sale-9/13/79

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2. Address of Owners

Mailing Address

Street Address

Houston Lighting & Power Company  
P. O. Box 1700  
Houston, Texas 77001

611 Walker Avenue  
Houston, Texas 77002

City of San Antonio  
City Public Service Board  
P. O. Box 1771  
San Antonio, Texas 78296

Navarro at Villita  
San Antonio, Texas 78205

Central Power and Light Company  
P. O. Box 2121  
Corpus Christi, Texas 78403

120 N. Chaparral St.  
Corpus Christi, Texas 78403

City of Austin  
Electric Utility Department  
P. O. Box 1088  
Austin, Texas 78767

3rd and West Ave.  
Austin, Texas 78767

3. Description of Business and Organization of Applicants

The Applicants, Houston, San Antonio, Central, and Austin are each engaged in the production, transmission, distribution, and sale of electric energy for lighting, heating, cooling, and power purposes to residential, commercial and industrial customers in the southern portion of the State of Texas. The latest annual report for each Applicant is attached as a part of Exhibit II and includes certain characteristics of each individual area served which are summarized as follows:

Houston is a corporation duly incorporated and existing under the laws of the State of Texas. Customers served by Houston are situated in the Houston Gulf Coast Area in the State of Texas. The municipalities of Houston, Galveston, Freeport, Baytown, and Pasadena are five of the larger cities served by Houston. Houston also provides wholesale power to the South East Division of the Community Public Service Company which in turn distributes this energy at retail in 11 cities and towns. As of December 31, 1978, Houston's gross utility plant before depreciation and including work in progress was \$3,316,468,000 and operating revenues for the year of 1978 were \$1,303,604,000. Construction work in progress as of December 31, 1978, totaled \$621,175,000.

San Antonio is a municipal corporation and political subdivision of the State of Texas which owns and, through the City Public Service Board of San Antonio, a municipal board, operates the San Antonio public utility electric system. The City Public Service Board of San Antonio has full authority for the management and operation of the electric system which serves the City of San Antonio and the surrounding area. San Antonio also

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provides electric power to the municipally-owned distribution systems in Floresville, Castroville and Hondo, Texas for the purpose of resale, and to two co-ops. As of January 31, 1979, San Antonio's gross electric utility plant before depreciation and including work in progress was \$1,137,239,000. Work in progress as of January 31, 1979, totaled \$289,612,000, and gross revenues for the sale of electricity for the year ending January 31, 1979 were \$257,675,000.

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Central is a corporation duly incorporated and existing under the laws of the State of Texas. As of December 31, 1978, Central provided wholesale power to six distribution co-ops and one generation and transmission co-op, and two municipal electric systems. As of December 31, 1978, Central served approximately 16 percent of the geographic area of Texas. Corpus Christi, Laredo, Victoria, Harlingen, and McAllen are the largest cities served by Central. As of December 31, 1978, Central's gross utility plant before depreciation and including work in progress was \$1,241,935,000. Work in progress as of December 31, 1978, totaled \$409,177,000. Revenues for the year of 1978 were \$487,495,000.

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Austin is a municipal corporation and political subdivision of the State of Texas which owns and operates the public utility electric system. Austin has full authority for the management of the public utility electric system in the production, transmission, distribution, and sale of electric energy in the City of Austin and the surrounding area. Austin does not provide electric service to any wholesale customer. The gross operating utility plant before depreciation was valued at \$599,958,056, including construction in progress for the year ending September 30, 1978. Construction work in progress as of September 30, 1978, totaled \$268,413,592. Gross revenues for the year ending September 30, 1978, totaled \$150,807,742.

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Characteristics of each individual area served are listed as follows:

	Houston (as of Dec. 31, 1978)	San Antonio (as of Jan. 31, 1979)	Central (as of Dec. 31, 1978)	Austin (as of Dec. 31, 1978)
Approximate Area Served (square miles)	5,000	1,566	44,188	415
Approximate Population Served (x 1,000)	2,960	985	1,222	396
Customers	891,509	307,638	406,477	147,154

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	Houston (as of Dec. 31, .978)	San Antonio (as of Jan. 31, 1979)	Central (as of Dec. 31, 1978)	Austin (as of Dec. 31, 1978)
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Distribution of Sales  
(percent)

Residential	22	34	25	38
Commercial	17	15	21	57***
Industrial	55	45	44	
Other	6	6	10	5
Communities Served at Retail*	158	25	213	9

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Net

Generating Capability (megawatts)	11,193	3,034**	2,976	1,400
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1986 Estimated

Net Capability (megawatts)	14,985	3,734	4,126	2,270
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\* Incorporated and unincorporated

\*\*Oil fired rating. This amount includes 80 MW which are available for emergency use only.

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\*\*\*Includes Commercial and Industrial

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None of the Applicants are owned, controlled or dominated by an alien, a foreign corporation or a foreign government. Houston is acting herein solely as Project Manager for the Applicants and not for any other entity.

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On January 14, 1977, pursuant to a merger and corporate restructuring plan approved by the shareholders of HL&P, Houston Industries Incorporated (HI) became the owner of all of HL&P's outstanding common stock and all of the outstanding stock of HL&P's two former subsidiaries, Primary Fuels, Inc. and Utility Fuels, Inc. In the merger and restructuring, each share of outstanding common stock of HL&P became one share of common stock of HI. In addition, HL&P's outstanding convertible debentures became convertible into the common stock of HI rather than into HL&P common stock. None of the other outstanding securities of HL&P, including its cumulative preferred stock and first mortgage bonds, were affected. HI is a holding company as defined in the Public Utility Holding Company Act. It is exempt from regulation as a "registered holding company" under that Act except with respect to the acquisition of securities of other public utility companies. Such exemption is based upon the intrastate character of the operations of

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HI's public utility subsidiary, HL&P, and the filing with the SEC of an annual exemption statement pursuant to its Rule U-2. The latest annual report of HI is also attached as part of Exhibit II.

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As of December 31, 1978, records indicate that foreign stockholders held less than .26 percent of the common and preferred stock outstanding for either Houston or HI.

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All of Central's common stock is owned by Central and South West Corporation. Central and South West Corporation's stock transfer agent has certified that as of the close of business on May 31, 1979, Central and South West Corporation's foreign stockholders held 230,233 shares of common stock. Central and South West Corporation's foreign stockholders constituted 0.80 percent of the total common shareholders and foreign held stock constituted 0.35 percent of total common shares outstanding.

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San Antonio and Austin are municipal corporations and political subdivisions of the State of Texas and have no stockholders.

The names and addresses of the Applicants' directors and principal officers, all of whom are citizens of the United States, are as follows:

HOUSTON LIGHTING & POWER COMPANY

<u>Directors</u>	<u>Address</u>		6
Searcy Bracewell, Jr.	2900 Southwest Tower, Pennzoil Place Houston, Texas 77002		5
Wm. R. Brown	3000 One Shell Plaza Houston, Texas 77002		5
H. R. Dean	611 Walker Houston, Texas 77002		5
John C. Echols	P. O. Box 150 Baytown, Texas 77520		5
Howard W. Horne	The Horne Company 3200 One Shell Plaza Houston, Texas 77002		5
D. D. Jordan	611 Walker Houston, Texas 77002		
Ben F. Love	P. O. Box 2558 Houston, Texas 77001		6
G. W. Oprea, Jr.	611 Walker Houston, Texas 77002		1
Stewart Orton	P. O. Box 1971 Houston, Texas 77001		6
Willard E. Walbridge	330 Two Greenway Plaza, East Houston, Texas 77046		5
Joe C. Wessendorff	611 Morton Street Richmond, Texas 77469		6
<u>Houston's Officers</u>			5
D. D. Jordan President and Chief Executive Officer			4
G. W. Oprea, Jr. Executive Vice President			1

December 5, 1979

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Amendment 6

T. A. Standish Senior Vice President	4
J. D. Cowart Group Vice President - Administrative	5
H. R. Dean Group Vice President - Accounting and Finance	5
K. R. Hinckley Group Vice President - External Relations	4
A. R. Beavers Vice President - Purchasing and Services	5
R. L. Evans, Jr. Vice President - Operations	4
R. M. McCuiston Vice President - Engineering	
C. L. McNeese Vice President - Federal Relations	5
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D. E. Simmons Vice President - Corporate Planning	4
D. D. Sykora Vice President - Customer Relations	6
E. A. Turner Vice President - Power Plant Construction & Technical Services	5
J. R. Johnston Secretary & Treasurer	6
R. S. Letbetter Comptroller	6
J. S. Brian Assistant Secretary & Assistant Treasurer	6
Wm. R. Brown General Counsel, Houston Industries Incorporated	5

Addresses of all the above Houston officers:

Mailing:

Street:

P. O. Box 1700  
Houston, Texas 77001

611 Walker Avenue  
Houston, Texas 77002

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CITY OF SAN ANTONIO

<u>Board of Trustees</u>	<u>Address</u>	
Eloy Centeno, Chairman	1802 West Commerce Street San Antonio, Texas 78207	5
Glenn Biggs, Vice Chairman	P. O. Box 2479 San Antonio, Texas 78207	5
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Ruben Escobedo	6061 Northwest Expressway San Antonio, Texas 78201	5
Earl Hill	2404 Tower Life Bldg., San Antonio, Texas 78205	
Lila Cockrell, Mayor (Ex-Officio Member)	P. O. Box 9066 San Antonio, Texas 78285	5
<u>San Antonio's Management Staff</u>		
J. K. Spruce General Manager		
H. L. Freeman, Jr. Assistant General Manager for Finance and Administration/Secretary Treasurer		4
J. B. Poston Assistant General Manager for Operations		
L. E. Boulden Customer Services		
J. M. Costello Personnel		6
W. F. Dreiss Construction		
LeRoy Eck Industrial Development		4
J. K. Harz Financial Services/Assistant Treasurer		6
M. M. Hormuth Power Plant Operations		6

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R. C. Mecke  
System Operations

C. H. Oswald  
Data Processing Services

O. E. Park  
Special Assistant for Research

J. W. Pettinos, Jr.  
Engineering

P. S. Schooler  
Legal Services/Assistant Secretary

L. J. Spengler  
Public Relations

D. S. Thomas  
Rates and Regulatory Matters

A. Von Rosenberg  
Planning and Development

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Addresses of the above San Antonio Management Staff:

Mailing:	Street:
P. O. Box 1771 San Antonio, Texas 78296	Navarro at Villita San Antonio, Texas 78205

The names and addresses of Central's directors and principal officers, all of whom are citizens of the United States, are as follows:

CENTRAL POWER AND LIGHT COMPANY

<u>Directors</u>	<u>Address</u>
S. B. Phillips, Jr.	CSR Services, Inc. 2700 One Main Place Dallas, Texas 75250
Roff W. Hardy	4 Trafalgar Square Abilene, Texas 79605
Durwood Chalker	120 N. Chapparral Street Corpus Christi, Texas 78403

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R. L. Range 120 N. Chaparral Street  
Corpus Christi, Texas 78403

Aaron E. Autry 120 N. Chaparral St.  
Corpus Christi, Texas 78403

W. C. Price 120 N. Chaparral St.  
Corpus Christi, Texas 78403

W. P. Smith, Jr. 120 N. Chaparral St.  
Corpus Christi, Texas 78403

Vannie E. Cook, Jr. P. O. Box 1060  
McAllen, Texas 78501

John W. Crutchfield B&T 247  
Corpus Christi, Texas 78477

S. B. Denton 120 N. Chaparral St.  
Corpus Christi, Texas 78403

Herbert C. Petry, Jr. P. O. Box 218  
Carrizo Springs, Texas 78834

P. K. Stubblefield P. O. Box 1698  
Victoria, Texas 77901

Lucien Flournoy P. O. Box 491  
Alice, Texas 78332

Central's Officers

Aaron E. Autry  
Chief Operating Officer

M. L. Borchelt  
Executive Vice President and Chief Engineering Officer

R. L. Range  
Executive Vice President and Chief Financial Officer

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S. B. Denton  
Vice President

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W. C. Price  
Vice President

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W. P. Smith, Jr.  
Vice President

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W. F. Ross  
Controller

W. A. Cockburn  
Secretary-Treasurer

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J. J. Matula  
Assistant Treasurer

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Florine Gupton  
Assistant Secretary

Addresses of all the above Central officers:

Mailing:

Street:

P. O. Box 2121  
Corpus Christi, Texas 78403

120 N. Chaparral St.  
Corpus Christi, Texas 78403

The names and addresses of the City Council of the City of Austin, the City Manager, the Finance Administrator, the City Attorney, the Director of the Electric Utility Department, and principal members of the Electric Utility Department, all of whom are citizens of the United States, are as follows:

CITY OF AUSTIN

City Council

Carole Keeton McClellan, Mayor

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Ron Mullen, Council Member

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Lee Cooke, Council Member

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Richard Goodman, Council Member

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consisting of two (2) generating units utilizing pressurized water reactors. Each reactor will have an initial nuclear output of 3800 MWt (an additional 17 MWt originates from non-nuclear sources), and each associated turbine generator will have an estimated gross electrical output of 1312 MWe. The facility will include associated transformers, switchyard, support buildings, and additional auxiliary systems as required. The Containment and Engineered Safety Features are designed and evaluated for operation at a power level of 4100 MWt. The turbine generator, balance of plant and the related facilities are designed to accommodate a Nuclear Steam Supply System output of 3879 MWt which corresponds to an estimated gross electrical output of 1330 MWe.

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The South Texas Project site is located approximately fifteen (15) miles Southwest of Bay City on the west side of the Colorado River in Matagorda County. The site consists of a nominal 12,300 acres. About 7,300 acres are required for a cooling reservoir; 7,000 acres of which will be the effective cooling area, and 300 acres are required for the embankment surrounding the reservoir. The restricted area will include 1,146 acres on land and 850 acres on water for a total of 1,996 acres. Some 200 acres of the restricted area will be utilized for the plant itself. Another 100 acres will be required for railroad spurs, parking areas and the switchyard. The detailed site plan, safety and environmental considerations and specifications are contained in the Final Safety Analysis Report (FSAR) and the Environmental Report--Operating License Stage (ER/OL Stage), both of which constitute a part of this application. These documents were tendered May 10, 1978. Additional information will be found in the Preliminary Safety Analysis Report (PSAR) and in the Environmental Report--Construction Permit Stage (ER/CP Stage) already a part of this docket.

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The South Texas Project facilities will be utilized for the generation of electric energy for transmission and sale by the individual Applicants. The proposed facility is a necessary addition to the system of each Applicant to provide for increasing customer electrical demand and to replace fossil generating capacity. Exhibit III-A includes a plot of the past and forecasted generating capability for each Applicant from 1964 to 1988. Exhibit III-B presents the past and forecasted annual peak demands, interruptible demands, firm purchases and sales and energy consumption for each of the Applicants from 1964 and projected to 1988.

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6. Financial Qualifications

The latest annual report for each Applicant is attached as a part of Exhibit II. A prospectus or official statement and supporting information in connection with the sale of securities for each Applicant is included as part of Exhibit II dated as follows:

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Houston Prospectus, January 30, 1979  
San Antonio Official Statement, June 6, 1979.  
Central Prospectus, September 28, 1977; and  
Austin Official Statement, September 13, 1979.

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The Applicants will pay the entire cost of the South Texas Project in proportion to the percent interest therein of each Applicant as specified in Item 1 above. Funds will be available from normal and

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\*In addition, Houston's SEC Form 10K of December 31, 1978 HI's SEC FORM 10K of December 31, 1978 and HI's SEC FORM S-16, of October 16, 1979 are included as a part of Exhibit II.

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regular sources for construction of additions to each Applicant's property. Funds include: (1) funds on hand; (2) funds available from internal sources, primarily retained revenues and provisions for depreciation; (3) short-term bank loans and commercial paper; and (4) the sale of securities as required.

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Data concerning project financing by the sale of securities for each Applicant is listed below.

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Applicant	Recent Bond Rating	Rated by	Estimate of Percent of Applicants' Portion of Project Cost to be financed from Sale of Securities
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Houston	Aa	Moody's Investor Service, Inc.	60 - 65
	AA	Standard & Poor's Corp.	
San Antonio	Aa	Moody's Investor Service, Inc.	70 - 80
	AA	Standard & Poor's Corp.	
Central	Aa	Moody's Investor Service, Inc.	55 - 65
	AA	Standard & Poor's Corp.	
Austin	A1	Moody's Investor Service, Inc.	90 - 100
	A+	Standard & Poor's Corp.	

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The appropriate property and liability insurance will be obtained.

Yearly escalated cost requirements for engineering, construction, insurance, fees, and site improvements necessary for production are shown below:

through May 1979	\$ 886,414,000
1979	\$ 282,992,000*
1980	\$ 341,834,000
1981	\$ 259,528,000
1982	\$ 258,178,000
1983	\$ 219,066,000
1984	\$ 129,459,000
1985	\$ 62,268,000
1986	\$ 1,645,000
TOTAL	\$2,441,384,000

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\* Projected expenditures from June, 1979 through December, 1979

The estimated budget for the South Texas Project is as follows:

Direct Costs:	\$1,053,765,000
Indirect Costs:	889,461,000
Participants	
Costs:	498,158,000
	<hr/>
	\$2,441,384,000

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The above estimate is in escalated dollars using a rate of 7 percent per year and excludes fuel, interest during construction, taxes and contingencies. The amount of interest capitalized by each Applicant will be recorded on its records and will vary among the Applicants based upon individual cost experience and internal policies. The initial fuel core cost is \$95,446,000 in escalated dollars, but exclusive of interest during construction.

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The above total does not include the cost of transmission facilities. Each Applicant will bear the cost of the transmission facilities necessary to connect its system to the South Texas Project switchyard. Houston will construct and maintain transmission facilities within the South Texas Project plant site to the extent required by the Nuclear Regulatory Commission. The estimated transmission right-of-way and construction cost for each Applicant including escalation and interest during construction is listed below:

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Owner

Houston	\$ 22,626,000
San Antonio	\$ 32,184,000
Central	\$ 27,769,000
Austin	\$ 9,828,000

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TOTAL \$ 92,407,000

The costs of decommissioning the South Texas Project, including security, are estimated to be \$30,400,000. The estimated operating costs for the five year period from 1984 through 1988 excluding fuel are \$41,158,000. All of the above estimates represent current dollar values. The annual reports, prospectuses and official statements of the Applicants included in Exhibit II show that they have reasonable assurance of obtaining funds necessary to cover estimated costs of operation for the first five years of operation of the Plant, and the cost of decommissioning the Plant and maintaining it in a safe condition.

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7. Completion Dates

The earliest construction completion dates for Units 1 and 2 are estimated to be March, 1983 and March, 1985, respectively. The latest completion dates are estimated to be September, 1985 and September, 1987, respectively. Commercial operation for Units 1 and 2 is scheduled for February, 1984 and February, 1986, respectively.

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8. Regulatory Agencies

By order of July 21, 1976, in Docket No. E-9558, the Federal Power Commission ruled that Houston was not subject to its jurisdiction. In April, 1978, the United States Circuit Court of Appeals for the District of Columbia ruled that The Federal Power Commission order of July 21, 1976, was not based on sufficient findings of fact and remanded the matter to the Federal Energy Regulatory Commission, successor to the Federal Power Commission, for further consideration.

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Most municipalities in Texas have primary jurisdiction to regulate rates and to prescribe rules and regulations under which service is rendered by investor owned electric utilities operating within their boundaries. Lists of the municipalities from which Houston and Central have franchises are provided as Exhibit IV-A and Exhibit IV-B, respectively. The San Antonio and Austin City Councils have established the present rates for their respective systems. San Antonio and Austin City Councils have the following addresses:

City Council  
City of San Antonio  
P. O. Box 9066  
San Antonio, Texas 78285

City Council  
City of Austin  
P. O. Box 1088  
Austin, Texas 78767

With respect to the investor owned electric systems, the Texas Public Utility Commission has primary jurisdiction as to rates, rules and regulations under which service is rendered outside the boundaries of those municipalities having regulatory authority and appellate jurisdiction over rates, rules and regulations established by those municipalities having regulatory authority. The address of the Texas Public Utility Commission is:

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Public Utility Commission of Texas  
7800 Shoal Creek Boulevard, Suite 450N  
Austin, Texas 78757

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9. Trade and News Publications

Major trade and news publications which circulate in and around the South Texas Project site area and areas served by each Applicant are listed below. The publications listed are considered appropriate to give reasonable notice of the application to those municipalities, private utilities, public bodies, and cooperatives, which might have a potential interest in the South Texas Project.

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A. Trade Publications

- |  |  |
|--|--|
| <p>1. Atomic Industrial Forum, Inc.<br/>4101 Wisconsin Avenue<br/>Washington, D.C. 20014</p> | <p>2. Electric Light and Power<br/>221 Columbus Avenue<br/>Boston, Massachusetts 02116</p> |
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3. Electric World  
1221 Avenue of the Americas  
New York, New York 10020
4. Nuclear News  
American Nuclear Society  
244-A East Ogden Avenue  
Hindsale, Illinois 60521
5. Power Engineering  
Technical Publishing Co.  
1301 South Grove Avenue  
Barrington, Illinois 60010

B. News Publications Circulated in Site Area

- |  |   |
|--|---|
| 1. Angleton Times<br>P. O. Box 936<br>Angleton, Texas 77515          | 10. The Houston Chronicle<br>801 Texas<br>Houston, Texas 77002                        |
| 2. Bay City Daily Tribune<br>P. O. Box 1551<br>Bay City, Texas 77414 | 11. The Houston Post<br>4747 Southwest Freeway<br>Houston, Texas 77001                |
| 3. Brazoria County News<br>645 S. 17th<br>West Columbia, Texas 77486 | 12. Palacios Beacon<br>P. O. Box 817<br>Palacios, Texas 77465                         |
| 4. Brazorian News<br>P. O. Box 936<br>Angleton, Texas 77515          | 13. Wall Street Journal<br>Southwest Edition<br>1233 Regal Row<br>Dallas, Texas 75247 |
| 5. Brazosport Facts<br>P.O. Box 1055<br>Freeport, Texas 77541        | 14. Wharton Journal-Spectator   6<br>115 W. Burleson<br>Wharton, Texas 77488          |
| 6. El Campo Citizen<br>P. O. Box 907<br>El Campo, Texas 77437        |   |
| 7. El Campo Leader News<br>P. O. Box 1180<br>El Campo, Texas 77437   |   |
| 8. Ganado Tribune<br>P. O. Drawer B<br>Edna, Texas 77957             |   |
| 9. Gulf Coast Tribune<br>P. O. Box 88<br>Needville, Texas 77461      |   |

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C. News Publications Circulated in Applicant Areas Served (In addition to the news publications listed in Part 9B)

- |   |   |   |   |
|---|---|---|---|
| 1. Alamo News<br>P.O. Box 668<br>Alamo, Texas 78516                     |   |   |   |
| 2. Alice Echo-News<br>P.O. Box 1610<br>Alice, Texas 78332               |   |   |   |
| 2a. Alvin Sun<br>P. O. Drawer 431<br>Alvin, Texas 77571                 | 6 |   |   |
| 3. The American Statesman<br>P.O. Box 670<br>Austin, Texas 78767        |   |   |   |
| 4. Aransas Pass Prog.<br>P.O. Drawer EEE<br>Aransas Pass, Texas 78336   |   |   |   |
| 5. The Austin Citizen<br>P.O. Box 9749<br>Austin, Texas 78766           |   |   |   |
| 6. Bee Picayune<br>P.O. Box 10<br>Beeville, Texas 78102                 | 4 |   |   |
| 7. Bellville Times<br>Bellville, Texas 77418                            |   |   |   |
| 8. Border Eagle<br>P.O. Drawer C<br>Del Rio, Texas 78840                | 4 |   |   |
| 9. Brookshire Times<br>806 Avenue C<br>Katy, Texas 77450                |   |   |   |
| 10. Brownsville Herald<br>1135 L. Van Buren<br>Brownsville, Texas 78520 |   |   |   |
| 11. Brownsville Times<br>Brownsville, Texas 78520                       |   |   |   |
| 12.   | 6 |   |   |
| 13.   |   |   |   |
|   |   | 14. Corpus Christi Caller<br>Corpus Christi Times<br>P.O. Box 9136<br>Corpus Christi, Texas 78408 | 5 |
|   |   | 15. Carrizo Springs Javelin<br>P.O. Box 188<br>Carrizo Springs, Texas 78834                       |   |
|   |   | 15a. Castroville News Bulletin<br>P.O. Drawer D<br>Castroville, Texas 78009                       | 4 |
|   |   | 16. Colorado County Citizen<br>P.O. Box 548<br>Columbus, Texas 78934                              | 4 |
|   |   | 17. Commercial Recorder<br>414 Dolorosa<br>San Antonio, Texas 78204                               |   |
|   |   | 18. Cotulla Record<br>P.O. Drawer C<br>Cotulla, Texas 78014                                       |   |
|   |   | 19.   | 6 |
|   |   | 20. Del Rio News Herald<br>P.O. Drawer C<br>Del Rio, Texas 78840                                  |   |
|   |   | 21. Devine News<br>P.O. Box 608<br>Devine, Texas 78016  | 6 |
|   |   | 22. Dewitt County View<br>P.O. Box 275<br>Yorktown, Texas 78164                                   | 4 |
|   |   | 23. Dilley Herald<br>P.O. Drawer E<br>Dilley, Texas 78017   | 4 |
|   |   | 24. Eagle Lake Headlight<br>P.O. Box 67<br>Eagle Lake, Texas 77434                                |   |
|   |   | 25. Eagle Pass News Guide<br>P.O. Box 764<br>Eagle Pass, Texas 78852                              |   |

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25a. East Bernard Tribune P.O. Box 427 Hallettsville, Texas 77964	6	37. Hempstead News Hempstead, Texas 77445	
26. Edinburg Daily Review 215 E. University Drive Edinburg, Texas 78539		38.	6
27. Edna Herald P.O. Drawer B Edna, Texas 77957	4	38a. Hondo Anvil Herald P.O. box 400 Hondo, Texas 78861	4
28.		39.	6
29.	6	40. Ingleside Index P.O. Box EEE Aransas Pass, Texas 78336	4
30. El Progreso P.O. Box 3249 Corpus Christi, Texas 78404		41. Jim Hogg County Enterprise P.O. Box 1042 Hebbronville, Texas 78361	4
31. San Antonio Express San Antonio News P.O. Box 2171 San Antonio, Texas 78297	5	42. Karnes City Citation P.O. Box 99 Karnes City, Texas 78118	
32. Falfurrias Facts P.O. Box 619 Falfurrias, Texas 78355		43. Karnes County News P.O. Box 219 Karnes City, Texas 78118	6
32a. Floresville Chronicle Journal P.O. Box 820 Floresville, Texas 78114	4	44. Kenedy Advance P.O. Box 89 Kenedy, Texas 78119	
33. Fort Bend Mirror B. E. Landrum Stafford, Texas 77417		45. Kenedy Times P.O. Box 276 Kenedy, Texas 78119	
34.	6	46. The Kinney Cavalryman P.O. Box 735 Brackettville, Texas 78832	4
35. Goliad Advance Guard P.O. Box 630 Goliad, Texas 77963		47. Kingsville-Bishop Record News P.O. Box 951 Kingsville, Texas 78363	
36.	6	48. La Feria News P.O. Box 308 La Feria, Texas 78559	

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|--|---|--|---|
| 49. Laredo Citizen<br>P.O. Box 598<br>Laredo, Texas 78040                        |   | 60. Pearsall Leader<br>P.O. Box L<br>Pearsall, Texas 78061                         |   |
| 50. Laredo Times<br>P.O. Box 29<br>Laredo, Texas 78040                           |   | 61. Pharr Press<br>P.O. Box 710<br>Pharr, Texas 78577                              |   |
| 50a. Laredo News<br>P.O. Box 1928<br>Laredo, Texas 78040                         | 6 | 62. Pleasanton Express<br>P.O. Drawer 130<br>Pleasanton, Texas 78064               |   |
| 51. La Verdad<br>910 Francisca<br>Corpus Christi, Texas 78405                    |   | 63. Port Isabel-South Padre Island<br>P.O. Box 308<br>Port Isabel, Texas 78578     |   |
| 52. Mathis News<br>P.O. Box 38<br>Mathis, Texas 78368                            |   | 64.  | 6 |
| 53. Mid-Valley Town Crier<br>931 W. Hwy. 83<br>Weslaco, Texas 78596              | 4 | 65. Portland News<br>P.O. Box 8<br>Taft, Texas 78390                               | 6 |
| 5b. Mercedes Enterprise<br>P.O. Box 657<br>Mercedes, Texas 78570                 |   | 66. Port Lavaca Wave<br>P.O. Drawer EE<br>Port Lavaca, Texas 77979                 |   |
| 55. The Monitor<br>P.O. Box 790<br>McAllen, Texas 78501                          | 4 | 67.  | 6 |
| 56. The Atascosa County Citizen News<br>P.O. Drawer T<br>Pleasanton, Texas 78064 | 6 | 68. Progress<br>P.O. Box 848<br>Three Rivers, Texas 78071                          |   |
| 57. Nixon News<br>P.O. Box 159<br>Nixon, Texas 78140                             |   | 69. Raymondville Chronicle-News<br>376 W. Kimble Ave.<br>Raymondville, Texas 78580 |   |
| 58. Odem - Edroy Times<br>P.O. Box 8<br>Taft, Texas 78390                        |   | 70. Refugio County Press<br>P.O. Drawer 200<br>Refugio, Texas 78377                |   |
| 59.  | 6 | 71.  | 6 |
| 59a. Pearland Journal<br>P.O. Box 81<br>Friendswood, Texas 77546                 | 6 | 72. Rio Grande Herald<br>P.O. Box 452<br>Rio Grande City, Texas 78582              |   |
| 59b. Pearland News<br>P.O. Box 770<br>Friendswood, Texas 77546                   | 6 | 73. Robstown Record<br>104 N. 5th<br>Robstown, Texas 78380                         | 4 |

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|---|---|--|---|
| 74. Rockport Pilot<br>P.O. Box 608<br>Rockport, Texas 78382             | 6 | 87. Toast of the Coast Herald<br>Box 1448<br>Rockport, Texas 78382                           |   |
| 75. Rosenberg Herald-Coaster<br>P.O. Box 1088<br>Rosenberg, Texas 77471 |   | 88. Upper Valley Progress<br>P.O. Box 353<br>Mission, Texas 78572                            |   |
| 76. Sabinal Times<br>1601 Ave. K<br>Hondo, Texas 78861                  | 6 | 88a. San Juan Advance<br>P.O. Box 61<br>San Juan, Texas 78589                                | 6 |
| 77. San Antonio Light<br>P.O. Box 161<br>San Antonio, Texas 78291       |   | 89. Uvalde Leader-News<br>P.O. Box 758<br>Uvalde, Texas 78801                                |   |
| 78. San Benito News<br>P.O. Drawer 1741<br>San Benito, Texas 78586      |   | 90. Valley Citizen<br>P.O. Box 2247<br>Harlingen, Texas 78550                                | 6 |
| 79. San Pat Cty. News<br>P.O. Drawer B<br>Sinton, Texas 78387           |   | 91. Valley Morning Star<br>1310 So. Commerce St.<br>Harlingen, Texas 78550                   |   |
| 80. Sealy News<br>P.O. Box 488<br>Sealy, Texas 77474                    |   | 92. Victoria Advocate<br>P.O. Box 1518<br>Victoria, Texas 77901                              |   |
| 81.   | 6 | 93.  | 6 |
| 82.   | 6 | 94. Weslaco Mid-Valley News<br>529 S. Tex. Blvd.<br>Weslaco, Texas 78596                     |   |
| 83. South Jetty<br>P.O. Box 1116<br>Port Aransas, Texas 78373           | 6 | 95. The Western Star<br>10514-C Leopard St.<br>Stonewall Mall<br>Corpus Christi, Texas 78410 | 4 |
| 84. The South Texas Reporter<br>P.O. Drawer 1005<br>Roma, Texas 78584   | 4 | 96.  | 6 |
| 85. Taft Tribune<br>P.O. Box 8<br>Taft, Texas 78390                     |   | 97. The Yorktown News<br>P.O. Box 398<br>Yorktown, Texas 78164                               | 4 |
| 86. Texas Mohair Weekly<br>P.O. Box 287<br>Rocksprings, Texas 78880     |   | 98. Zavala County Sentinel<br>P.O. Drawer G<br>Crystal City, Texas 78839                     |   |

Copies should be provided to:

Mr. D. G. Barker  
Manager, South Texas Project  
Houston Lighting & Power Company  
P. O. Box 1700  
Houston, Texas 77001

| 6

Mr. J. R. Geurts  
Brown & Root, Inc.  
P. O. Box Three  
Houston, Texas

| 6

| 4

Mr. A. T. Parker  
Manager, Texas Projects  
Westinghouse Electric Corporation  
P. O. Box 355  
Pittsburgh, PA 15230

| 6

| 4

Mr. M. L. Borchelt  
Central Power and Light Company  
P. O. Box 2121  
Corpus Christi, Texas 78403

| 4

Mr. R. L. Hancock  
City of Austin  
Electric Utility Department  
P. O. Box 1088  
Austin, Texas 78767

Mr. J. B. Poston  
City of San Antonio  
City Public Service Board  
P. O. Box 1771  
San Antonio, Texas 78296

| 4

Jack R. Newman, Esq.  
Lowenstein, Newman, Reis, Axelrad & Toll  
1025 Connecticut Avenue, N.W.  
Washington, D. C. 20036

| 6

R. Gordon Gooch, Esq.  
Baker & Botts  
1701 Pennsylvania Ave., N.W.  
Washington, D. C. 20006



and

Melbert Schwarz, Jr., Esq.  
Baker & Rotts  
One Shell Plaza  
Houston, Texas 77002

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HOUSTON LIGHTING & POWER COMPANY

By *E. A. Turner*  
E. A. Turner  
Vice President - Power Plant  
Construction & Technical Services

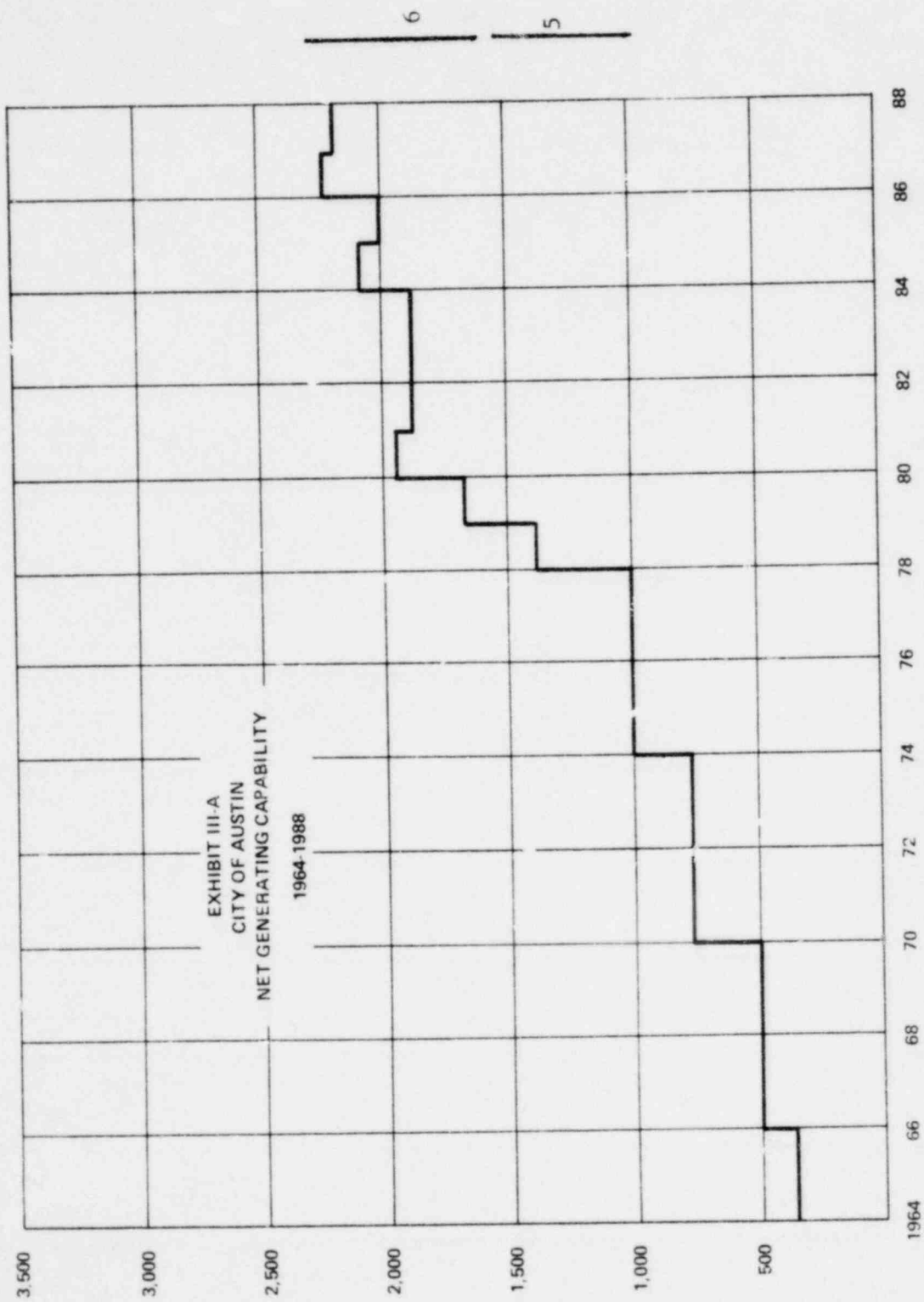
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December 5, 1979

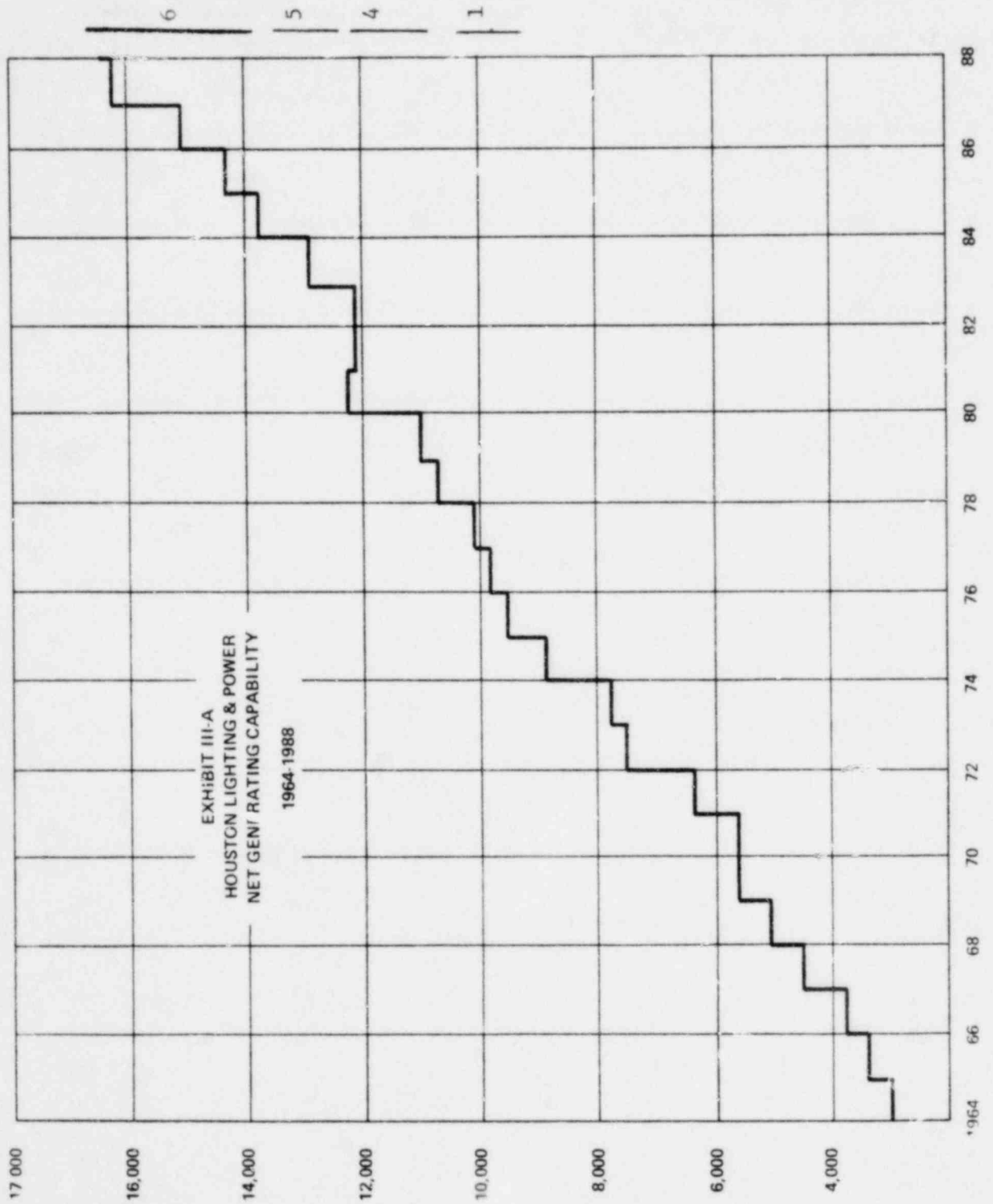
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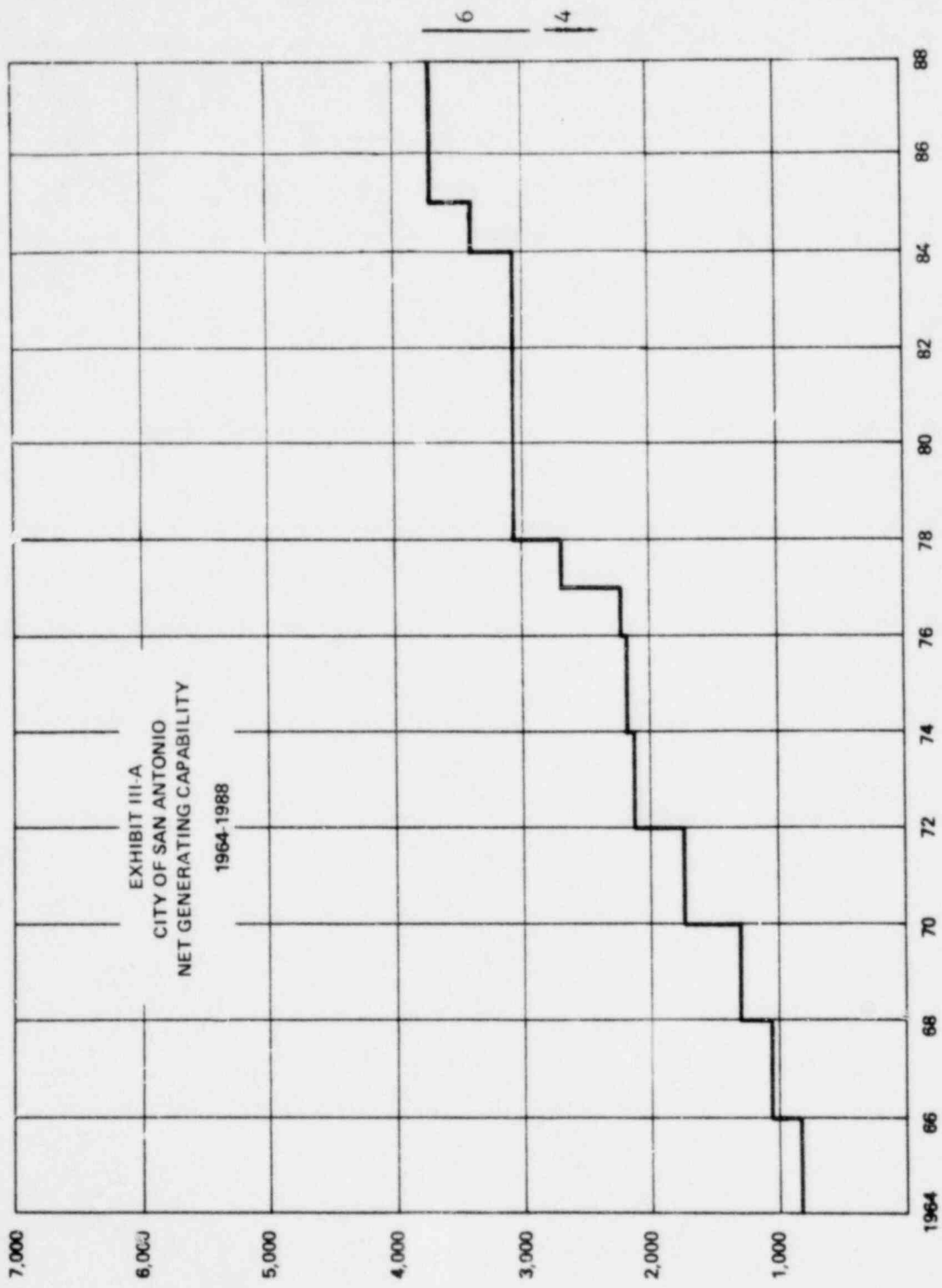
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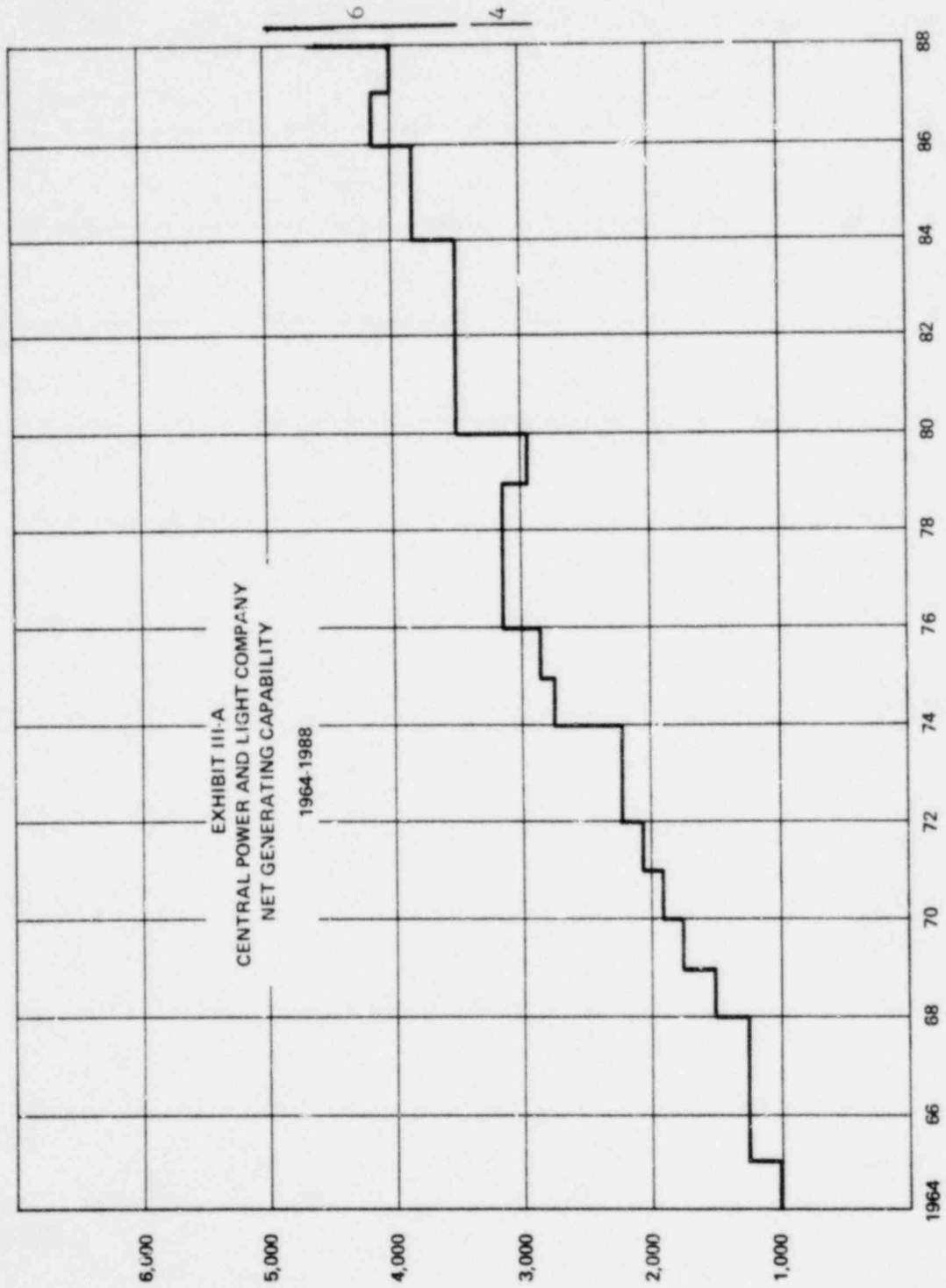
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EXHIBIT III-B

PAST AND FORECASTED ANNUAL PEAK DEMANDS,  
INTERRUPTIBLE DEMANDS, FIRM PURCHASES AND  
SALES AND ENERGY CONSUMPTION

Year	Utility(1)	Peak Demand(2) (Mw)	Interruptible Demand(3) (Mw)	Firm Purchases (+) Sales (-) (Mw)	Annual Consumption (Gwh)
1964	Austin	238	0	0	955
	Houston	2,778	0	0	14,368
	San Antonio	625	0	-30	2,614
	Central	870	11	52	5,120
1965	Austin	257	0	0	1,039
	Houston	3,039	0	0	16,328
	San Antonio	664	0	-30	2,804
	Central	904	10	52	5,021
1966	Austin	283	0	0	1,139
	Houston	3,338	0	0	18,258
	San Antonio	759	0	-30	3,091
	Central	1,062	12	52	5,714
1967	Austin	320	0	0	1,293
	Houston	3,752	144	0	20,427
	San Antonio	840	0	-30	3,476
	Central	1,147	20	52	6,200
1968	Austin	346	0	0	1,450
	Houston	4,076	184	0	22,966
	San Antonio	941	0	-30	3,909
	Central	1,225	83	52	6,938
1969	Austin	438	0	0	1,723
	Houston	4,697	224	0	25,921
	San Antonio	1,107	0	-30	4,505
	Central	1,412	61	52	7,846

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EXHIBIT III-B (CONT'D)

PAST AND FORECASTED ANNUAL PEAK DEMANDS,  
INTERRUPTIBLE DEMANDS, FIRM PURCHASES AND  
SALES AND ENERGY CONSUMPTION

Year	Utility(1)	Peak Demand(2) (Mw)	Interruptible Demand(3) (Mw)	Firm Purchases (+) Sales (-) (Mw)	Annual Consumption (Gwh)	
1970	Austin	469	0	0	1,943	
	Houston	5,067	162	0	27,741	
	San Antonio	1,144	0	-30	4,798	6
	Central	1,410	88	52	8,169	
1971	Austin	541	0	0	2,243	
	Houston	5,308	222	0	30,888	
	San Antonio	1,274	0	-30	5,308	6
	Central	1,514	140	32	8,982	
1972	Austin	602	0	0	2,517	
	Houston	6,010	228	0	34,468	
	San Antonio	1,364	0	-30	5,853	6
	Central	1,641	143	37	9,791	
1973	Austin	632	0	0	2,609	
	Houston	6,484	224	0	36,694	
	San Antonio	1,415	0	0	5,801	6
	Central	1,694	160	-19	10,024	
1974	Austin	660	0	0	2,629	
	Houston	6,930	220	0	38,191	
	San Antonio	1,412	0	0	5,775	
	Central	1,764	140	-28	10,166	
1975	Austin	681	0	0	2,734	
	Houston	7,252	213	0	40,276	4
	San Antonio	1,493	0	0	6,050	6
	Central	1,791	79	-43	9,763	

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## EXHIBIT III-B (CONT'D)

PAST AND FORECASTED ANNUAL PEAK DEMANDS,  
INTERRUPTIBLE DEMANDS, FIRM PURCHASES AND  
SALES AND ENERGY CONSUMPTION

Year	Utility(1)	Peak Demand(2) (Mw)	Interruptible Demand(3) (Mw)	Firm Purchases (+) Sales (-) (Mw)	Annual Consumption(4) (Gwh)	
1976	Austin	711	0	0	2,321	4
	Houston	8,019	200	0	43,355	6
	San Antonio	1,560	0	0	6,180	6
	Central	1,891	65	-58	10,330	4
1977	Austin	774	0	0	3,076	5
	Houston	8,445	200	0	48,534	6
	San Antonio	1,641	0	0	6,673	6
	Central	2,210	37	-66	12,106	6
1978	Austin	763	0	0	3,246	6
	Houston	9,114	248	0	53,323	6
	San Antonio	1,688	0	0	7,223	6
	Central	2,174	88	-69	12,776	6
1979	Austin	790	0	0	3,269	6
	Houston	9,336	266	0	55,863	6
	San Antonio	1,834	0	0	8,326	6
	Central	2,263	127	-33	13,065	6
1980	Austin	817	0	-500	3,334	6
	Houston	10,150	280	+500	58,379	6
	San Antonio	1,963	0	0	8,942	6
	Central	2,450	123	-50	14,097	6
1981	Austin	862	0	-500	3,543	6
	Houston	10,575	280	+500	61,351	6
	San Antonio	2,124	0	0	8,722	6
	Central	2,574	115	-82	14,641	6

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EXHIBIT III - B (CONT'D)

PAST AND FORECASTED ANNUAL PEAK DEMANDS,  
INTERRUPTIBLE DEMANDS, FIRM PURCHASES AND  
SALES AND ENERGY CONSUMPTION

Year	Utility(1)	Peak Demand(2) (Mw)	Interruptible Demand(3) (Mw)	Firm Purchases(+) Sales (-) (Mw)	Annual Consumption(4) (Gwh)
1982	Austin	907	0	-500 <sup>(5)</sup>	3,802
	Houston	10,950	280	+500 <sup>(5)</sup>	63,499
	San Antonio	2,270	0	0	9,315
	Central	2,826	122	-141	16,179
1983	Austin	960	0	-500 <sup>(5)</sup>	4,090
	Houston	11,375	280	+500 <sup>(5)</sup>	66,021
	San Antonio	2,409	0	0	9,880
	Central	2,934	122	-165	17,013
1984	Austin	1,016	0	-500 <sup>(5)</sup>	4,416
	Houston	11,925	280	+500 <sup>(5)</sup>	69,084
	San Antonio	2,543	0	0	10,455
	Central	3,054	122	-257	17,500
1985	Austin	1,091	0	-500 <sup>(5)</sup>	4,772
	Houston	12,425	280	+500 <sup>(5)</sup>	71,850
	San Antonio	2,693	0	0	11,035
	Central	3,202	122	-193	18,251
1986	Austin	1,175	0	0	5,147
	Houston	12,900	280	0	74,531
	San Antonio	2,841	0	0	11,639
	Central	3,352	122	-235	18,955
1987	Austin	1,265	0	0	5,555
	Houston	13,325	280	0	77,123
	San Antonio	3,000	0	0	12,285
	Central	3,503	122	-108	19,613

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EXHIBIT III - B (CONT'D)

PAST AND FORECASTED ANNUAL PEAK DEMANDS,  
INTERRUPTIBLE DEMANDS, FIRM PURCHASES AND  
SALES AND ENERGY CONSUMPTION

Year	Utility(1)	Peak Demand(2) (Mw)	Interruptible Demand(3) (Mw)	Firm Purchases(+) Sales (-) (Mw)	Annual Consumption(4) (Gwh)
1988	Austin	1,353	0	0	5,953
	Houston	13,775	280	0	79,755
	San Antonio	3,188	0	0	13,086
	Central	3,659	122	-119	20,306

- (1) Austin - City of Austin  
Houston - Houston Lighting & Power Company  
San Antonio - City Public Service Board of San Antonio  
Central - Central Power and Light Company
- (2) Peak demand values do not include interruptible demand. For CPL, also excludes Medina-STEC/PUB (consistent with TIS CDR 4/5/76).
- (3) Houston Figures shown as interruptible represent a single contract interruptible during a limited number of hours.
- (4) San Antonio historical consumption (1963-1978) for 12 months ending Dec. 31. Forecasts of consumption (1979-1984) for fiscal period Feb. 1 - Jan. 31. Firm power sales to STEC/MEC were included in the 1979 and 1980 estimates of annual consumption for CP&L. Figures shown are consistent with FPC form 12E, and are termed "Net Energy for Load."
- (5) Pending final execution of contract for sale of 500 MW.

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PAGES III-10 THROUGH III-21  
HAVE BEEN DELETED

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EXHIBIT IV - B

INCORPORATED CITIES  
SERVED BY CENTRAL

- |  |   |   |    |
|--|---|---|----|
| 1. City of Agua Dulce<br>Agua Dulce, Texas 78330               |   | 15. City of Camp Wood<br>Camp Wood, Texas 78833             |    |
| 2. City of Alamo<br>Alamo, Texas 78516                         |   | 16. City of Carrizo Springs<br>Carrizo Springs, Texas 78834 |    |
| 3. City of Alice<br>Alice, Texas 78332                         |   | 17. City of Charlotte<br>Charlotte, Texas 78011             |    |
| 3a. City of Alton<br>Route 2, Box 69AC<br>Mission, Texas 78572 | 6 | 18. City of Christine<br>Christine, Texas 78012             |    |
| 4. City of Aransas Pass<br>Aransas Pass, Texas 78336           |   | 19. City of Columbus<br>Columbus, Texas 78934               |    |
| 5. City of Asherton<br>Asherton, Texas 78827                   |   | 20. City of Combes<br>Combes, Texas 78535                   |    |
| 6. City of Austwell<br>Austwell, Texas 77950                   |   | 21. City of Corpus Christi<br>Corpus Christi, Texas 78408   |    |
| 7. City of Bay City<br>Bay City, Texas 77414                   |   | 22. City of Cotulla<br>Cotulla, Texas 78014                 |    |
| 7a. City of Bayside<br>Bayside, Texas 78340                    | 6 | 23. City of Crystal City<br>Crystal City, Texas 78839       |    |
| 8. City of Bayview<br>Bayview, Texas 78566                     |   | 24. City of Del Rio<br>Del Rio, Texas 78840                 |    |
| 9. City of Beeville<br>Beeville, Texas 78102                   |   | 25. City of Devine<br>Devine, Texas 78016                   | 4  |
| 10. City of Benavides<br>Benavides, Texas 78341                |   | 26. City of Dilley<br>Dilley, Texas 78017                   |    |
| 11. City of Big Wells<br>Big Wells, Texas 78830                |   | 27. City of Donna<br>Donna, Texas 78537                     |    |
| 12. City of Bishop<br>Bishop, Texas 78343                      |   | 28. City of Driscoll<br>Driscoll, Texas 78351               |    |
| 13. City of Brackettville<br>Brackettville, Texas 78832        |   | 29. City of Eagle Lake<br>Eagle Lake, Texas 77434           |    |
| 14.  | 4 | 30. City of Eagle Pass<br>Eagle Pass, Texas 778852          | 18 |

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**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D. C. 20549

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AMENDMENT NO. 1

TO

**FORM S-16**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

---

**Houston Industries Incorporated**

(Exact name of registrant as specified in its charter)

Texas  
(State or other jurisdiction of  
incorporation or organization)

74-1885573  
(I.R.S. Employer  
Identification No.)

611 Walker Avenue  
Houston, Texas 77002  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (713) 228-2474

---

H. R. DEAN, Vice President & Treasurer  
Houston Industries Incorporated  
611 Walker Avenue  
Houston, Texas 77002  
(Name and address of agent for service)

1515 322 19

**HOUSTON INDUSTRIES INCORPORATEL**

**2,500,000 shares of Common Stock, without par value**

**EXPLANATORY NOTE**

The form of Prospectus filed in this Registration Statement has two cover pages. The first provides for presenting the actual initial public offering price of the shares, and the second describes the formula by which the maximum initial public offering price will be determined. All preliminary Prospectuses distributed will bear the second form of cover page. After the Registration Statement becomes effective, all Prospectuses distributed will bear the first form of cover page appropriately completed. Ten copies of the Prospectus in the exact form to be used after effectiveness will be filed with the Securities and Exchange Commission pursuant to Rule 424(b).

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**2,500,000 Shares**

**Houston Industries Incorporated**

**Common Stock  
(without par value)**

The outstanding shares of Common Stock are, and the shares offered hereby will be, listed on the New York and Midwest Stock Exchanges. The reported last sale price of the Common Stock on the New York Stock Exchange on October 16, 1979 was \$      per share.

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)
Per Share	\$	\$	\$
Total	\$	\$	\$

- (1) The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.
- (2) Before deduction of expenses payable by the Company estimated at \$100,000.

The Common Stock is offered by the several Underwriters named herein when, as and if received and accepted by them, subject to their right to reject orders in whole or in part and subject to certain other conditions. It is expected that delivery of the shares will be made in New York City on or about October 23, 1979.

**Dean Witter Reynolds Inc.**

**Kidder, Peabody & Co.  
Incorporated**

**2,500,000 Shares**  
**Houston Industries Incorporated**

**Common Stock**  
**(without par value)**

---

The outstanding shares of Common Stock are, and the shares offered hereby will be, listed on the New York and Midwest Stock Exchanges. The reported last sale price of the Common Stock on the New York Stock Exchange on October 15, 1979 was \$27 $\frac{3}{8}$  per share.

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**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

---

**PRICE TO PUBLIC**—The initial public offering price of the Common Stock offered hereby will be a fixed price, determined by agreement between the Representatives of the Underwriters and the Company, not higher than the reported last sale price (regular way) or the reported last asked price of Common Stock of the Company on the New York Stock Exchange immediately prior to such determination, whichever is higher, plus \$.50 per share.

**UNDERWRITING DISCOUNTS AND COMMISSIONS**—The underwriting discount will be an amount per share not exceeding 3.50% of the initial public offering price. The Company has agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

**PROCEEDS TO COMPANY**—The net proceeds to the Company from the sale of the Common Stock offered hereby will be the initial public offering price, determined as set forth above, less the underwriting discount and less expenses (estimated at \$100,000) payable by the Company.

---

The Common Stock is offered by the several Underwriters named herein when, as and if received and accepted by them, subject to their right to reject orders in whole or in part and subject to certain other conditions. It is expected that delivery of the shares will be made in New York City on or about October 23, 1979.

---

**Dean Witter Reynolds Inc.**

**Kidder, Peabody & Co.**  
**Incorporated**

October 16, 1979

1515 32<sup>2</sup>



### **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE AND ADDITIONAL INFORMATION**

The Company is subject to the information requirements of the Securities Exchange Act of 1934 (Exchange Act) and, in accordance therewith, files reports and other information with the Securities and Exchange Commission. Information as of particular dates concerning directors and officers, their remuneration, the principal holders of securities of the Company and any material interest of such persons in transactions with the Company or its subsidiaries is disclosed in reports of the Company filed with the Commission and in proxy statements distributed to stockholders of the Company and filed with the Commission.

The following documents, which have been filed by the Company with the Commission pursuant to the Exchange Act (File No. 1-7629), are incorporated by reference in this Prospectus and shall be deemed to be a part hereof:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 1978.
- (2) The Company's Proxy Statement dated March 19, 1979 relating to its 1979 Annual Meeting of Shareholders.
- (3) The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1979 and June 30, 1979.
- (4) The Company's Current Reports on Form 8-K dated April 20, May 21, July 2 and August 27, 1979.

All documents filed by the Company with the Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering made by this Prospectus shall be deemed to be incorporated herein by reference and to be a part hereof.

Such reports, proxy statements and other information may be inspected and copied at the offices of the Commission at Room 6101, 1100 L Street, N.W., Washington, D.C.; Room 1228, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois; Room 1100, Federal Building, 26 Federal Plaza, New York, New York and Suite 1710 Tishman Building, 10960 Wilshire Boulevard, Los Angeles, California. Copies of such material may also be obtained from the Public Reference Section of the Commission in Washington, D.C. 20549 at prescribed rates. In addition, reports, proxy material and other information concerning the Company may be inspected at the offices of the New York Stock Exchange and the Midwest Stock Exchange on which the Common Stock of the Company is listed.

**The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered on the request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents. Written requests for such copies should be directed to Mr. J. R. Johnston, Secretary, Houston Industries Incorporated, 611 Walker Avenue, Houston, Texas 77002.**

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No person has been authorized to give any information or to make any representations other than as contained herein, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The delivery of this Prospectus at any time does not imply that the information set forth or incorporated by reference herein is correct as of any time subsequent to the date hereof.

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**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK AND MIDWEST STOCK EXCHANGES, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

## SUMMARY INFORMATION

The following summary information is qualified in its entirety by, and should be read in conjunction with, the information appearing elsewhere in this Prospectus and in the documents and information incorporated in this Prospectus by reference.

### THE OFFERING

Issuer.....	Houston Industries Incorporated
Securities Offered .....	2,500,000 shares of Common Stock
Listed .....	New York and Midwest Stock Exchanges (Symbol: HOU)
Price Range During 1979.....	\$31½-\$26¼
Indicated Current Annual Dividend Rate.....	\$2.36
Book Value Per Share at June 30, 1979 .....	\$33.63

### THE COMPANY AND ITS SUBSIDIARIES

Business of the Company .....	Owns all of the common stock of Houston Lighting & Power Company (HL&P), Primary Fuels, Inc. (PFI), and Utility Fuels, Inc. (UFI)
Revenue Sources (Twelve Months Ended June 30, 1979).....	HL&P—94.0%; PFI—2.1%; UFI—3.9%
Business and Service Area of HL&P .....	Electric utility serving approximately 5,000 square miles of the Texas Gulf Coast Region, including Houston
Fuel for Electric Generation by HL&P (Twelve Months Ended June 30, 1979).....	Gas—93%; Coal—6%; Oil—1%

#### Twelve Months Ended

	June 30, 1979 (Unaudited)	December 31, 1978	December 31, 1977
(Amounts in Thousands except Per Share Data)			
Consolidated Income Summary:			
Operating Revenues .....	\$1,591,181	\$1,349,438	\$1,095,561
Net Income For Common Stock .....	\$ 147,331	\$ 128,657	\$ 125,636
Average Shares Outstanding .....	31,787	30,590	28,479
Earnings Per Share .....	\$4.63	\$4.21	\$4.41
Dividends Declared Per Share.....	\$2.24	\$2.12	\$1.86

For the twelve months ended August 31, 1979, the Company's unaudited consolidated operating revenues were \$1,685,263,000, net income for common stock was \$155,865,000 and earnings per share were \$4.84. The amounts for the twelve months ended June 30 and August 31, 1979 include, in the Company's opinion, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation.

	June 30, 1979 (Unaudited)	As Adjusted*	Percent of Adjusted Capitalization*
(Thousands of Dollars)			
Capitalization Summary:			
Long-Term Debt of Subsidiaries .....	\$1,376,155	\$1,376,155	48.4%
Convertible Debentures .....	39,927	39,927	1.4%
Preferred Stock of Subsidiary .....	243,518	243,518	8.6%
Common Stock Equity.....	1,114,800	1,182,300	41.6%
Total Capitalization .....	<u>\$2,774,400</u>	<u>\$2,841,900</u>	<u>100.0%</u>

\* Adjusted to give effect to the issuance of the additional shares of Common Stock offered hereby (assuming net proceeds of \$67,500,000 or \$27.00 per share).

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## THE COMPANY AND ITS SUBSIDIARIES

Houston Industries Incorporated (the Company) is a Texas corporation which was organized in October 1976 by Houston Lighting & Power Company (HL&P). In January 1977, pursuant to a merger and corporate restructuring plan approved by the shareholders of HL&P, the Company became the owner of all of HL&P's outstanding common stock and all of the outstanding stock of HL&P's two former subsidiaries, Primary Fuels, Inc. and Utility Fuels, Inc. The Company is a holding company and, at the present time, it conducts no business and owns no properties other than the common stocks of its three subsidiary companies. The Company is exempt from regulation as a "registered" holding company under the Public Utility Holding Company Act of 1935 except with respect to the acquisition of securities of other public utility companies.

The address of the principal executive offices of the Company is 611 Walker Avenue, Houston, Texas 77002. The telephone number is (713) 228-2474.

HL&P is engaged in the generation, transmission, distribution and sale of electric energy, serving an area of the Texas Gulf Coast Region, estimated at approximately 5,000 square miles, in which are located Houston (the largest city in Texas) and 153 smaller cities, villages and communities. For the twelve months ended August 31, 1979, the operations of HL&P accounted for approximately 92% of the Company's consolidated net income. Primary Fuels participates in joint ventures that engage in oil and gas exploration, development and production activities on offshore leases from the State of Texas and onshore leases within the continental United States. Utility Fuels provides coal supply services to HL&P.

## APPLICATION OF PROCEEDS AND CONSTRUCTION PROGRAM

The net proceeds to be received by the Company from the sale of the additional shares of Common Stock offered hereby will be invested in the common stock of HL&P and used by HL&P to repay a portion of its outstanding short-term indebtedness incurred in connection with its construction program. It is estimated that such short-term indebtedness will aggregate approximately \$76,000,000 at the time of issuance of the additional shares of Common Stock.

At the beginning of 1979, the estimated cost of HL&P's construction program for the 1979-1981 period totaled approximately \$2,343,144,000. In July 1979, HL&P announced the site for a previously scheduled 750-megawatt lignite-fueled generating unit and the plans for a second 750-megawatt unit at that location, with scheduled completion dates of 1985 and 1986, respectively. In August 1979, HL&P and the other participants in the South Texas nuclear project received preliminary results of a study which was initiated for purposes of developing more precise estimates of the scheduling and cost for the remaining phases of the project. The original scheduled in-service dates for the two units in the project were 1980 and 1982, respectively. In September 1978, it was determined that such dates would have to be moved back to 1982 and 1983, respectively. Based on the preliminary conclusions reached in the study, the scheduled in-service dates for the two South Texas nuclear units are now 1984 and 1986, respectively. HL&P has also determined that the scheduled completion date for its proposed Allens Creek nuclear plant will have to be changed from 1986 to 1987 because of continuing delays in the processing by the Nuclear Regulatory Commission (NRC) of HL&P's application for a construction permit. Such delays have been attributable, for the most part, to the activities of certain citizens and environmental groups that have intervened in opposition to the granting of a construction permit for the Allens Creek plant.

Principally as a result of these developments, it is now estimated that HL&P's construction program during the 1979-1981 period will cost approximately \$2,396,724,000, with approximately \$638,793,000 to be spent in 1979 (of which \$222,313,000 had been spent through June 30, 1979), approximately \$765,802,000 in 1980 and approximately \$992,129,000 in 1981. The revised estimates of expenditures during the three-year period reflect the addition of the proposed coal-fired unit referred to in Note (a) to the table below and the longer construction period now considered realistic for the South Texas nuclear project. In addition, the total capital expenditures that will be required after 1981 to complete the units originally planned have substantially increased. Approximately 75% of the revised total estimated

construction expenditures for the 1979-1981 period is expected to be spent on additions and improvements to generating facilities, approximately 5% for transmission facilities, approximately 15% for distribution facilities and the balance for general plant facilities. The revised 1979-1981 construction budget contemplates expenditures for eight generating units as follows:

Plant and Location (County)	Estimated Unit Capacity (MW)	Fuel	Scheduled In-Service Date	Thousands of Dollars		
				Estimated Cost Included in 1979-1981 Program	Estimated Completed Cost	Estimated Cost per MW
W. A. Parish No. 7 (Fort Bend)	600	Coal	1980	\$134,336	\$249,401	\$ 416
W. A. Parish No. 8 (Fort Bend)	600	Coal	1983	308,858	408,000	680
Forest Grove (Henderson)(a)	750	Coal	1984	252,676	456,868	609
South Texas No. 1 (Matagorda)	385	Nuclear	1984	340,378	831,600	1,080
South Texas No. 2 (Matagorda)	385	Nuclear	1986			
Limestone No. 1 (Limestone)	750	Lignite	1985	276,021	1,393,990	929
Limestone No. 2 (Limestone)	750	Lignite	1986			
Allens Creek (Austin)	1,200	Nuclear	1987	356,945	1,407,711	1,173

(a) The scheduled in-service date and costs for this unit are based on a proposal currently being considered by HL&P for the acquisition from another electric utility system of a generating facility that is already in the early stages of construction. The estimated costs do not include expenditures expected to be required after 1981 for railroad cars to deliver coal to the unit.

The foregoing amounts do not include estimates of the allowance for funds used during construction or nuclear fuel expenditures. HL&P expects to spend \$73,235,000 during the 1979-1981 period for uranium concentrate and nuclear fuel processing services. Additional nuclear fuel expenditures, which could include substantial sums for long-term storage of spent nuclear fuel, will be required after 1981. Utility Fuels expects to spend approximately \$54,165,000 during the 1979-1981 period for additional railroad cars and coal handling facilities in order to be able to meet the coal delivery requirements of the two new units being constructed by HL&P at its W. A. Parish plant.

Actual construction expenditures will vary from the above estimates as a result of numerous factors, including changes in equipment delivery schedules, construction delays, availability of fuel, environmental protection expenditures, licensing delays, additional changes in the construction program, legislative changes and changes in customer demand and business conditions. The capacity and expenditures presented in the table for the South Texas nuclear units represent HL&P's 30.8% share of a 2,500 megawatt project which is jointly owned with the Cities of Austin and San Antonio and Central Power and Light Company. When the project was originally announced, HL&P's share of the total completed cost was estimated to be approximately \$351,000,000 or \$456,000 per megawatt. The revised in-service dates and substantial increases in projected total expenditures are attributable to, among other factors, increased costs associated with construction delays, complexity of project design and regulatory requirements. In addition, assumptions relating to labor productivity and materials requirements have been substantially revised in light of actual construction experience. Increases in the estimated cost of the Allens Creek project are based principally on an assumed inflationary effect resulting from the delay in the NRC proceedings relating to the construction permit. HL&P is currently reviewing the safety systems, planned procedures and equipment for the South Texas and Allens Creek facilities in light of information developed from the investigation by the NRC of the March 1979 accident at the Three Mile Island nuclear plant in Pennsylvania. Although none of the information developed to date has indicated that further significant changes will be required in the estimated costs and scheduled in-service dates presented above, such changes will have to be made if, following completion of the NRC and other related investigations, major modifications are required in the design and construction of nuclear power plants. Any such further changes in estimated costs and scheduled in-service dates could also involve substantial changes in the nature of HL&P's planned projects.

Even assuming HL&P will be able to meet the in-service dates for its current construction projects in accordance with the revised schedules shown above, it will be required to purchase up to 800 megawatts of capacity from third parties during the 1982-1985 period in order to maintain a reserve margin at or above 15%. In addition, should HL&P choose not to acquire the generating facility referred to in Note (a)

above, its requirements for purchased power in each of the years 1984 and 1985 would increase to as much as 1,250 megawatts. HL&P currently has no contracts with respect to purchases of supplemental power during such periods and no assurances can be given that such contracts can be obtained or that, if obtained, they will be upon terms favorable to HL&P.

HL&P's ability to continue with its construction program as presently proposed will be substantially dependent upon the availability of adequate and timely rate relief. In November 1978, following a request by HL&P for a rate increase of approximately 12.6% for an adjusted test year ended March 31, 1978, the Public Utility Commission of Texas (Utility Commission) granted an increase of approximately 7% for such period. The increase was placed into effect substantially on a system-wide basis in December 1978. In July 1979, HL&P filed applications for new rates which, if approved, would increase HL&P's operating revenues for an adjusted test year ended March 31, 1979 by approximately \$179,400,000 or 10.5%. Hearings on the application filed with the Utility Commission commenced on September 27, 1979 and have not yet been concluded. No prediction can be made as to what rate relief, if any, HL&P will obtain.

Assuming adequate rate relief can be obtained as a result of the pending applications for rate increases, as well as applications expected to be filed in the future, it is estimated that from 40% to 45% of the estimated construction expenditures for the 1979-1981 period can be financed from internal sources. The balance will have to be financed from the proceeds of short-term borrowings and sales of long-term debt and equity securities, including Common Stock of the Company. Such sales are expected to occur during periods of high capital costs when other major users of capital will also be seeking substantial external funds. It is contemplated that up to \$125,000,000 principal amount of additional first mortgage bonds will be offered for sale by HL&P in December 1979. The types and amounts of securities to be offered for sale after 1979, and the timing of such offerings, have not been determined.

#### COMMON STOCK DIVIDENDS AND PRICE RANGE

The Company and its predecessor, HL&P, have paid cash dividends on the Common Stock in each year since 1922. On October 3, 1979, the Board of Directors of the Company declared a quarterly cash dividend of 59¢ per share, payable on December 10, 1979 to holders of Common Stock of the Company of record on November 16, 1979. The holders on the record date of the additional shares of Common Stock offered hereby will be entitled to such dividend. Future dividends will depend upon future earnings, the financial condition of the Company and other factors.

The Company has adopted a dividend reinvestment plan in which all holders of Common Stock of the Company may participate. The plan provides shareholders an opportunity to reinvest quarterly dividends automatically in authorized and unissued shares of Common Stock of the Company at current market prices without payment of any brokerage commission or service charge. Participants in the plan may also purchase such shares with supplemental cash contributions (of not less than \$50 nor more than \$3,000 in any calendar quarter) and may join or withdraw at any time.

The following table indicates the high and low sales prices of the Common Stock on the composite tape during the periods indicated, as reported by *The Wall Street Journal*, and dividends declared for the periods indicated.

	High	Low	Dividends Declared Per Share
1976.....	\$32¾	\$20¼	\$1.61
1977.....	36⅞	29¼	1.86
1978			
First Quarter.....	31⅞	28	.53
Second Quarter.....	31⅞	28	.53
Third Quarter.....	33⅞	30	.53
Fourth Quarter.....	33	26⅞	.53
1979			
First Quarter.....	30¼	27⅞	.59
Second Quarter.....	31½	28¾	.59
Third Quarter.....	31⅞	28¼	.59
Fourth Quarter (through October 15).....	29	26¼	.59

The last reported sale price for the Company's Common Stock on October 15, 1979 on the New York Stock Exchange was \$27 $\frac{1}{2}$ . The book value of the Company's Common Stock at June 30, 1979 was \$33.63 per share.

### DESCRIPTION OF COMMON STOCK

The authorized capital stock of the Company consists of 10,000,000 shares of Preference Stock, without par value, none of which is outstanding; and 50,000,000 shares of Common Stock, without par value, 33,411,744 of which shares were issued and outstanding at October 5, 1979. The authorized Preference Stock is issuable in series having such designations, dividend rates, general voting rights, liquidation prices, redemption prices, sinking fund provisions and other terms as may be established from time to time by the Company's Board of Directors.

The holders of the Common Stock are entitled to receive such dividends as may be declared by the Board of Directors, subject to the prior rights of the holders of any outstanding series of Preference Stock to receive cumulative dividends at the rate fixed for each such series and to have contributions made to any sinking fund which may be established for any such series. There are no limitations in any indentures on the payment of dividends on the Common Stock of the Company or on the common stocks of the Company's subsidiaries. The cumulative preferred stock of HL&P, however, ranks senior to any capital stock of the Company with respect to dividends provided by HL&P funds.

Subject to the rights of the holders of any outstanding Preference Stock to elect two members of the Board of Directors whenever dividends on any outstanding Preference Stock are in arrears in an amount equal to six or more quarterly dividends thereon, holders of Common Stock of the Company are entitled to one vote for each share held at all meetings of shareholders.

In the event of any liquidation, dissolution or winding up of the Company, or any reduction or decrease of its capital stock resulting in a distribution of assets to the holders of its Common Stock, the holders of the Common Stock are entitled to receive pro rata all assets of the Company distributable to shareholders, but only after payment to the holders of any outstanding Preference Stock of the full preferential amounts fixed for each series thereof.

The Common Stock has no pre-emptive or cumulative voting rights, and there are no redemption, sinking fund or conversion provisions with respect to such stock. The outstanding Common Stock of the Company is, and the additional shares of Common Stock offered hereby will be when issued, fully paid and nonassessable.

The Transfer Agent for the Common Stock is Texas Commerce Bank National Association, Houston, Texas. The Registrar is First City National Bank of Houston.

### EXPERTS

The consolidated balance sheets and statements of subsidiaries' preferred stock and long-term debt of the Company and subsidiaries as of December 31, 1978 and 1977 and the related statements of consolidated income, retained earnings, and changes in financial position for each of the five years in the period ended December 31, 1978 and the supporting schedules included in the Company's Annual Report on Form 10-K for the year ended December 31, 1978 (1978 10-K), which is incorporated in this Prospectus by reference, have been examined by Deloitte Haskins & Sells, Independent Certified Public Accountants, as stated in their opinion appearing therein. Such financial statements and supporting schedules are incorporated by reference in this Prospectus in reliance upon such opinion, given upon the authority of that firm as experts in accounting and auditing.

The summary of the report on natural gas and condensate reserves made to Primary Fuels, Inc. by Miller and Lents, Ltd. set forth in the Company's 1978 10-K under the caption "Businesses of Other Subsidiaries—Primary Fuels, Inc.", has been so included on the authority of such firm as experts. For purposes of estimating the replacement cost of property, plant and equipment set forth in Note 10 of the Notes to Consolidated Financial Statements included in the Company's 1978 10-K, the Company used indexes developed by Whitman, Reardon and Associates (Engineers & Consultants) in reliance upon such firm as experts.

## LEGAL OPINIONS

Certain legal matters in connection with the Common Stock offered hereby are being passed upon for the Company by Baker & Botts, Houston, Texas, and for the Underwriters by Cahill Gordon & Reindel, New York, New York. Cahill Gordon & Reindel are not passing upon the incorporation of the Company or its subsidiaries or franchise matters and are relying as to matters covered by their opinion governed by Texas law upon the opinion of Baker & Botts. William R. Brown, Esq., a member of Baker & Botts, is a director of the Company and of HL&P.

## UNDERWRITING

The Underwriters named below, for whom Dean Witter Reynolds Inc. and Kidder, Peabody & Co. Incorporated are acting as Representatives, have severally agreed, subject to the terms and conditions of the Underwriting Agreement (a copy of which is filed as an exhibit to the Registration Statement), to purchase from the Company the respective number of shares of Common Stock set opposite their names in the table below:

Name of Underwriter	Number of Shares	Name of Underwriter	Number of Shares
Dean Witter Reynolds Inc. ....	406,000	D. A. Davidson & Co. Incorporated .....	2,000
Kidder, Peabody & Co. Incorporated .....	406,000	Cavis, Skaggs & Co., Inc. ....	3,000
ABD Securities Corporation .....	12,000	R. G. Dickinson & Co. ....	3,000
Advest, Inc. ....	12,000	Dillon, Read & Co. Inc. ....	40,000
American Securities Corporation .....	12,000	Doft & Co., Inc. ....	6,000
A. E. Ames & Co. Incorporated .....	3,000	Dominion Securities Inc. ....	3,000
Anderson & Strudwick, Incorporated .....	6,000	Donaldson, Lufkin & Jenrette Securities Corporation .....	40,000
Arnhold & S. Bleichroeder, Inc. ....	12,000	Drexel Burnham Lambert Incorporated .....	40,000
Atlantic Capital Corporation .....	20,000	F. Eberstadt & Co., Inc. ....	12,000
Bache Halsey Stuart Shields Incorporated .....	40,000	A. G. Edwards & Sons, Inc. ....	20,900
Bacon, Whipple & Co. ....	12,000	Eldon-Emmor & Co., Inc. ....	2,000
Robert W. Baird & Co. Incorporated .....	12,000	Elkins, Stroud, Suplee & Co. ....	6,000
Baker, Watts & Co. ....	3,000	Eppler, Guerin & Turner, Inc. ....	20,000
Basle Securities Corporation .....	20,000	Equitable Securities Corporation .....	3,000
Bateman Eichler, Hill Richards Incorporated .....	12,000	Evans & Co. Incorporated .....	2,000
George K. Baum & Company, Inc. ....	2,000	Faherty & Faherty, Inc. ....	3,000
Bear, Stearns & Co. ....	40,000	Fahnestock & Co. ....	6,000
Sanford C. Bernstein & Co., Inc. ....	12,000	Ferris & Company, Incorporated .....	6,000
Birr, Wilson & Co., Inc. ....	6,000	First Albany Corporation .....	2,000
D. H. Blair & Co., Inc. ....	2,000	First Equity Corporation of Florida .....	2,000
William Blair & Company .....	12,000	First Harlem Securities Corporation .....	2,000
Blunt Ellis & Loewi Incorporated .....	12,000	First Manhattan Co. ....	3,000
Blyth Eastman Dillon & Co. Incorporated .....	40,000	First of Michigan Corporation .....	12,000
Boettcher & Company .....	12,000	First Southwest Company .....	6,000
J. C. Bradford & Co., Incorporated .....	12,000	Robert Fleming Incorporated .....	12,000
Alex. Brown & Sons .....	20,000	Folger Nolan Fleming Douglas Incorporated .....	6,000
Burgess & Leith Incorporated .....	3,000	Foster & Marshall Inc. ....	6,000
Butcher & Singer Inc. ....	6,000	Freehling & Co. ....	2,000
Buys-MacGregor, MacNaughton-Greenawalt & Co. ....	2,000	Goldman, Sachs & Co. ....	40,000
Cardinal Investment Company, Inc. ....	2,000	Gradison & Company Incorporated .....	2,000
The Chicago Corporation .....	6,000	Gruntal & Co. ....	6,000
B. C. Christopher & Co. ....	2,000	Hamerslag, Kempner & Co. ....	3,000
City Securities Corporation .....	2,000	Bernard Herold & Co., Inc. ....	2,000
Colin, Hochstin Co. ....	3,000	Herzfeld & Stern .....	6,000
Cowen & Co. ....	12,000	J. J. B. Hilliard, W. L. Lyons, Inc. ....	6,000
Craigie Incorporated .....	6,000	Howard, Weil, Labouisse, Friedrichs Incorporated .....	6,000
Crowell, Weedon & Co. ....	12,000	Howe, Barnes & Johnson, Inc. ....	2,000
Dain Bosworth Incorporated .....	12,000	E. F. Hutton & Company Inc. ....	40,000
Daniels & Bell, Inc. ....	2,000	The Illinois Company Incorporated .....	6,000
		Interstate Securities Corporation .....	6,000

<u>Name of Underwriter</u>	<u>Number of Shares</u>	<u>Name of Underwriter</u>	<u>Number of Shares</u>
Investment Corporation of Virginia .....	6,000	Rauscher Pierce Refsnes, Inc. ....	20,000
Janney Montgomery Scott Inc. ....	12,000	W. H. Reaves & Co., Inc. ....	6,000
Jesup & Lamont Securities Co., Inc. ....	2,000	Robertson, Colman, Stephens & Woodman .....	12,000
Johnson, Lane, Space, Smith & Co., Inc. ....	6,000	The Robinson-Humphrey Company, Inc. ....	12,000
Johnston, Lemon & Co. Incorporated .....	6,000	Rodman & Renshaw, Inc. ....	6,000
Edward D. Jones & Co. ....	3,000	Ross Stebbins Inc. ....	2,000
Josephthal & Co. Incorporated .....	6,000	Rotan Mosle Inc. ....	40,000
Kirkpatrick, Pettis, Smith, Polian Inc. ....	2,000	L. F. Rothschild, Unterberg, Towle .....	40,000
Kleinwort, Benson Incorporated .....	12,000	R. Rowland & Co., Incorporated .....	3,000
Ladenburg, Thalmann & Co. Inc. ....	12,000	Salomon Brothers .....	40,000
Laidlaw Adams & Peck Inc. ....	3,000	Scandinavian Securities Corporation .....	12,000
Cyrus J. Lawrence Incorporated .....	6,000	Scherck, Stein & Franc, Inc. ....	2,000
Lazard Frères & Co. ....	40,000	Schneider, Bernet & Hickman, Inc. ....	6,000
Legg Mason Wood Walker, Incorporated .....	12,000	Scott & Stringfellow, Inc. ....	2,000
Lehman Brothers Kuhn Loeb Incorporated .....	40,000	Shearson Hayden Stone Inc. ....	40,000
Manley, Bennett, McDonald & Co. ....	3,000	Shuman, Agnew & Co., Inc. ....	12,000
A. E. Masten & Co. Incorporated .....	2,000	I. M. Simon & Co. ....	2,000
McDonald & Company .....	12,000	Smith Barney, Harris Upham & Co. Incorporated .....	40,000
Mesirow & Company .....	2,000	Smith, Hague & Co., Incorporated .....	2,000
The Milwaukee Company .....	3,000	Smith, Moore & Co. ....	2,000
Montgomery Securities .....	12,000	Stephens Inc. ....	6,000
Moore & Schley, Cameron & Co. ....	6,000	Stern Brothers & Co. ....	3,000
Morgan, Keegan & Company, Inc. ....	2,000	Stifel, Nicolaus & Company Incorporated .....	6,000
Morgan, Olmstead, Kennedy & Gardner Incorporated .....	3,000	Stix & Co. Inc. ....	2,000
Moseley, Hallgarten, Estabrook & Weeden Inc. .	20,000	Sutro & Co. Incorporated .....	12,000
Mullaney, Wells & Company Division of Olde & Co. Incorporated .....	2,000	Wm Sword & Co., Incorporated .....	2,000
Neuberger & Berman .....	6,000	Thomson McKinnon Securities Inc. ....	20,000
New Court Securities Corporation .....	20,000	Traub and Company, Inc. ....	2,000
Newhard, Cook & Co. Incorporated .....	3,000	Trubee, Collins & Co. ....	2,000
The Ohio Company .....	12,000	Tucker, Anthony & R. L. Day, Inc. ....	20,000
Oppenheimer & Co., Inc. ....	20,000	Underwood, Neuhaus & Co. Incorporated .....	20,000
Paine, Webber, Jackson & Curtis Incorporated ...	40,000	Burton J. Vincent, Chesley & Co. ....	2,000
Parker/Hunter Incorporated .....	6,000	Edward A. Viner & Co., Inc. ....	2,000
Philips, Appel & Walden, Inc. ....	3,000	Wagenseller & Durst, Inc. ....	6,000
Piper, Jaffray & Hopwood Incorporated .....	12,000	Warburg Paribas Becker Incorporated .....	40,000
Prescott, Ball & Turben .....	12,000	Wertheim & Co., Inc. ....	40,000
Quinn & Co., Inc. ....	2,000	Wheat, First Securities, Inc. ....	12,000
Raffensperger, Hughes & Co., Inc. ....	2,000	Wood Gundy Incorporated .....	6,000
		Total .....	<u>2,500,000</u>

The nature of the Underwriters' obligation is such that they must purchase all of the shares of Common Stock offered hereby if any are purchased.

The Representatives of the Underwriters have advised the Company that the Underwriters propose to offer the shares of Common Stock to the public initially at the offering price set forth on the cover page of this Prospectus and to certain dealers at that price less a concession of not more than \$.65 per share, of which \$.40 per share may be reallocated to other dealers. After the initial public offering, the public offering price and the selling terms may be varied by the Representatives.



The logo consists of a stylized, blocky letter 'H' with a square cutout in the upper right and lower left corners. To the right of the 'H', the words 'Houston', 'Industries', and 'Incorporated' are stacked vertically in a bold, serif font.

**Houston  
Industries  
Incorporated**

**2,500,000 Shares**  
**Common Stock**  
*(without par value)*

**PROSPECTUS**

**Dean Witter Reynolds Inc.**  
**Kidder, Peabody & Co.**  
*Incorporated*

October 16, 1979

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## PART II

### Item 9. *Other Expenses of Issuance and Distribution.*

Securities and Exchange Commission Filing Fee .....	\$ 15,000
NASD filing fee .....	5,100
*Fees of Registrars and Transfer Agents .....	5,000
*Fees of Company's Counsel .....	20,000
*Auditor's fees .....	5,000
*Printing, including Form S-16, prospectuses, exhibits, etc. ....	25,000
*Printing and engraving securities .....	5,000
Listing fees .....	8,750
*Miscellaneous expense .....	11,150
*Total Expenses .....	<u>\$100,000</u>

\* Estimated.

### Item 10. *Relationship with Registrant of Experts Named in Registration Statement.*

None.

### Item 11. *Treatment of Proceeds From Stock to be Registered.*

Upon issuance of the Common Stock the proceeds thereof will be credited to the appropriate capital stock account.

### Item 12. *Documents Relating to Trustees.*

Not applicable.

### Item 13. *List of Exhibits.*

- \*1 — Proposed form of Agreement Among Underwriters with form of Underwriting Agreement attached.
- †2(a) — Articles of Incorporation of the Company (Exhibit 2(a), File No. 2-58113).
- †2(b) — Specimen of Common Stock certificate of the Company (Exhibit 2(b), File No. 2-58113).
- 3 — Opinion of Baker & Botts.
- †5 — Computation of Earnings per Common Share (Exhibit 1, 1978 Report on Form 10-K, File No. 1-7629).

\* Previously filed and not re-filed pursuant to Rule 472(d).

† Incorporated herein by reference as indicated.

## UNDERTAKING PURSUANT TO RULE 460

Article 2.02A(16) of the Texas Business Corporation Act empowers a Texas corporation to indemnify its directors and officers (and other persons who serve at the request of such corporation as directors or officers of other corporations in which such corporation owns stock or of which it is a creditor) against all expenses actually and necessarily incurred in connection with the defense of lawsuits or proceedings in which they may be made a party by reason of having been directors or officers except in relation to matters as to which such officer or director shall be adjudged in such lawsuits or proceedings to be liable for negligence or misconduct in performance of duty. It also provides that such indemnification shall not be deemed exclusive of any other rights to which such officer or director may be entitled under any by-law, agreement, vote of shareholders or otherwise.

The Company's Bylaws provide for indemnification of officers and directors as a matter of right against all costs and expenses necessarily incurred, and all amounts paid in settlements or in satisfaction of judgments, in any action in which they may become involved by reason of being a director or officer, if the Company receives an opinion of independent legal counsel that the officer or director who is to be indemnified acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and in respect of any criminal action, reasonably believed that his conduct was lawful. It further provides that termination of any action by judgment, order, settlement, conviction, or upon a plea of nolo contendere shall not, of itself, create a presumption that the person did not meet such standard of conduct. The Bylaws also provide that no person shall be entitled to indemnification in relation to any matter as to which indemnification shall not be permitted by law.

In so far as indemnification for liability arising under the Securities Act of 1933 may be permitted to officers and directors of the Company pursuant to the above stated provisions of the Texas Business Corporation Act, the Company's Bylaws, or otherwise, the Company understands that it is the opinion of the Securities and Exchange Commission that such indemnification is against public policy as expressed in said Act and is, therefore, unenforceable. In the event that a claim for such indemnification (except in so far as it provides for the payment by the Company of expenses incurred or paid by a director or officer in the successful defense of any action, suit or proceeding) is asserted by a director or officer and the Securities and Exchange Commission is still of the same opinion, the Company will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in said Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston and State of Texas, on the 15th day of October, 1979.

HOUSTON INDUSTRIES INCORPORATED

D. D. JORDAN

-----  
 (D. D. Jordan, President  
 and Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed below by the following persons in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ D. D. JORDAN (D. D. Jordan, President)	Principal Executive Officer and Director	{ October 15, 1979
_____ H. R. DEAN (H. R. Dean, Vice President and Treasurer)	Principal Financial and Accounting Officer and Director	
SEARCY BRACEWELL, WM. R. BROWN, BEN F. LOVE, G. W. OPREA, JR., STEWART ORTON, WILLARD E. WALBRIDGE, JOE C. WESSENDORFF		
By _____ H. R. DEAN (H. R. Dean, Attorney-in-Fact)	Directors	
_____ (John C. Echols)	Director	
_____ (Howard W. Horne)	Director	

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**CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**HOUSTON INDUSTRIES INCORPORATED:**

We hereby consent to the incorporation by reference in this Registration Statement on Form S-16 of our opinion dated February 12, 1979 appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 1978. We also consent to the reference to us under the heading "Experts" in the Prospectus constituting a part of this Registration Statement on Form S-16.

DELOITTE HASKINS & SELLS

Houston, Texas  
September 20, 1979

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**CONSENTS OF OTHER PERSONS NAMED IN THE REGISTRATION STATEMENT**

The consent of Baker & Botts is included in their opinion filed as an Exhibit to the Registration Statement. The consents of Miller and Lents, Ltd., independent oil and gas consultants, and of Whitman, Requardt and Associates, Engineers & Consultants, have been separately filed with the Registration Statement.

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

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**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

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FOR THE FISCAL YEAR ENDED DECEMBER 31, 1978. COMMISSION FILE NO. 1-3187H-1.

**HOUSTON LIGHTING & POWER COMPANY**

(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction of  
incorporation or organization)  
**611 Walker Avenue**  
**Houston, Texas**  
(Address of principal executive offices)

**74-0694415**  
(I.R.S. Employer  
Identification No.)  
**77002**  
(Zip Code)

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Registrant's telephone number, including area code (713) 228-9211.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
5½% Convertible Debentures due 1985

Name of each exchange on  
which registered  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Preferred Stock, cumulative, no par:

\$4 Series, \$6.72 Series, \$7.52 Series, \$9.52 Series, \$9.08 Series, \$8.12 Series and \$9.04 Series\*  
(Title of class)

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\* The \$9.04 Cumulative Preferred Stock was issued in February 1979.

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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As of December 31, 1978, 31,314,996 shares of the registrant's Common Stock, without par value, were issued and outstanding and privately held, beneficially and of record, by Houston Industries Incorporated.

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## PART I

### Item 1. *Business.*

#### The Company

Houston Lighting & Power Company (HL&P) is engaged in the generation, transmission, distribution and sale of electric energy, serving an area in the Texas Gulf Coast Region, estimated at approximately 5,000 square miles, in which are located Houston (the largest city in Texas) and 153 smaller cities, villages and communities. The address of the Company's principal executive offices is 611 Walker Avenue, Houston, Texas 77002 (telephone number 713-228-9211).

HL&P is a subsidiary of Houston Industries Incorporated (Houston Industries) which owns all of HL&P's outstanding common stock. Houston Industries is a holding company as defined in the Public Utility Holding Company Act, but is exempt from regulation as a "registered" holding company under that Act except with respect to the acquisition of securities of other public utility companies. The other subsidiaries of Houston Industries are Primary Fuels, Inc. and Utility Fuels, Inc. Primary Fuels participates in joint ventures that engage in oil and gas exploration, development and production activities on offshore leases from the State of Texas and onshore leases within the Continental United States. Such ventures are not presently regarded as potential sources of fuels for HL&P's utility operations. Utility Fuels provides coal supply services to HL&P. See "Fuel—Coal and Lignite Supply".

#### Certain Factors Affecting Electric Utilities

HL&P, in common with electric utilities in general, has experienced problems in a number of areas, including difficulty in securing adequate rate increases when required, increased cost of fuel, substantial increases in construction and operating costs, prospective reliance on fuels other than natural gas, increased expenditures due to pollution control and environmental considerations, uncertainties and delays respecting the construction and fueling of nuclear and fossil fueled generating units, high costs in raising large amounts of capital in competition with other major users of capital and an unpredictable rate of growth of energy sales due to uncertain economic conditions and energy conservation measures by customers. As discussed herein, certain of these problems have had and are expected to have an impact on HL&P's operations. See "Construction Program", "Financing of Construction Program" and Item 2, "Management's Discussion and Analysis of Statements of Income".

In November 1973, federal energy legislation was enacted which was designed to achieve, through various regulatory provisions, the conservation of energy and the development and use of more plentiful domestic fuels. The new legislation provides for, among other things, the establishment of non-binding federal electric rate design standards, federal authority to order interconnections and wheeling of power under specified circumstances and restrictions against the use of oil or gas as fuel in certain industrial and utility facilities. Because of its complexity and uncertainties in its interpretation and implementation, the effect of the National Energy Act upon HL&P cannot be predicted.

During 1977, federal legislation was enacted which provides for regulation of, among other things, the extraction of coal and reclamation of land subjected to surface or strip-mining operations, construction resulting in new sources of emission in clean air attainment areas, the installation of control technologies for the removal and limitation of plant emissions, the promulgation of standards for presently unregulated pollutants, the designation of local or regionally available coal sources by the President if necessary to prevent or minimize local economic disruption, and the imposition of penalties commensurate with the economic value of non-compliance. It is anticipated that implementation of the legislation will increase HL&P's construction and operating costs and could adversely affect the rate of industrial expansion in HL&P's service area. See "Regulatory and Environmental Matters—Air and Water Quality".

### Construction Program

HL&P has a continuing program of major construction to provide facilities to meet increased customer demands and utilize more plentiful domestic fuels. The program is currently estimated to cost approximately \$2,343,144,000 for the three-year period 1979-1981, with approximately \$624,647,000 to be spent in 1979, \$806,810,000 to be spent in 1980 and \$917,687,000 to be spent in 1981. The three-year program (exclusive of allowance for funds used during construction and nuclear fuel payments) consists of the following principal items:

	Amount	%
Fossil-fueled generating facilities .....	\$ 830,686,000	36%
Nuclear-fueled generating facilities .....	939,997,000	40
Transmission facilities .....	122,458,000	5
Distribution facilities .....	352,349,000	15
General plant facilities .....	97,654,000	4
Total .....	\$2,343,144,000	100%

At December 31, 1978, HL&P owned and operated generating facilities with an aggregate name-plate capacity of 11,056 megawatts. The 1979-1981 construction program includes expenditures in connection with the following major generating projects aggregating 3,920 megawatts of capacity:

Plant and Location (County)	Estimated Unit Capacity (MW)	Fuel	Scheduled In-Service Date	Thousands of Dollars(1)		
				Estimated Cost Included in 1979-1981 Program	Estimated Completed Cost	Estimated Cost per MW
W. A. Parish (Fort Bend)(2) .....	600	Coal	1980	\$129,864	\$ 249,401	\$ 416
South Texas (Matagorda)(3) .....	385	Nuclear	1982	} 321,745	} 618,241	} 803
South Texas (Matagorda)(3) .....	385	Nuclear	1983			
W. A. Parish (Fort Bend)(2)(4) .....	600	Coal	1983	309,330	408,096	680
To be determined(4) .....	750	Lignite	1985	289,744	728,539	971
Allens Creek (Austin)(5) .....	1,200	Nuclear	1986	618,252	1,297,362	1,081

- (1) Does not include allowance for funds used during construction or nuclear fuel expenditures.
- (2) The estimated costs do not include any expenditures by HL&P for railroad cars and coal handling equipment. Coal supply services for the W. A. Parish plant are provided by Utility Fuels, Inc., a subsidiary of Houston Industries. It is estimated that expenditures by Utility Fuels for such facilities during the 1979-1981 period will be approximately \$54,165,000. See "Fuel-Coal and Lignite Supply".
- (3) The capacity and expenditures presented represent HL&P's 30.8% share of a 2,500 megawatt project to be jointly owned with the Cities of San Antonio and Austin and Central Power and Light Company, a subsidiary of Central and South West Corporation. See "Regulatory and Environmental Matters - Nuclear Licensing" and "Controversy with Central and South West Corporation". The estimated costs do not include estimated expenditures which HL&P expects to make for its share of the uranium concentrate and nuclear fuel processing services to be purchased for the South Texas facilities, including approximately \$69,916,000 during the 1979-1981 period. HL&P expects to expend an additional \$42,972,000 after 1981 until start-up of the second unit under existing nuclear fuel contracts relating to the South Texas facilities. See "Fuel - Nuclear Fuel Supply".
- (4) See "Regulatory and Environmental Matters - Air and Water Quality". Selection of the site for the lignite unit is dependent on HL&P's ability to obtain a long-term fuel supply.
- (5) The scheduled in-service date reflects the results of a study, completed on March 15, 1979, which indicates that the previously estimated in-service date of 1985 cannot be met. The estimated costs reflect adjustments to previously reported estimates based solely on an

(Notes continued on following page)



assumed inflationary effect resulting from the delay. Such estimated costs are subject to further adjustments pending completion by HL&P of a thorough evaluation of the study. The estimated costs do not include estimated expenditures which HL&P expects to make for uranium concentrate and nuclear fuel processing services for the Allens Creek unit, including approximately \$3,320,000 during the 1979-1981 period. An additional \$46,105,000 is expected to be spent after 1981 until start-up of the unit under HL&P's existing nuclear fuel contracts. See Note 5 of the Notes to Financial Statements. See also "Fuel - Nuclear Fuel Supply" and "Regulatory and Environmental Matters - Nuclear Licensing".

Actual construction expenditures for 1979-1981 and thereafter will vary from the present estimates due to a number of factors, including changes in equipment delivery schedules, construction delays, availability of fuels, environmental matters, additional changes in the construction program, delays in regulatory action, legislative changes and changes in customer demand and business conditions. HL&P and the other participants in the South Texas nuclear project, together with independent engineering and consulting firms, are currently engaged in an in-depth study of the scheduling and costs for all remaining phases of the project. It is anticipated that the study will be completed by June 1979, at which time further changes may be required in the estimated completion dates and estimated total cost of completion. Three groups and one individual have petitioned to intervene in opposition to the granting of operating licenses for the units. The Nuclear Regulatory Commission (NRC) has not yet ruled on these petitions. The estimated costs and in-service date for the planned lignite unit are based on the assumption that fuel supply contracts and all required construction permits and environmental licenses will be obtained by September 1981. The recently revised estimated costs and in-service date for the Allens Creek nuclear plant are based on the assumption that a construction permit will be obtained from the NRC by September 1979. The NRC has not yet set a date for a hearing on the application for a construction permit. In February 1979, it granted the applications of an environmental group and others to intervene in opposition to the granting of a construction permit. No prediction can be made as to whether the various petitions in opposition to HL&P's nuclear projects will be successful. If such petitions are successful, however, or if further delays are experienced in the completion of HL&P's planned generating units, HL&P would be required to substantially revise its planned construction program as well as its plans respecting power purchases from third parties.

It is presently estimated that HL&P's compound growth rate in peak demand for the five-year period 1979-1983 will be approximately 4% to 5%. The current estimate is derived from a recent survey of industrial customers and generally reflects reduced expectations for power consumption, a reassessment of the effect of additional residential customers on peak demands, and the prospect of more intensive energy conservation measures by all classes of customers following more frequent rate increases than had previously been anticipated. With its current construction program, HL&P expects to maintain a minimum reserve margin of approximately 15% in excess of its current estimate of peak-load requirements at least through 1981. Even assuming it is able to meet the presently scheduled in-service dates in its current construction projects, HL&P will be required to supplement its generating capability during the 1982-1985 period with purchased power in order to maintain a reserve margin at or above 15%. See "Peak Loads and Capability".

Federal and state action to protect the environment may cause the current estimates of future construction expenditures to be exceeded by substantial amounts. See "Certain Factors Affecting Electric Utilities" and "Regulatory and Environmental Matters - Air and Water Quality". Expenditures for environmental protection facilities for the five years ended December 31, 1978 aggregated approximately \$79,632,000, including expenditures of approximately \$13,548,000 and \$31,684,000 in 1977 and 1978, respectively. Environmental protection expenditures for 1979-1981 are estimated to be approximately \$54,781,000, of which approximately \$26,073,000 is expected to be expended during 1979 and approximately \$28,349,000 is expected to be expended during 1980. Because of uncertainties surrounding the disposal or long-term storage of spent nuclear fuel (see "Fuel - Nuclear Fuel Supply"), fuel costs associated with the continuing operation of nuclear units could be substantial.

Total gross additions to the plant account of HL&P during the five years ended December 31, 1978 amounted to \$1,881,393,000 and during the same period retirements from the plant account amounted to \$82,782,000. Gross additions during the period amounted to approximately 56% of total utility plant at December 31, 1978.

#### Financing of Construction Program

HL&P proposes to finance its construction program through the use of internally generated funds and the proceeds received from the issuance of securities, including short-term debt. The portion of the total cost to be obtained through the issuance of securities cannot be accurately forecast, and the types, amounts and time of issuance of such securities in the future have not yet been determined. HL&P's ability to continue with its presently proposed construction program will be dependent in part upon its ability to obtain adequate and timely rate relief.

It has been HL&P's practice to finance construction expenditures in excess of internally generated funds on an interim basis through short-term borrowings which are repaid through the issuance of long-term debt and equity securities. HL&P has bank lines of credit aggregating \$200,000,000 which limit its total short-term borrowings. See Note 4 of the Notes to Financial Statements.

Sales of additional securities by HL&P and its parent, Houston Industries, to finance HL&P's construction program are expected to occur at times when other major users of capital may also be seeking large amounts of capital. If such additional permanent financing cannot be obtained at the times and in the amounts required, HL&P will be required to consider, among other things, alternative sources of financing or curtailment or deferral of certain of its proposed construction expenditures.

#### Service Area and Franchises

HL&P's service area is a major producer of oil, gas, sulphur, refined products, chemicals, petrochemicals, steel, oil tools and related manufacturing, processing and servicing activities. It is characterized by a favorable year-round climate and ready access to air, land and water transportation. Electronics, paper, cement, building materials, cotton, rice, cattle, salt, magnesium and other minerals are also important products of the service area.

Expansion of industrial activity in HL&P's service area has been accompanied by a corresponding increase in the construction of industrial structures and complexes and construction activity in many other fields, which has included construction of multi-block office building complexes, apartment buildings, single and multi-family dwellings, hotels and motels, hospitals and other commercial structures.

HL&P operates in the City of Houston under a franchise which expires in October 2007. In all other incorporated municipalities its franchises expire in 2007 or in later years.

#### Peak Loads and Capability

The following table sets forth information with respect to the installed net capability of HL&P at the time of peak demand, the net maximum hourly demand on the system (including demand by customers served on an interruptible basis), and the reserve margin at the time of its system net maximum hourly demand:

Year	Installed Net Capability (Megawatts)	Net Maximum Hourly Demand			Reserve Margin (%)
		Date	Megawatts	% Increase Over Prior Year	
1974	8,760	August 20	7,150	6.6%	22.5%
1975	9,510	July 28	7,465	4.4	27.4
1976	9,810	August 9	8,219	10.1	19.4
1977	10,170	July 25	8,645	5.2	17.6
1978	10,828	July 18	9,362	8.3	15.7

The net capability and reserve margins presented above do not reflect additional capability available through interconnections with other utility systems. Although historically such interconnections were maintained principally for the purpose of meeting emergency conditions, they are now also used for economy exchanges of power.

HL&P has contracted with the City of Austin, Texas (Austin) to purchase 500 megawatts of Austin's generating capacity during 1980 and 1981. Performance of the contract is subject to, among other things, fuel limitations that may be imposed on Austin or its fuel suppliers and the ability of HL&P to obtain satisfactory arrangements for any transmission services that may be required from third-party electric utilities. In the event of fuel limitations, HL&P will be entitled to arrange for delivery of natural gas from its own supplies for use by Austin in providing such capacity.

HL&P is currently evaluating methods for obtaining additional power during the 1982-1985 period to supplement its planned generating capacity. Such methods include modifications of existing generating units to increase their capacity, as well as purchases of power from third parties. Such additional power is not expected to exceed 6% of its estimated maximum generating requirements for those years.

### Fuel

**General.** Approximately 97% of HL&P's generating fuel requirements during 1978 was met with natural gas, 2% was met with coal and the balance was met with oil. Prior to 1978 substantially all of such requirements were met with natural gas. Approximately 49% of the Company's present generating capacity is provided by plants that can burn oil on a continuous basis, approximately 14% by plants that can burn oil for varying periods of time to meet emergency conditions, and approximately 12% by two new units at HL&P's W. A. Parish plant that have the capability of using coal as well as gas. Use of coal in these units began in July 1978 and January 1979, respectively. HL&P expects to use gas, oil, coal and lignite, and nuclear in the future in the following relative proportions:

Fuel	% of Generating Requirements			
	1979	1980	1981	1990
Gas	50%	77%	63%	11%
Oil	1	6	18	31
Coal and lignite	9	17	19	43
Nuclear	—	—	—	15
Total	100%	100%	100%	100%

The foregoing percentages are based upon the expiration in 1984 of one of HL&P's long-term natural gas contracts (see "Natural Gas Supply" below) and upon numerous estimates and assumptions relating to, among other things, environmental protection requirements, load growth, the cost and availability of fuels, scheduled in-service dates of planned generating facilities and regulatory implementation of the National Energy Act. Such estimates are also based upon a continuation of existing regulatory restrictions on the use of gas as a boiler fuel and upon HL&P's ability to acquire and burn substantial quantities of oil in units capable of burning oil on an interim basis only. See "Oil Supply" below. Accordingly, HL&P's actual fuel mix in future years could vary substantially from such estimates.

**Natural Gas Supply.** HL&P purchases natural gas from Exxon Company, U.S.A. (Exxon) and United Texas Transmission Company (United) under separate long-term contracts. The Exxon contract expires after delivery of a specified quantity of gas, but in no event later than December 31, 1996. The contract with United provides for delivery of a specified quantity of gas through 1984. Deliveries under these contracts are expected to provide all of the natural gas that HL&P would be permitted to burn under existing regulations restricting the use of gas as a boiler fuel. Substantially all of HL&P's historical costs referred to under "Cost of Fuel" below have been for natural gas purchased under the Exxon and United Contracts.

The Railroad Commission of Texas (Railroad Commission) has issued an order which generally prohibits gas suppliers subject to its jurisdiction from selling natural gas as a boiler fuel except pursuant to agreements concluded prior to December 1975. As to any such prior agreements (including

both of HL&P's long-term contracts), the order requires specified reductions in gas deliveries in 1981 and 1985. Because of the expiration dates and delivery schedules contained in HL&P's contracts, it is not anticipated that the order will significantly affect HL&P's ability to obtain the gas that has been committed to it under such contracts. The Railroad Commission has conducted hearings on whether it should repeal the order or relax certain of its provisions in view of current federal energy policies and gas-use practices in other states which appear to conflict with the objectives of the order. No prediction can be made as to what action, if any, the Railroad Commission will take as a result of such hearings.

HL&P has not experienced any significant curtailment of gas deliveries since 1974. Based on representations of its suppliers regarding their present sources of gas, it does not anticipate significant curtailments of gas deliveries for the foreseeable future resulting from the inability of such suppliers to meet their contract commitments. Under the priorities contained in a gas curtailment program approved by the Railroad Commission, deliveries by jurisdictional suppliers to customers such as HL&P must be curtailed before any curtailment of deliveries to other contract customers, exclusive of those served on an interruptible basis. Gas deliveries by Exxon are being made from its reserves which have been dedicated to meet the requirements of HL&P during the term of the Exxon contract, while deliveries by United consist principally of gas purchased from unaffiliated suppliers. The amount and duration of any future curtailments of HL&P will be dependent upon, among other things, the ability of United and those from whom it has contracted to purchase gas to obtain new sources of natural gas.

All of the natural gas being delivered to HL&P is intrastate gas. The Natural Gas Policy Act of 1978 raises federal price ceilings on natural gas and extends federal price controls to intrastate gas, at least until 1985. Such pricing provisions are not applicable to gas being sold under contracts (including HL&P's existing long-term contracts) concluded prior to April 1977. The Act also authorizes federal allocation of intrastate natural gas to interstate pipelines to alleviate emergency shortages. It is not believed that such measures will adversely affect HL&P's present supply or cost of natural gas.

**Oil Supply.** As indicated above, HL&P expects to rely on oil in meeting a significant portion of its future generating fuel requirements. HL&P has storage facilities for approximately 6,700,000 barrels of oil and has installed an oil pipeline system linking most of its major power plants to provide for rapid and economical distribution of all oil capable of being utilized by the system. There is sufficient oil presently on hand to permit the exclusive use of oil for approximately 20 days in those units that are capable of burning oil on a continuous basis. HL&P has entered into a contract with Exxon under which it will be entitled to purchase sufficient quantities of oil to satisfy substantially all of its anticipated oil requirements during 1980 and 1981 and an average of approximately 88% and 40% of such requirements for the periods 1982 through 1984 and 1985 through 1989, respectively. The contract is for an initial term of ten years commencing in 1980, but may be re-opened once at any time after January 1, 1981 at the election of either party. If agreement on new terms cannot be reached after such a re-opening, the contract may be cancelled at the election of either party. The contract is also subject to re-negotiation and cancellation in the event of material changes in existing laws and regulations affecting fuel oil. Maximum sulphur content of the oil is to be 0.7% by weight. Deliveries will be made through an Exxon pipeline from its Baytown, Texas refinery directly to HL&P's oil pipeline facilities. HL&P is currently meeting its requirements for oil through spot purchases and other short-term arrangements. HL&P is evaluating other long-term arrangements for deliveries of additional quantities of oil for use beginning in 1982.

When oil instead of gas is burned in generating equipment that has the capability of using either fuel, such equipment's generating capacity is reduced by approximately 3%. In order to meet anticipated demands of the system in the mid-1980's, HL&P is currently planning to burn substantial quantities of oil in generating equipment that is capable of using oil only on an intermittent basis, in which case additional reductions in both generating capacity and reliability may be expected. It is anticipated that increased costs will be incurred for repair and maintenance, as well as for operation in a manner that insures compliance with applicable air quality control requirements, when oil instead of gas is used as boiler fuel. See "Regulatory and Environmental Matters - Air and Water Quality" below.

**Coal and Lignite Supply.** It is estimated that the two coal-fired generating units now in operation at HL&P's W. A. Parish plant and the two additional coal-fired units being constructed at that location (see "Construction Program") will require an aggregate of approximately 200 million tons of low-sulphur Western coal for the first 25 years of operation of each unit. The actual amount of coal used will depend on, among other things, its heat content. HL&P has contracted to purchase from another subsidiary of Houston Industries, Utility Fuels, a total of 165 million tons of low-sulphur Western coal for consumption at its W. A. Parish plant through June 2003. Utility Fuels is presently purchasing coal to meet its contract commitments to HL&P from Kerr-McGee Coal Corporation (Kerr-McGee) under an agreement that expires in 1980. The coal is being surface-mined by Kerr-McGee from properties located in Wyoming approximately 1,600 railroad miles from Houston. Beginning in July 1980, Utility Fuels will purchase coal in sufficient quantities to meet its continuing commitments to HL&P under a 25-year contract with Spring Creek Coal Company (Spring Creek), a subsidiary of Pacific Power & Light Company. Such coal is to be surface-mined by Spring Creek from properties in Montana which are approximately 1,700 railroad miles from Houston. The Kerr-McGee and Spring Creek contracts provide for deliveries of coal having an average sulphur content that will enable HL&P to comply with applicable stack-gas emission regulations. See "Regulatory and Environmental Matters - Air and Water Quality". The cost of the coal under both contracts is governed by formulas containing various escalation provisions relating to changes in specified costs and cost indices. A major component of the delivered cost is the railroad charge for transporting the coal. The Interstate Commerce Commission (ICC) currently authorizes a railroad charge for the Wyoming coal of \$17.11 per ton which HL&P regards as excessive. An appeal by HL&P of the ICC tariff is pending before a federal appellate court.

The average turn-around time for one of Utility Fuels' unit trains from the Kerr-McGee mine was approximately eleven days for the year 1978. Turn-around time had been expected to be approximately eight days. Delays were mainly due to congestion and outage of track sections for track and bed maintenance. A short railroad strike, derailments, and winter blizzards also contributed to the delays. At the end of 1978, Utility Fuels owned 1,147 coal cars for use in ten unit trains. Utility Fuels expects to purchase and place in service an additional 220 cars (for two unit trains) in the second quarter of 1979. HL&P believes that such additional cars will enable Utility Fuels to make coal deliveries without any disruptions caused by the longer turn-around times.

Both HL&P and Utility Fuels are seeking long-term commitments for additional coal and for lignite. The recent federal legislation relating to surface mining and mine safety could adversely affect the availability of coal and lignite. The legislation has not affected, and is not expected to affect, the availability of coal under the Kerr-McGee and Spring Creek contracts, but may result in substantial increases in the cost of such coal. The operating, repair and maintenance expenses for coal and lignite-fired units are substantially higher than those for HL&P's gas-fired units.

**Nuclear Fuel Supply.** Generally, the supply of fuel for nuclear generating facilities involves the acquisition of uranium concentrate, its conversion to uranium hexafluoride, enrichment of gaseous uranium hexafluoride, and fabrication of nuclear fuel assemblies. Following use of the nuclear fuel assemblies, they must either be disposed of or shipped and reprocessed for reuse.

HL&P, in its capacity as manager of the South Texas nuclear project, is one of several electric utility companies that filed suits against Westinghouse Electric Corporation to compel performance of prior agreements by Westinghouse to furnish uranium concentrate for nuclear generating plants. As the principal supplier of equipment for the South Texas project, Westinghouse was to have furnished uranium concentrate and fuel conversion and fabrication services for the initial core and ten years of fuel reloads for each of the two nuclear generating units. In September 1975, Westinghouse notified HL&P, as well as other electric utilities, that performance of its uranium concentrate supply obligations would be "commercially impracticable". In October 1978, Westinghouse and HL&P concluded a court-approved settlement of HL&P's suit. Pursuant to the settlement, Westinghouse will provide the South Texas units with up to 9,377,000 pounds of uranium concentrate which, together with a minimum of

5,600,000 pounds to be provided by another supplier, is expected to satisfy the fuel requirements of both units through 1992. The price for the first 2,377,000 pounds to be delivered by Westinghouse (the amount required for the initial core for each of the two units) will be the price originally quoted by Westinghouse as adjusted by escalation provisions (currently approximately \$14.80 per pound, as compared with a recent spot market price in excess of \$40.00 per pound). The price to be paid for the remaining concentrate to be delivered by Westinghouse is expected to be in excess of the original quoted price (as adjusted) but less than the then-prevailing market price. As additional consideration for the settlement, Westinghouse will furnish without charge fuel fabrication services for the initial core and 10 years of reloads for each unit, and will furnish at prices which are below prevailing market prices fabrication services for an additional six years of reloads for each unit, certain additional services and equipment, and additional concentrate subject to the development of additional uranium reserves. Contracts with Westinghouse and others provide for conversion services for the South Texas units through 1988 and for enrichment services for a period of 30 years.

Contracts have been concluded for HL&P's Allens Creek nuclear plant (presently scheduled for completion in 1986) which provide for uranium concentrate in sufficient quantities to supply the initial core, for conversion services for the initial core, for enrichment services for a period of 30 years, and for fabrication of the nuclear fuel assemblies to be used in the initial core and one year of fuel reloads. A uranium exploration project in New Mexico, which was conducted by a major oil company and financed by HL&P, was previously regarded as a source of additional uranium for the Allens Creek plant. In October 1978, HL&P terminated its financial support of the uranium project following a study and evaluation which indicated that further participation would not be in HL&P's best interests. See Note 5 of the Notes to Financial Statements. HL&P is currently seeking other long-term arrangements for the uranium concentrate that was expected to be provided by the New Mexico project and for the additional nuclear fuel components and services that will be required for the Allens Creek facilities. There can be no assurance, however, that such arrangements can be obtained or that the prices involved may not be significantly higher than those applicable to fossil fuels.

As part of a federal energy policy proposed by President Carter, reprocessing of spent nuclear fuel has been indefinitely deferred. If the spent fuel discharged from the South Texas and Allens Creek units cannot be reprocessed, it must eventually be placed into long-term off-site storage. The Department of Energy has announced plans for the federal government to provide, for an unspecified fee, off-site storage for nuclear fuel from domestic nuclear reactors, but whether or when such off-site storage facilities may become available is unknown. The South Texas and Allens Creek plants are being designed with on-site storage facilities having the capacity to store approximately ten years of spent fuel discharged from each unit. HL&P cannot predict the extent to which the unavailability of reprocessing facilities discussed above will increase the cost of and demand for uranium concentrate.

**Cost of Fuel.** The cost of fuel to HL&P has increased substantially over the past three years. See "Operating Statistics" and Item 2, "Summary of Operations - Statements of Income." The average cost of fuel used during December 1978 was 129.3 cents per million Btu. HL&P is unable to estimate its future cost of fuel, but expects that it will continue to increase. Increases in costs for fuel are presently covered by the fuel adjustment clauses referred to under "Regulatory and Environmental Matters - Rates and Services".

#### **Regulatory and Environmental Matters**

**Rates and Services.** HL&P's general rate levels have historically been based on ordinances of the City of Houston, and the other incorporated municipalities in HL&P's service area. Such ordinances permitted HL&P to increase its rates by approximately 11.4% in December 1975. From December 1975 until December 1978, they also permitted HL&P to recover increased fuel costs on a current basis and to make monthly cost-of-service adjustments for changes in labor costs, depreciation, interest, and dividend requirements on preferred stock. Cost-of-service adjustments accounted for \$16,499,000 of HL&P's operating revenues for the twelve months ended December 31, 1978.

In September 1976, pursuant to the Texas Public Utility Regulatory Act passed in June 1975, the Public Utility Commission of Texas (Utility Commission) assumed original jurisdiction over electric rates and services in unincorporated areas of the State (which accounted for approximately 46% of HL&P's operating revenues and 53% of KWH sales for the twelve months ended December 31, 1978) and appellate jurisdiction over electric rates and services within incorporated municipalities. In July 1978, HL&P filed applications for a general rate increase with the Utility Commission and with the 81 incorporated municipalities in its service area. The filing with the Utility Commission represented the first such filing by HL&P. The applications were designed to increase HL&P's base operating revenues for an adjusted test year ended March 31, 1978 by approximately \$175,000,000 plus an additional \$54,000,000 for costs that would otherwise have been recovered through cost-of-service adjustments. HL&P also asked for retention of its existing fuel adjustment and cost-of-service adjustment clauses. On November 20, 1978, the Utility Commission issued an order granting HL&P a rate increase which, on a system-wide basis, was designed to increase its base operating revenues for the adjusted test year in an amount totaling approximately \$98,000,000. The order prohibits HL&P from making cost-of-service adjustments in the future. Adjustments on a current basis for increased fuel costs, however, are still permitted. Since December 1978, HL&P has been collecting the rates authorized by the Utility Commission's November 20 order substantially on a system-wide basis.

The City of Houston and certain other incorporated municipalities within HL&P's service area attempted to grant rate increases which were lower than the increases authorized by the Utility Commission. Following appeals from the municipal rate orders, the Utility Commission permitted HL&P, pending final disposition of such appeals, to set rates in the incorporated areas on an interim basis at the same level permitted for unincorporated areas. Regardless of the final outcome of the pending appeals, HL&P expects to seek another general rate increase prior to the end of 1979 and may be required to seek general rate relief in the future on a more frequent basis than it has been in the past.

In October 1978, President Carter outlined a voluntary anti-inflation program which includes standards for wages and prices, the observance of which is being monitored by the Council on Wage and Price Stability. Because no specific guidelines for regulated utilities have been finalized, no predictions can be made as to the effect of the program on HL&P's operations or its future requests for rate relief.

**Air and Water Quality.** HL&P is subject to regulation with respect to air, water quality and other environmental matters by various federal, state and local authorities. Environmental controls are in the process of development and require, in many instances, balancing the need for additional quantities of energy in future years with the need to protect the environment. As a result, the precise effect of existing and potential regulations and legislation upon existing and proposed facilities and operations cannot presently be determined. However, developments in these and other areas of regulation have in the past required HL&P to modify, supplement or replace equipment and facilities and may in the future delay or impede construction and operation of new facilities at costs which could be substantial.

The Texas Air Control Board (Air Board) has jurisdiction and enforcement power to determine the level of air contaminants emitted in the State of Texas. HL&P is of the opinion that its generating facilities currently in operation are in compliance with the Texas Clean Air Act and with the current rules and regulations adopted thereunder by the Air Board. HL&P is also of the opinion that units under construction will, when operational, comply with the current requirements of the Texas Clean Air Act. The standards established by such Act and the rules of the Air Board are subject to modification by standards promulgated by the federal Environmental Protection Agency. Although HL&P believes that its existing facilities and the facilities under construction will comply or can be modified to comply with such standards, there can be no assurance that such will be the case without substantial expense. Present emission standards applicable to HL&P's generating units prohibit the emission of more than 0.8 pounds of sulphur dioxide per million Btu of heat input for oil-burning units and 1.2

pounds of sulphur dioxide per million Btu of heat input for coal-burning units. The oil which HL&P has contracted to purchase from Exxon, when burned, is expected to emit an average of approximately 0.75 pounds of sulphur dioxide per million Btu of heat input. See "Fuel - Oil Supply". The coal which is the subject of the long-term contracts with Kerr-McGee and Spring Creek, when burned, is expected to emit, respectively, an average of approximately 1.13 pounds and 0.61 pounds of sulphur dioxide per million Btu of heat input. See "Fuel - Coal and Lignite Supply". No assurance can be given that HL&P will be able to find other sources of comparable low-sulphur oil and coal to meet its future requirements. A substantial portion of the cost to be incurred in constructing coal and lignite-fired generating units (see "Construction Program") is the cost of sulphur dioxide and particulate control devices.

In September 1978, the Environmental Protection Agency issued for public comment proposed clean-air rules which would, among other things, require minimum percentage reductions in emissions from new coal-fired power plants without any regard for the relative level of contaminants in the coal being used. Such rules would not apply to HL&P's existing coal-fired generating units or to the unit scheduled for completion in 1980. Estimated costs for compliance with the proposed rules for the coal and lignite-fired units scheduled for completion in 1983 and 1985 have been included in the cost estimates set forth in the table under "Construction Program". The proposed rules would also increase the cost of coal-fired plants to be built in later years by amounts which cannot presently be determined but which are expected to be substantial.

The Texas Department of Water Resources has jurisdiction over all water discharges in the State of Texas and is empowered to set water quality standards and issue permits required for water discharges which might affect the quality of Texas water. The Environmental Protection Agency is authorized to set such standards and issue permits in respect of discharges into navigable streams. HL&P has obtained permits from both the Water Board and the Environmental Protection Agency for all of its generating facilities currently in operation which require such permits. Applications for permits with respect to the facilities included in HL&P's construction program are being submitted as required.

**Nuclear Licensing.** HL&P is subject to licensing and regulation by the Nuclear Regulatory Commission (NRC) with respect to environmental, public health and safety aspects of the construction and operation of nuclear power plants. In its capacity as manager of the South Texas nuclear project, HL&P has commenced construction of the two nuclear generating units pursuant to construction permits issued by the NRC in December 1975. HL&P has submitted an application for an operating license for both South Texas units. An operating license is not issuable by the NRC until construction is substantially complete. An application for a construction permit for the Allens Creek unit is pending before the NRC. See footnotes 3 and 5 to the second table under "Construction Program" above and "Controversy with Central and South West Corporation" below.

The NRC is currently engaged in a reassessment of its prior policies with respect to the environmental impact of reprocessing and disposal of radioactive wastes. As a result of this reassessment, the NRC has adopted an interim rule pending adoption of a final rule which will govern any operating licenses or construction permits issued by the NRC in the future. The effect that such rules may ultimately have upon the construction or cost of HL&P's proposed nuclear facilities cannot be predicted at this time.

#### **Controversy With Central and South West Corporation**

In January 1976, the Securities and Exchange Commission (SEC) initiated proceedings under the Public Utility Holding Company Act for purposes of considering whether Central and South West Corporation (CSW), a registered holding company, constitutes or can become a single integrated and coordinated system as required by that Act. CSW's principal operating subsidiaries are Central Power and Light Company (CPL), West Texas Utilities Company (WTU), Public Service Company of Oklahoma and Southwestern Electric Power Company. CPL and WTU, as members of the Electric



Reliability Council of Texas (ERCOT), have historically conducted their respective utility operations in a manner so that, whenever interconnected directly or indirectly with HL&P and other ERCOT members, they would not transmit electric energy across any state lines. In the proceedings before the SEC, CSW submitted various proposals regarding the future operation of its system, including proposals that would require HL&P and other members of ERCOT to become interconnected directly or indirectly, with CSW's non-Texas subsidiaries. Upon examination of the engineering studies and testimony submitted by CSW in support of these proposals, HL&P concluded, and so communicated to CSW and the SEC, that the proposed interconnections requiring the participation of HL&P would have a substantial detrimental effect on its cost of operation and reliability of service.

As a result of opposition to CSW's interstate interconnection proposals, on May 3, 1976 CPL and WTU filed suit in the United States District Court in Dallas against HL&P and another member of ERCOT seeking a determination that an attempt by the defendants to avoid interstate transmission of electric power would violate the federal antitrust laws. In the pre-dawn hours of May 4, 1976, while still interconnected with other ERCOT members but without giving them any prior notice, WTU commenced transmitting electricity over a small radial tie from Texas to Oklahoma. Later on the same day, all of CSW's operating subsidiaries instituted proceedings before the Federal Power Commission (FPC) seeking, among other things, a determination that, as a result of WTU's transmission of electric power to Oklahoma while still interconnected with ERCOT, HL&P and other ERCOT members had become "public utilities" subject to regulation under the Federal Power Act. Shortly thereafter, such ERCOT members took steps to disconnect all direct and indirect electrical ties with CPL and WTU. In June 1976, CPL, which is a participant with HL&P in the South Texas nuclear project (see "Construction Program"), filed a petition with the NRC requesting an amendment to the construction permits for the project to prohibit each participant from terminating its interconnections with any other participant because of the transmission or receipt of power in interstate commerce.

In July 1976, the FPC issued an order stating, in effect, that HL&P and other affected members of ERCOT did not become "public utilities" within the meaning of the Federal Power Act as a result of the events of May 4, 1976. In April 1978, a federal appellate court remanded the FPC order to the Federal Energy Regulatory Commission (FERC) (as successor to the FPC) for further clarification. In May 1977, based upon the finding, among others, that WTU's radial tie from Texas into Oklahoma did not serve any interest except the corporate interest of CSW, the Utility Commission ordered CPL and WTU to disconnect such tie and to re-establish their previous interconnections with other ERCOT members. CPL and WTU then filed appeals of such order in both the federal and state district courts in Austin, Texas. In May 1978, the federal district court dismissed the appeal and CSW has appealed the dismissal to a federal appellate court. Pending the outcome of such appeals and of the various other regulatory and judicial proceedings on this matter, the Texas interconnected system has been restored to, and continues to operate on, an intrastate basis.

On February 27, 1979, the United States District Court in Dallas issued a final order in which it was held that HL&P and the other affected ERCOT member had not violated the federal anti-trust laws in seeking to confine their respective facilities and operations to a single state and thereby avoid regulation under the Federal Power Act. The Court found that the pre-dawn wiring by WTU on May 4, 1976 "was done without any legitimate business purpose" and that CSW, by virtue of its attempts to compel HL&P and other ERCOT members to become interconnected in interstate commerce, has caused CPL to breach the agreement governing its participation in the South Texas nuclear project. The Court thus enjoined CPL from permitting power it receives from the South Texas project to enter interstate commerce as long as it chooses to remain a participant in the project and as long as the applicable provisions of the participation agreement remain in effect. It is anticipated that CPL and WTU will appeal the Court's order.

Rulings on the substantive issues raised in the proceedings instituted before the SEC and NRC are still pending. The NRC has declined to re-open the construction permits for the South Texas nuclear project and has ruled that the issues raised by CPL must be decided at the operating license stage. At the request of the Antitrust Division of the U.S. Department of Justice, the NRC has ordered

that a hearing be conducted to determine whether the activities of HL&P in resisting the CSW interstate interconnection proposals constitute a significant change in the circumstances under which the construction permit was issued so as to warrant the imposition of restrictions in the operating license against avoidance by HL&P of interstate interconnections.

On February 9, 1979, CPL, WTU and other operating subsidiaries of CSW filed an application with the FERC seeking relief from the May 1977 order of the Public Utility Commission of Texas and an order which would compel HL&P and other ERCOT members to become interconnected on an interstate basis with the applicants, all pursuant to the Public Utility Regulatory Policies Act of 1978 (which constitutes a part of the new National Energy Act referred to under "Certain Factors Affecting Electric Utilities"). Such legislation authorizes the FERC to order an electric utility to interconnect with or to wheel power for other electric utilities, regardless of whether the utility operates on an interstate or intrastate basis, if it is determined that such action is in the public interest, would encourage the overall conservation of energy or capital, optimize the overall efficiency of use of facilities and resources or improve reliability. If such an order requires an otherwise intrastate utility to become interconnected, directly or indirectly, with utilities in other states, the intrastate utility would not thereby become subject to regulation under the Federal Power Act with respect to matters not related to the order. In the order disposing of the anti-trust suit brought by CPL and WTU, the United States District Court in Dallas made specific findings to the effect that to force the defendants to interconnect in interstate commerce with the subsidiaries of CSW would not be in the public interest, would not encourage the overall conservation of energy or capital, would not optimize the overall efficiency of the use of facilities and resources, would not improve the reliability of any electric utility, and would, in fact, decrease the reliability of the defendants' systems. No prediction can be made as to whether such findings will ultimately be binding upon or adopted by the FERC.

Although no precise estimates can be made, HL&P believes that major expenditures would be required for it to operate synchronously with CPL and WTU while they in turn are in synchronous operation with CSW's non-Texas subsidiaries and the interstate Southwest Power Pool. It also believes that even if such expenditures are made and synchronous operation is achieved, the reliability of its electric service would be substantially reduced. In addition, such method of operation could subject it to regulation under the Federal Power Act.

HL&P intends to continue to oppose the CSW interconnection proposals, as well as all attempts by CSW directly or indirectly to force it to participate in an interconnected system that includes CSW's non-Texas subsidiaries, as being detrimental to its interests and the interests of its customers and security holders. No prediction can be made, however, as to the duration or ultimate outcome of the various proceedings that are pending on this matter.

#### Executive Officers

<u>Name</u>	<u>Age</u>	<u>Officer Since (1)</u>	<u>Business Experience 1974-1978 Position(s)</u>	<u>Terms</u>
D. D. Jordan	46	1971	President and Chief Executive Officer and Director(2)(3) President and Director Group Vice President—Administrative and Director	1977- 1974-1977 1974
G. W. Oprea, Jr.	52	1971	Executive Vice President and Director(3) Group Vice President—Operations	1974- 1974
T. A. Standish	65	1971	Senior Vice President Senior Vice President—Primary Fuels Supply & Rate and Economic Research	1977- 1974-1977

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<u>Name</u>	<u>Age</u>	<u>Officer Since(1)</u>	<u>Business Experience 1974-1978 Position(s)</u>	<u>Terms</u>
J. D. Cowart .....	53	1975	Group Vice President—Administrative Vice President—Administrative General Manager—Real Estate and Building Operations	1978- 1975-1978 1974-1975
H. R. Dean .....	52	1966	Group Vice President—Accounting and Finance and Director(3) Group Vice President and Comptroller and Director Group Vice President and Comptroller	1978- 1977-1978 1974-1977
K. R. Hinckley .....	57	1972	Group Vice President – External Relations Group Vice President Vice President—Customer Services and Data Processing	1977- 1974-1977 1974
A. R. Beavers .....	55	1978	Vice President—Purchasing and Services General Manager--Purchasing and Stores	1978- 1974-1978
R. L. Evans, Jr. ....	63	1971	Vice President—Operations Vice President—Transmission and Distribution	1975- 1974-1975
R. M. McCuiston .....	62	1971	Vice President—Engineering	1974-
C. L. McNeese .....	65	1975	Vice President—Federal Relations Vice President—Public Affairs General Manager—Public Affairs	1978- 1975-1978 1974-1975
J. M. McReynolds .....	61	1966	Vice President—Engineering Consultant	1974-
D. E. Simmons .....	53	1972	Vice President--Corporate Planning Vice President—Environmental and Inter-Utility Affairs	1975- 1974-1975
D. D. Sykora .....	48	1977	Vice President—Customer Relations Vice President—Commercial General Manager—Marketing Manager—Sales	1978- 1977-1978 1974-1977 1974
E. A. Turner .....	51	1978	Vice President—Power Plant Construction and Technical Services General Manager—Transmission and Distribution General Manager—Power Plant Engineering and Construction	1978- 1976-1978 1974-1976
J. M. Dugdale .....	64	1965	Secretary and Treasurer	1974-
R. S. Letbetter .....	30	1978	Comptroller Assistant Comptroller Assistant Secretary and Assistant Treasurer	1978- 1977-1978 1974-1977

(1) Executive officers were elected April 26, 1978 to serve for one year and until their successors are duly elected and qualified.

(2) Member of the Executive Committee.

(3) Member of the Finance Committee.

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## Operating Statistics

	Year Ended December 31,				
	1974	1975	1976	1977	1978
Electric Energy Generated and Purchased (Mkwh):					
Generated—Net Station Output	38,189,984	40,276,090	43,353,203	48,534,625	53,101,474
Purchased	973	599	640	325	222,670
Total	38,190,957	40,276,689	43,353,843	48,534,950	53,324,144
Company Use, Lost and Unaccounted for					
Other	2,188,631	1,955,857	2,309,348	2,465,481	2,857,928
Energy Sold	195,044	174,284	185,795	183,744	190,449
	35,807,282	38,146,548	40,858,700	45,885,725	50,275,767
Electric Sales (Mkwh):					
Residential	7,892,790	8,427,429	8,529,177	9,759,137	10,956,914
Commercial	6,921,336	7,346,187	7,491,637	8,012,512	8,568,636
Industrial	18,834,083	20,124,216	22,243,925	25,370,150	27,808,895
Street Lighting—Government and Municipal	82,633	89,884	91,797	96,943	103,049
Total	33,730,842	35,987,716	38,356,536	43,238,742	47,437,494
Other Electric Utilities	2,076,440	2,158,832	2,502,164	2,646,983	2,838,273
Total	35,807,282	38,146,548	40,858,700	45,885,725	50,275,767
Number of Customers (End of Period):					
Residential	613,356	633,832	663,095	706,269	778,850
Commercial	86,780	90,242	94,556	102,007	111,050
Industrial	1,139	1,235	1,353	1,461	1,522
Street Lighting—Government and Municipal	71	72	75	77	81
Total	701,346	725,381	759,079	809,814	891,503
Other Electric Utilities	6	6	6	6	6
Total	701,352	725,387	759,085	809,820	891,509
Operating Revenue (Thousands of Dollars):					
Residential	\$163,630	\$200,516	\$241,583	\$ 301,824	\$ 367,730
Commercial	121,849	152,616	197,083	233,234	274,081
Industrial	175,765	246,778	359,100	474,668	593,251
Street Lighting—Government and Municipal	2,521	2,728	2,940	3,157	3,608
Other Electric Utilities	17,267	25,088	36,462	47,696	57,359
Total	481,032	627,726	837,168	1,060,579	1,296,029
Miscellaneous Electric Revenues	5,805	6,427	4,448	9,207	7,575
Total	\$486,837	\$634,153	\$841,616	\$1,069,786	\$1,303,604
Installed Generating Capacity (Kw) (End of Period)					
Cost of Fuel (Cents per Million Btu)	9,079,891	9,428,891	9,791,231	10,427,292	11,056,353
	37.0	59.8	81.7	105.5	126.2

Item 2. Summary of Operations.

STATEMENTS OF INCOME

	Twelve Months Ended December 31,				
	1974	1975	1976	1977	1978
	Thousands of Dollars				
Operating Revenues	\$486,837	\$634,153	\$841,616	\$1,069,786	\$1,303,604
Operating Expenses:					
Operation	73,083	83,555	96,225	115,374	141,588
Fuel(a)	139,323	239,947	353,651	517,870	682,261
Maintenance(a)	31,217	36,455	33,344	43,719	55,354
Depreciation(a)	45,148	51,093	57,049	63,811	73,280
Federal income taxes(a):					
Current	29,237	19,455	37,601	19,194	10,229
Deferred:					
Liberalized depreciation	16,809	19,529	21,572	27,367	33,064
Investment tax credit –					
current	7,486	13,041	27,500	47,088	49,544
Amortization of investment					
tax credit	(751)	(967)	(1,305)	(2,144)	(2,889)
Other—net	(536)	419	3,210	3,512	4,767
Other taxes(a)	36,777	42,622	47,364	51,435	60,172
Total	377,793	505,149	676,211	887,226	1,107,370
Operating Income	109,044	129,004	165,405	182,560	196,234
Other Income:					
Allowance for funds used during					
construction(b)	8,228	8,567	16,384		
Allowance for other funds used during					
construction(b)				14,088	17,029
Other—net(a)	887	985	1,332	1,747	3,992
Total	9,115	9,552	17,716	15,835	21,021
Income Before Interest Charges	118,159	138,556	183,121	198,395	217,255
Interest Charges:					
Interest on long-term debt(a)	40,022	56,914	61,098	71,799	84,307
Other interest	8,259	11,257	6,867	2,293	5,208
Allowance for borrowed funds used					
during construction(b)				(9,821)	(11,639)
Total	48,281	68,171	67,965	64,271	77,876
Net Income(a)	69,878	70,385	115,156	134,124	139,379
Dividends on Preferred Stock	5,830	6,475	12,362	13,711	17,330
Income After Preferred Dividends	\$ 64,048	\$ 63,910	\$102,794	\$ 120,413	\$ 122,049
Ratio of Earnings to Fixed Charges(c)	3.51	2.77	3.97	4.08	3.61
Ratio of Earnings to Fixed Charges and					
Preferred Dividend Requirements(c)	2.90	2.38	3.01	3.10	2.72

(a) See Notes 1, 5, 6, 7 and 8 of the Notes to Financial Statements.

(b) The applicable uniform system of accounts defines "allowance for funds used during construction" (AFC) as "based upon the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate upon other funds when so used." AFC is a non-cash item which does not represent operating income. The accrual rate of 6½% for each period

(Notes continued on following page)

was determined on the basis of, but was less than, the cost of incremental capital employed to finance HL&P's construction program. Assuming that the source of construction funds used was in the same ratio as the capitalization ratios at the end of the respective periods, the portion of AFC (before taxes as to interest on debt) attributable to funds provided by common stock equity, expressed as a percentage of income after preferred dividends, would be approximately 1.2%, 2.3% and 3.5% for 1974, 1975 and 1976, respectively.

- (c) For the purpose of computing these ratios, earnings represent the aggregate of net income, federal income taxes, and fixed charges. Fixed charges represent interest, related amortization and the estimated interest component of rentals charged to operations. Preferred dividend requirements on a pre-income tax basis are computed at the effective federal income tax rate for the applicable period.
- (d) The following unaudited quarterly financial information includes, in HL&P's opinion, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation:

Quarter Ended:	<u>Operating Revenues</u>	<u>Operating Income</u>	<u>Net Income</u>	<u>Income After Preferred Dividends</u>
	(Thousands of Dollars)			
March 31, 1977	\$208,934	\$34,967	\$22,858	\$19,541
June 30, 1977	260,917	42,434	30,233	26,916
September 30, 1977	342,124	61,067	48,964	45,647
December 31, 1977	257,781	44,092	32,069	28,309
March 31, 1978	257,341	36,636	22,476	18,144
June 30, 1978	321,351	45,464	30,747	26,415
September 30, 1978	410,508	67,325	53,039	48,707
December 31, 1978	314,404	46,809	33,117	28,783

Effective January 1, 1979, the AFC accrual rate was increased to 7½%. AFC is not being applied to that portion of construction work in progress included in rate base by the Public Utility Commission of Texas.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF STATEMENTS OF INCOME

**Operating Revenues.** Increases in HL&P's operating revenues for the two most recent periods presented in the Statements of Income have been attributable to (i) recoveries of increased fuel costs, (ii) rate increases, and (iii) increased KWH sales, in the following relative proportions:

<u>Comparative Periods</u>	<u>% of Increase Attributable to</u>		
	<u>Recovery of Increased Fuel Costs</u>	<u>Rate Increases</u>	<u>Increased KWH Sales</u>
1977 v. 1976	74%	3%	23%
1978 v. 1977	73%	5%	22%

Increases in recoveries of fuel costs resulted from the higher costs of fuel and increased generation. The only general rate increase that affected operating revenues during the five years 1974-1978 was in December 1975. KWH sales during 1976 were adversely affected by unseasonably mild weather. See Item I, "Operating Statistics".

**Fuel.** These costs have risen as a result of increased KWH generation and the sharp increases in the cost of fuel. See Item I, "Business - Fuel - Cost of Fuel" and "Operating Statistics". The rapid

escalation in fuel costs in recent years has been the principal cause of the decline in the ratio of operating income to operating revenues.

**Operation and Maintenance.** These expenses increased because of general inflationary pressures, increases in the number of customers and the amount of electricity generated, and the performance of scheduled maintenance. During 1976, maintenance expenses decreased because of less scheduled maintenance and a three-month strike.

**Depreciation.** Depreciation expense was approximately 3.3% of average depreciable plant in service in 1976 and 1977, and 3.2% in 1978. The increases in depreciation expense are due to the additions to depreciable plant.

**Federal Income Taxes.** Changes in federal income taxes are generally related to changes in income excluding income taxes and the allowance for funds used during construction. See Notes 1 and 6 of the Notes to Financial Statements. The increases in the investment tax credit—current resulted primarily from changes in federal income tax regulations which in 1975 increased the investment credit rate from 4% to 10% and allowed the credit to be taken while construction expenditures are being made instead of when property is placed in service.

**Other Taxes.** These taxes have increased primarily as a result of increased revenues, increased valuations and additions to property. See Note 7 of the Notes to Financial Statements.

**Other Income.** Variations in amounts for the allowance for funds used during construction during the periods correspond with changes in the average balance of qualified projects included in construction work in progress. See Note (b) to the Statements of Income.

**Interest Charges and Dividends on Preferred Stock.** Significant increases in HL&P's annual construction expenditures have required substantial external financing through the issuance of debt and preferred stock during periods of high capital costs. Such financings have resulted in a significant increase in both interest expense and preferred dividend requirements. Other interest charges decreased in 1976 and 1977 as a result of smaller average balances of short-term debt outstanding during those periods. Other interest charges increased in 1978 as a result of increases in short-term interest rates and a higher average balance of short-term debt outstanding. See Statements of Capitalization and Statements of Changes in Financial Position.

**General.** In the absence of adequate and timely rate relief, future earnings will be adversely affected by continued increases in the costs discussed above. See Item 1, "Business—Regulatory and Environmental Matters—Rates and Services". See Note 5 of the Notes to Financial Statements for information concerning a possible write-off of expenditures incurred in connection with a terminated uranium exploration project.

### **Item 3. Properties**

All of the electric generating stations and all other operating property of HL&P are located in the State of Texas. HL&P considers this property to be well maintained and in good operating condition.

**Electric Generating Stations.** HL&P has eleven electric generating plants (78 generating units) with an installed capacity of 11,056,353 Kw.

**Substations.** As of December 31, 1978, HL&P owned 166 major substations having a total installed rated transformer capacity of 31,462,249 Kva (exclusive of spare transformers).

**Electric Lines.** As of December 31, 1978, HL&P operated 21,693 miles of transmission and distribution lines, including 1,265 miles operated at 138,000 volts and 373 miles operated at 345,000 volts.

**General Properties.** HL&P owns various properties which include a 27-story headquarters office building, division offices, service centers and other facilities used for general purposes.

**Titles.** The electric generating plants and other important units of property of HL&P are situated on lands owned in fee by HL&P. Transmission lines and distribution systems have been constructed in part on or across privately owned land pursuant to easements or on streets and highways and across waterways pursuant to authority granted by municipal and county permits and by permits issued by state and federal government authorities. Under the laws of the State of Texas, HL&P has the right of eminent domain, whereby it may secure or perfect rights-of-way over private property, if necessary.

The major properties of HL&P are subject to the lien of a Mortgage and Deed of Trust which, as supplemented, secures its outstanding First Mortgage Bonds, and titles to some of its properties are subject to minor encumbrances and defects, none of which impair the use of the property in the operation of the business of HL&P.

**Item 4. Parents and Subsidiaries.**

Parent .....	Houston Industries Incorporated
Registrant (wholly owned) .....	Houston Lighting & Power Company
Subsidiaries .....	None

**Item 5. Pending Legal Proceedings.**

Reference is made to "Regulatory and Environmental Matters - Rates and Services" and "Controversy with Central and South West Corporation" under Item 1.

**Item 6. Increases and Decreases in Outstanding Securities and Indebtedness.**

Title of Class	(Thousands of Dollars)		
	Balance December 31, 1977	Issuance of Securities	Balance December 31, 1978
Common stock, no par .....	\$ 391,534	\$ 65,224†	\$ 456,758
Long-term debt .....	\$1,113,000	\$241,926°	\$1,354,926

† All of the common stock issued by HL&P during 1978 was issued to its parent, Houston Industries Incorporated, in consideration of cash payments and equivalent compensation totaling \$65,224,000. Such funds were used to defray the cost of HL&P's construction program and for other corporate purposes.

° In June 1978, the Gulf Coast Waste Disposal Authority sold to Texas Commerce Bank National Association \$19,200,000 principal amount of 4.78% Pollution Control Revenue Bonds which are guaranteed as to principal and interest by HL&P. (\$2,274,000 of the proceeds from such sale was held by the trustee at December 31, 1978). The full proceeds (after expenses) from the sale of the bonds will be applied to the construction and installation of certain pollution control facilities at HL&P's power plants.

In September 1978, HL&P sold on a competitive bid basis \$125,000,000 principal amount of 8<sup>7</sup>/<sub>8</sub>% First Mortgage Bonds at a public offering price of 100.00%. The estimated net aggregate cash proceeds from the sale were approximately \$124,323,750 after deduction of estimated expenses payable by HL&P. The principal underwriters for the offering were Merrill Lynch White Weld Capital Markets Group, Blyth Eastman Dillon & Co. Incorporated, Dillon, Read & Co. Inc., The First Boston Corporation, Lehman Brothers Kuhn Loeb Incorporated, Salomon Brothers and Donaldson, Lufkin & Jenrette Securities Corporation. The net proceeds from the sale were used to defray the cost of HL&P's construction program and for other corporate



purposes. The offering was registered under the Securities Act of 1933 on Form S-7, Registration No. 2-62291.

In December 1978, HL&P sold on a competitive bid basis \$100,000,000 principal amount of 9¼% First Mortgage Bonds at a public offering price of 99.50%. The estimated net aggregate cash proceeds from the sale were approximately \$98,909,000 after deduction of estimated expenses payable by HL&P. The principal underwriters for the offering were Salomon Brothers, Blyth Eastman Dillon & Co. Incorporated, The First Boston Corporation, Lehman Brothers Kuhn Loeb Incorporated, Merrill Lynch White Weld Capital Markets Group and Donaldson, Lufkin & Jenrette Securities Corporation. The net proceeds from the sale were used to defray the cost of HL&P's construction program and for other corporate purposes. The offering was registered under the Securities Act of 1933 on Form S-7, Registration No. 2-62879.

**Item 7. Changes in Securities and Changes in Security for Registered Securities.**

None.

**Item 8. Defaults Upon Senior Securities.**

None.

**Item 9. Approximate Number of Equity Security Holders.**

Title of Class	Number of Record Holders December 31, 1978
Common Stock, no par (owned by parent) .....	1
Preferred Stock, cumulative, no par—\$4 series, \$6.72 series, \$7.52 series, \$9.52 series, \$9.08 series and \$8.12 series .....	3,660
5½% Convertible Debentures due 1985 (convertible into common stock of Houston Industries Incorporated) .....	1,054

**Item 10. Submission of Matters to a Vote of Security Holders.**

None.

**Item 11. Indemnification of Directors and Officers.**

Pursuant to Instruction F to Form 10-K, the response in Item 12 of HL&P's Annual Report on Form 10-K for its fiscal year ended December 31, 1977 is incorporated herein by reference.

HL&P has purchased insurance which purports to insure it against certain costs of indemnification which may be incurred by it pursuant to its Bylaws, and to insure the officers and directors of HL&P against certain liabilities incurred by them in the discharge of their function as such officers and directors except for liabilities resulting from their own malfeasance.

5  
1515 358

**Item 12. Financial Statements, Exhibits Filed, and Reports on Form 8-K.**

**(a)1. Financial statements:**

	<u>Page Reference</u>
Statements of Income for each of the five years in the period ended December 31, 1978 (included under Item 2 – Summary of Operations) .....	15
Balance Sheets, December 31, 1977 and 1978 .....	24
Statements of Capitalization, December 31, 1977 and 1978 .....	26
Statements of Retained Earnings for each of the five years in the period ended December 31, 1978 .....	27
Statements of Changes in Financial Position for each of the five years in the period ended December 31, 1978 .....	28
Notes to Financial Statements .....	29
Schedules for the two years ended December 31, 1978:	
V – Electric Plant, at Original Cost .....	34
VI – Accumulated Provision for Depreciation of Electric Plant .....	35
XII – Reserves .....	36

The following schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements.

I, II, III, IV, VII, VIII, IX, X, XI, XIII, XIV, XV, XVI, XVII, XVIII and XIX.

**2. Exhibits:**

- 1           – Twenty-Third Supplemental Indenture, dated as of December 1, 1978, between the Company and Texas Commerce Bank National Association, as Trustee.

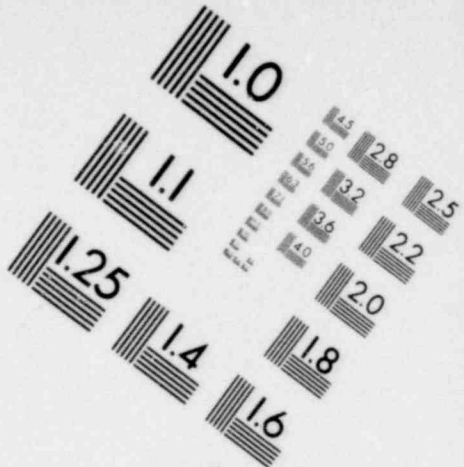
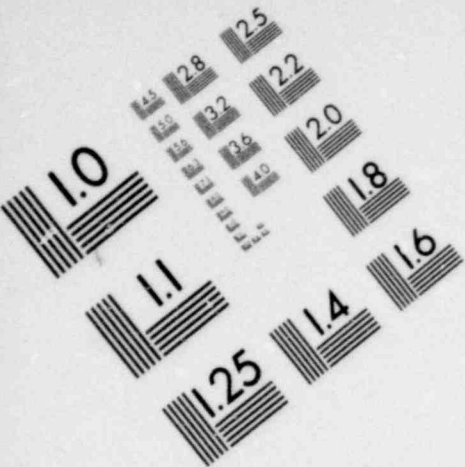
**(b) Reports on Form 8-K.**

None.

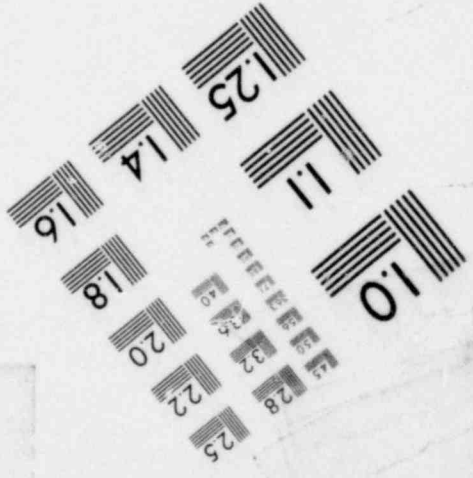
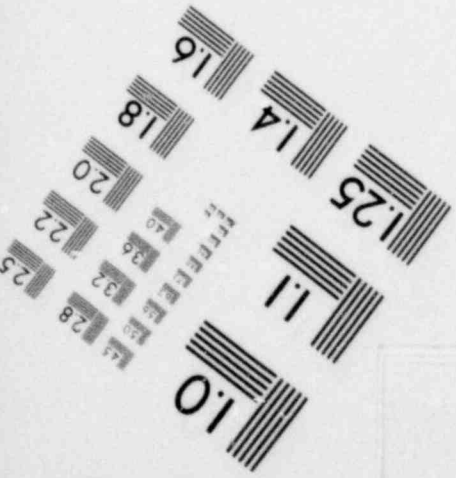
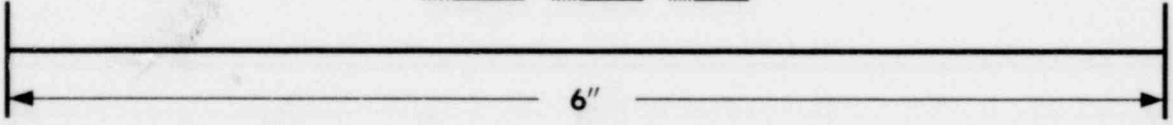
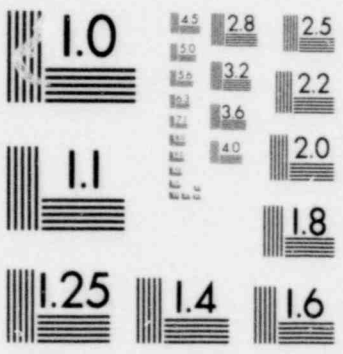
**PART II**  
**ITEMS OMITTED**

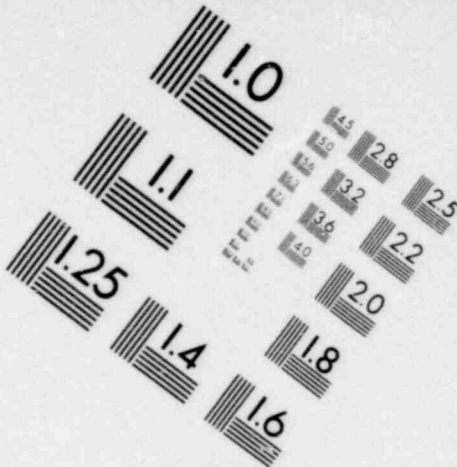
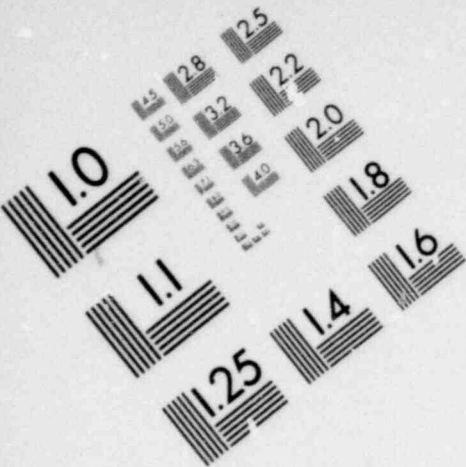
The information called for by Items 13 through 15, to the extent not set forth under Item 1, "Business-Executive Officers", is set forth in the definitive proxy statement relating to the 1979 Annual Meeting of Shareholders of Houston Industries Incorporated (parent of the registrant), which has been filed with the Commission (or will be filed within 120 days following the close of the fiscal year of the registrant ended December 31, 1978) pursuant to the Commission's Regulation 14A (File No. 1-7629). Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and is incorporated herein by reference pursuant to Instructions F and H to Form 10-K. The Board of Directors of the registrant is composed of the same individuals as the Board of Directors of Houston Industries Incorporated. The principal executive officers of Houston Industries Incorporated serve in substantially identical capacities with the registrant. For the fiscal year ended December 31, 1978, the aggregate direct remuneration paid by HL&P to all of its directors and officers as a group (25 persons) amounted to \$1,423,629.

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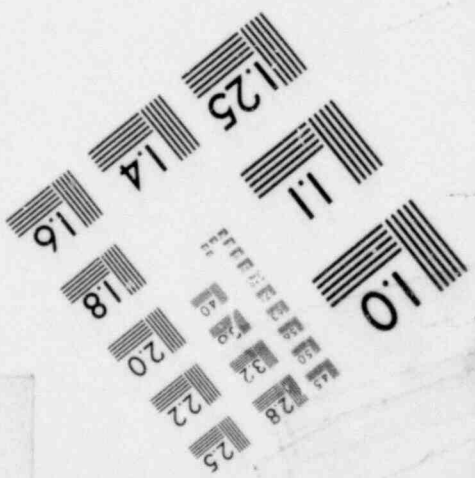
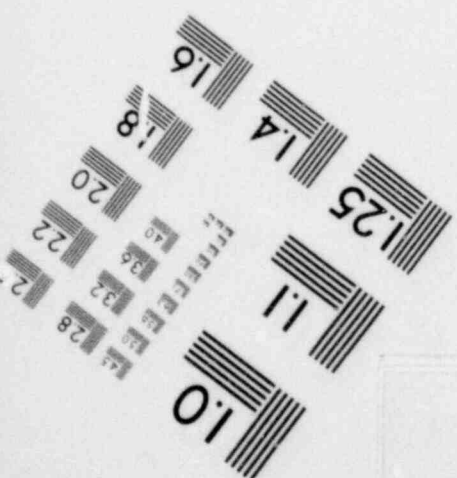
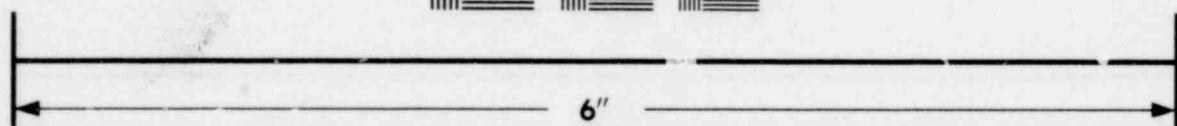
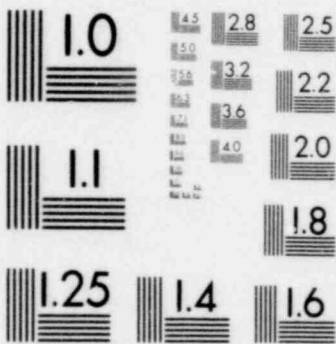


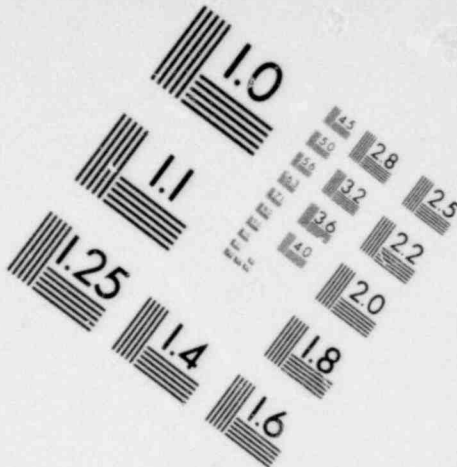
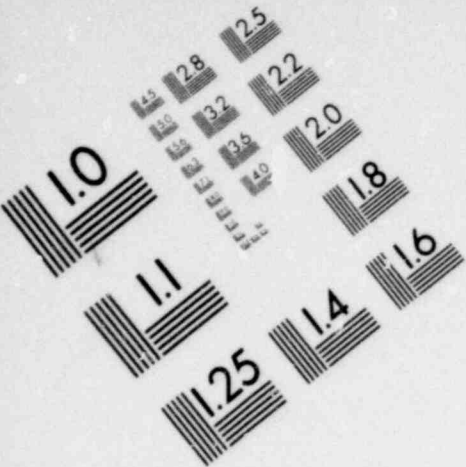
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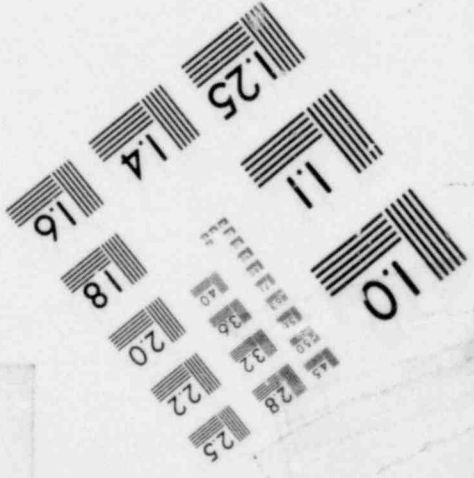
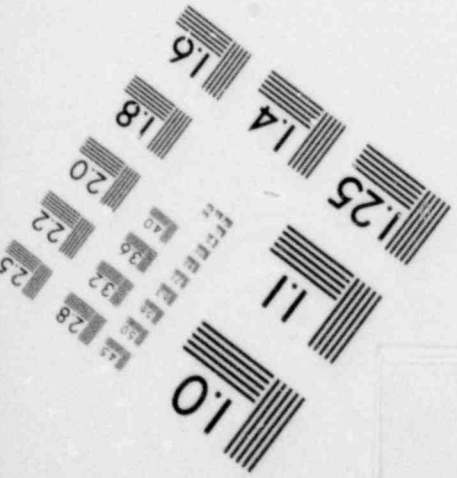
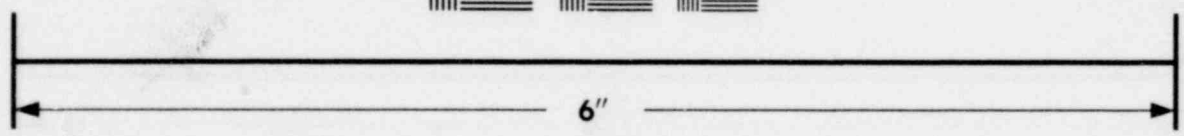
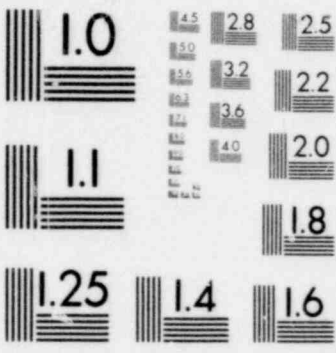


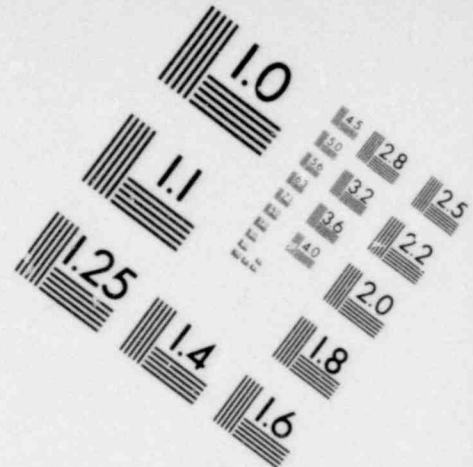
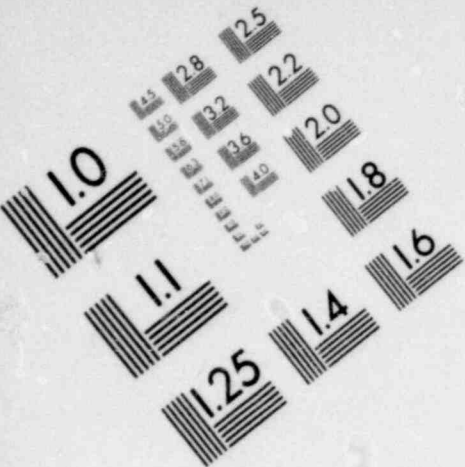
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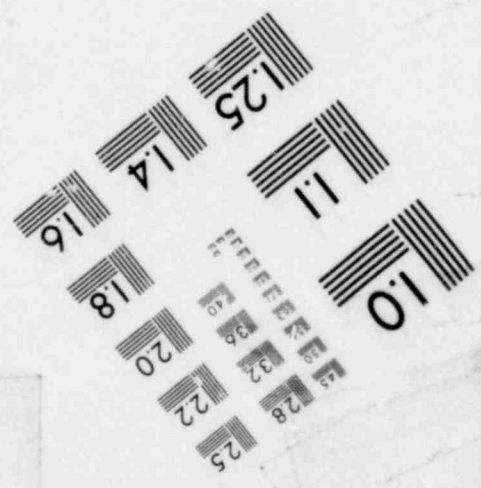
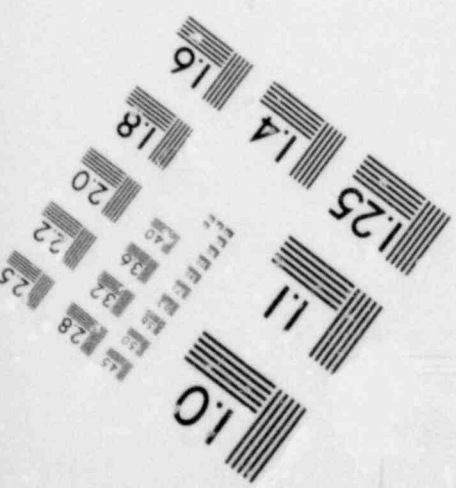
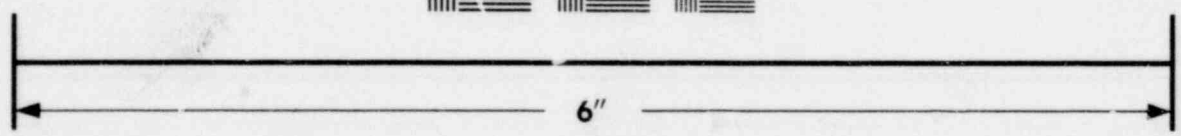
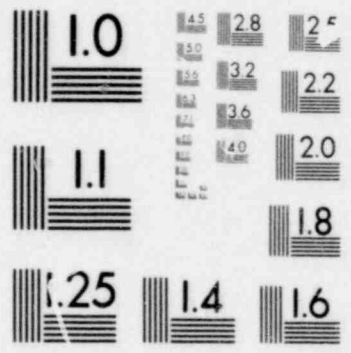


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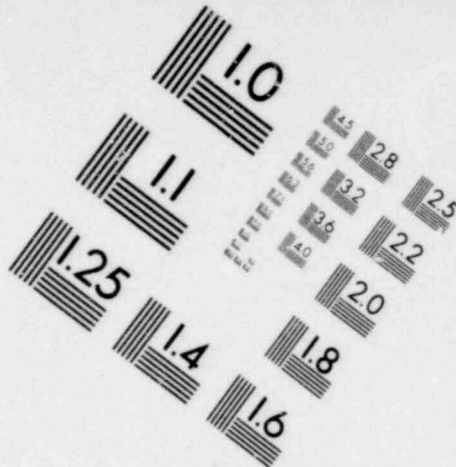
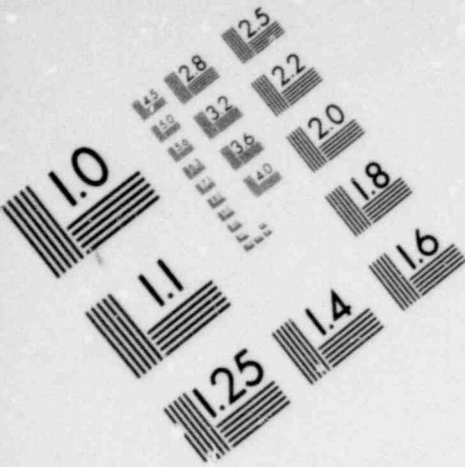




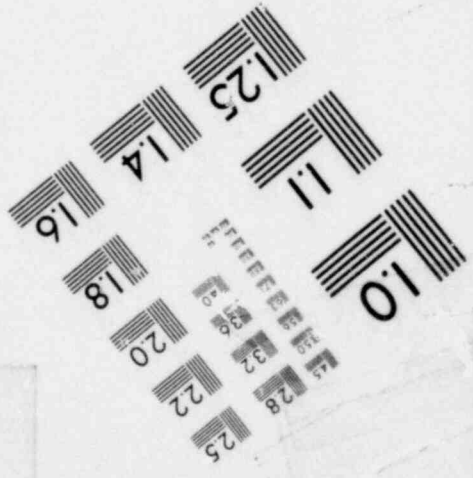
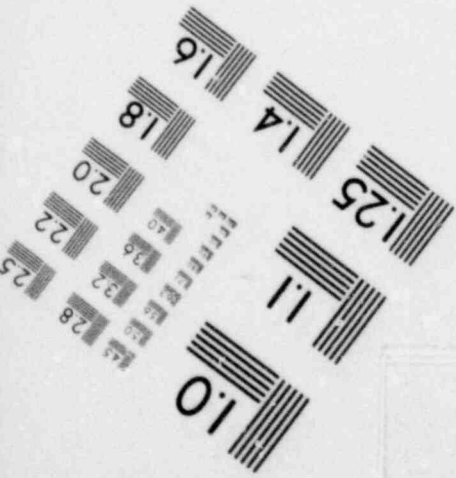
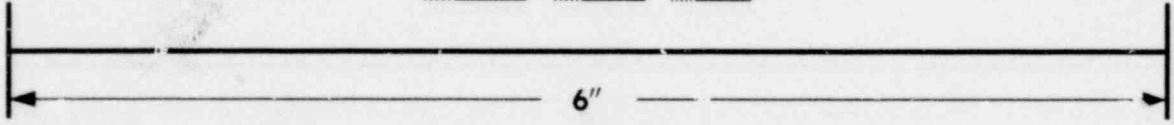
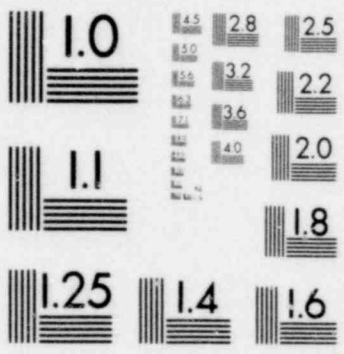
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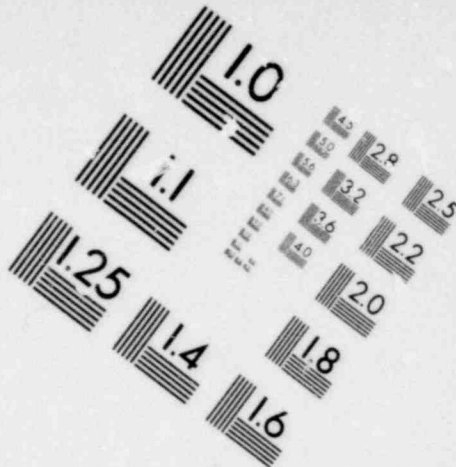
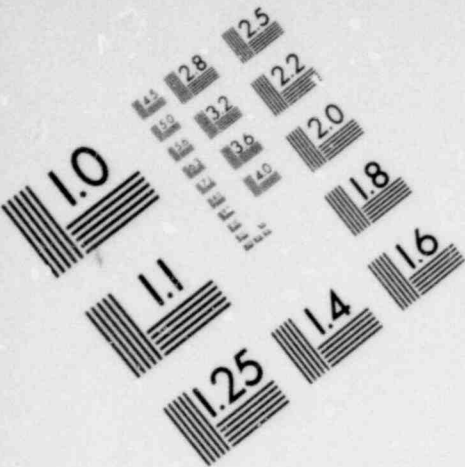




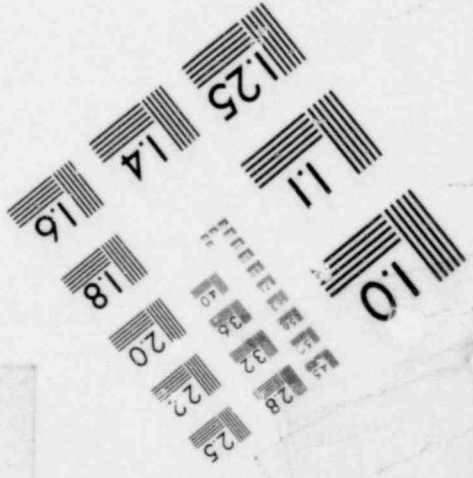
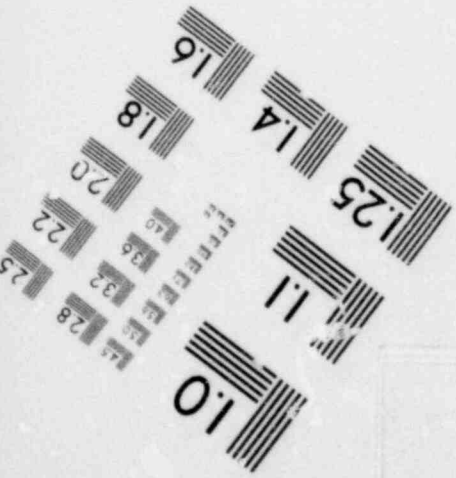
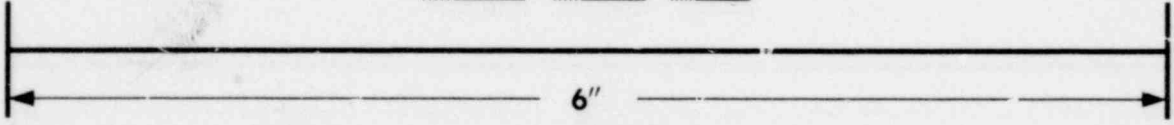
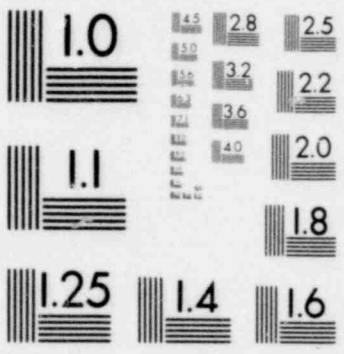


**IMAGE EVALUATION  
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**IMAGE EVALUATION  
TEST TARGET (MT-3)**



**ITEM 12(a)1**

**FINANCIAL STATEMENTS AND SCHEDULES AND AUDITORS' OPINION**

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**ANNEXED TO**  
**ANNUAL REPORT FOR FISCAL YEAR ENDED**  
**DECEMBER 31, 1978**  
**OF**  
**HOUSTON LIGHTING & POWER COMPANY**

# HOUSTON LIGHTING & POWER COMPANY

## BALANCE SHEETS (Thousands of Dollars)

### ASSETS

	<u>December 31,</u> <u>1977</u>	<u>December 31,</u> <u>1978</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 3 and 8)		
Electric plant, at original cost—		
Production .....	\$1,296,211	\$1,551,962
Transmission .....	273,381	290,951
Distribution .....	616,936	683,425
General .....	160,127	165,789
Construction work in progress .....	538,109	321,175
Nuclear fuel in process .....	61,291	69,995
Ele. plant acquisition adjustments, at cost .....	3,166	3,166
Total .....	<u>2,949,221</u>	<u>3,386,463</u>
Less accumulated depreciation and amortization .....	450,946	512,604
Property, plant and equipment—net .....	<u>2,498,275</u>	<u>2,873,859</u>
 CURRENT ASSETS:		
Cash in banks .....	11,563	10,051
Temporary cash investments, at cost .....		68,664
Working funds and special deposits .....	3,953	4,644
Accounts receivable:		
Customers (less accumulated provision for uncollectible accounts) .....	41,564	58,239
Affiliated companies .....	373	290
Others .....	20,674	27,283
Inventory, at average cost:		
Fuel oil .....	51,405	49,367
Materials and supplies .....	18,034	21,578
Prepayments .....	2,727	2,192
Total .....	<u>150,293</u>	<u>242,308</u>
DEFERRED DEBITS .....	19,695	24,662
Total .....	<u>\$2,668,263</u>	<u>\$3,140,829</u>

See Notes to Financial Statements.

# HOUSTON LIGHTING & POWER COMPANY

## BALANCE SHEETS (Thousands of Dollars)

### LIABILITIES

	<u>December 31,</u> <u>1977</u>	<u>December 31,</u> <u>1978</u>
<b>CAPITALIZATION (statement on following page):</b>		
Common stock equity .....	\$ 888,613	\$1,009,971
Cumulative preferred stock .....	214,000	213,945
Long-term debt .....	<u>1,113,000</u>	<u>1,354,926</u>
Total .....	<u>2,215,613</u>	<u>2,578,842</u>
<b>CURRENT LIABILITIES:</b>		
Notes payable (Note 4) .....	24,829	2,197
Accounts payable .....	78,872	108,339
Accounts payable to affiliated companies (Note 8) .....	938	7,050
Taxes accrued .....	24,430	33,571
Interest accrued .....	22,309	26,844
Accrued liabilities to municipalities .....	23,695	27,972
Dividends declared .....	3,759	4,332
Other .....	<u>10,541</u>	<u>11,662</u>
Total .....	<u>189,373</u>	<u>221,967</u>
<b>DEFERRED CREDITS:</b>		
Accumulated deferred federal income taxes .....	126,940	163,818
Unamortized investment tax credit .....	106,589	145,452
Other .....	<u>21,748</u>	<u>22,250</u>
Total .....	<u>255,277</u>	<u>331,520</u>
<b>PROPERTY INSURANCE RESERVE</b> .....	<u>8,000</u>	<u>8,500</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 5)</b>		
Total .....	<u>\$2,668,263</u>	<u>\$3,140,829</u>

See Notes to Financial Statements.

# HOUSTON LIGHTING & POWER COMPANY

## STATEMENTS OF CAPITALIZATION

(Thousands of Dollars)

	<u>December 31,</u> <u>1977</u>	<u>December 31,</u> <u>1978</u>
<b>COMMON STOCK EQUITY:</b>		
Common stock, no par; authorized, 50,000,000 shares; outstanding 29,004,642 shares at December 31, 1977 and 31,314,996 shares at December 31, 1978	\$ 391,534	\$ 456,758
Retained earnings	497,079	553,213
Total common stock equity	888,613	1,009,971
<b>CUMULATIVE PREFERRED STOCK (Note 2)—no par; authorized, 10,000,000 shares; outstanding (entitled upon involuntary liquidation to \$100 a share):</b>		
\$4 series, 97,397 shares	9,740	9,740
\$6.72 series, 250,000 shares	25,115	25,115
\$7.52 series, 500,000 shares	50,225	50,225
\$9.52 series, 400,000 shares	39,372	39,372
\$9.08 series, 400,000 shares	39,395	39,395
\$8.12 series, 500,000 shares	50,153	50,098
Total cumulative preferred stock	214,000	213,945
<b>LONG-TERM DEBT:</b>		
First mortgage bonds (Note 3):		
Series 3¼%, due 1981	20,000	20,000
Series 2¾%, due 1985	30,000	30,000
Series 3¼%, due 1986	30,000	30,000
Series 4¾%, due 1987	40,000	40,000
Series 3%, due 1989	30,000	30,000
Series 4⅞%, due 1989	25,000	25,000
Series 4½%, due 1992	25,000	25,000
Series 5¼%, due 1996	40,000	40,000
Series 5¼%, due 1997	40,000	40,000
Series 6¾%, due 1997	35,000	35,000
Series 6¾%, due 1998	35,000	35,000
Series 7½%, due 1999	30,000	30,000
Series 7¼%, due 2001	50,000	50,000
Series 7½%, due 2001	50,000	50,000
Series 8⅛%, due 2004	100,000	100,000
Series 10⅛%, due 2004	100,000	100,000
Series 8¾%, due 2005	125,000	125,000
Series 8¾%, due 2006	125,000	125,000
Series 8¾%, due 2007	125,000	125,000
Series 8⅞%, due 2008		125,000
Series 9¼%, due 2008		100,000
Total first mortgage bonds	1,055,000	1,280,000
5½% debenture, due 1985 (Note 8)	40,000	40,000
7¾% water pollution control revenue bonds, due 2004	18,000	18,000
4.78% water pollution control revenue bonds, due 1998 (net of \$2,274 of proceeds held by trustee)		16,926
Total long-term debt	1,113,000	1,354,926
Total Capitalization	\$2,215,613	\$2,578,842

See Notes to Financial Statements.

# HOUSTON LIGHTING & POWER COMPANY

## STATEMENTS OF RETAINED EARNINGS

(Thousands of Dollars)

	Twelve Months Ended December 31,				
	1974	1975	1976	1977	1978
BALANCE AT BEGINNING OF PERIOD	\$308,039	\$339,459	\$368,656	\$429,550	\$497,079
ADD—NET INCOME	69,878	70,385	115,156	134,124	139,379
Total	377,917	409,844	483,812	563,674	636,458
DEDUCT—CASH DIVIDENDS:					
Preferred:					
\$4 Series	390	390	390	390	390
\$6.72 Series	1,680	1,680	1,680	1,680	1,680
\$7.52 Series	3,760	3,760	3,760	3,760	3,760
\$9.52 Series (annual rate of \$9.52 a share from October 30, 1975)		645	3,808	3,808	3,808
\$9.08 Series (annual rate of \$9.08 a share from April 1, 1976)			2,724	3,632	3,632
\$8.12 Series (annual rate of \$8.12 a share from November 22, 1977)				441	4,060
Common:					
1974, \$1.50; 1975, \$1.56; 1976, \$1.61; 1977, \$1.86; 1978, \$2.12 (a share) (Note 8)	32,628	34,713	41,900	52,884	65,915
Total	38,458	41,188	54,262	66,595	83,245
BALANCE AT END OF PERIOD	\$339,459	\$368,656	\$429,550	\$497,079	\$553,213

See Notes to Financial Statements.

# HOUSTON LIGHTING & POWER COMPANY

## STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Thousands of Dollars)

	Twelve Months Ended December 31,				
	1974	1975	1976	1977	1978
Source of funds:					
Operations:					
Net income	\$ 69,878	\$ 70,385	\$115,156	\$134,124	\$139,379
Items not requiring current outlay of working capital:					
Depreciation	45,703	51,824	57,896	64,821	74,361
Deferred federal income taxes—net	16,929	19,948	24,782	30,879	37,831
Investment tax credit deferred—net	6,703	11,274	23,866	38,809	40,782
Allowance for funds used during construction	(8,228)	(8,567)	(16,384)	(23,909)	(28,668)
Total	<u>130,985</u>	<u>144,864</u>	<u>205,316</u>	<u>244,724</u>	<u>263,685</u>
Financing and other:					
Sale of common stock		40,701	65,406	67,440	65,224
Sale of pollution control bonds	18,000				
Sale of 400,000 shares of \$9.52 Series preferred stock		39,402			
Sale of 400,000 shares of \$9.08 Series preferred stock			39,365		
Sale of 500,000 shares of \$8.12 Series preferred stock				50,153	
Sale of first mortgage bonds	200,000	125,000	125,000	125,000	225,000
Sale of pollution control bonds (net of proceeds held by trustee)					16,926
Sale of coal handling facilities to affiliate					35,424
Other—net	(4,558)	10,643	17,815	(2,793)	(1,154)
Total	<u>344,427</u>	<u>360,910</u>	<u>452,902</u>	<u>484,524</u>	<u>605,105</u>
Application of funds:					
Construction and nuclear fuel expenditures (net of allowance for funds used during construction)	256,574	329,694	309,775	441,566	462,439
Dividends declared	38,458	41,188	54,262	66,594	83,245
Total	<u>295,032</u>	<u>370,882</u>	<u>364,037</u>	<u>508,160</u>	<u>545,684</u>
Increase (decrease) in working capital	<u>\$ 49,395</u>	<u>\$ (10,272)</u>	<u>\$ 88,865</u>	<u>\$ (23,636)</u>	<u>\$ 59,421</u>
Changes in components of working capital:					
Increase (decrease) in current assets:					
Cash in banks	\$ (6,000)	\$ 6,238	\$ (2,709)	\$ 1,568	\$ (1,512)
Temporary cash investments					68,664
Customer accounts receivable	(2,644)	9,547	4,279	6,404	16,675
Accounts receivable from affiliated companies	2,969	(3,424)	6,082	(8,360)	(83)
Inventory	55,557	2,897	(6,855)	(7,704)	1,506
Other	3,503	890	13,460	2,484	6,765
Total	<u>53,385</u>	<u>16,148</u>	<u>14,257</u>	<u>(5,608)</u>	<u>92,015</u>
Increase (decrease) in current liabilities:					
Current maturity of long-term debt	(30,000)				
Notes payable	12,162	6,503	(125,562)	18,525	(22,632)
Accounts payable	10,243	(171)	31,345	9,787	29,467
Accounts payable to affiliated companies	246	787	406	(761)	6,112
Taxes accrued	(1,027)	12,146	10,879	(18,609)	9,141
Interest accrued	8,707	2,155	1,625	1,752	4,535
Other	3,659	5,000	6,699	7,334	5,971
Total	<u>3,990</u>	<u>26,420</u>	<u>(74,608)</u>	<u>18,028</u>	<u>32,594</u>
Increase (decrease) in working capital	<u>\$ 49,395</u>	<u>\$ (10,272)</u>	<u>\$ 88,865</u>	<u>\$ (23,636)</u>	<u>\$ 59,421</u>

See Notes to Financial Statements



# HOUSTON LIGHTING & POWER COMPANY

## NOTES TO FINANCIAL STATEMENTS

For the Five Years Ended December 31, 1978

- (1) The following summarizes the more significant accounting policies of HL&P. The accounting records of HL&P are maintained in accordance with the Uniform System of Accounts prescribed by the Public Utility Commission of Texas.

### *Electric Plant*

The cost, reduced by contributions in aid of construction, of additions to electric plant, betterments to existing property, and replacements of units of property retired is capitalized. Cost includes the original cost of contracted services, direct labor and material, indirect charges for engineering supervision and similar overhead items, and an allowance for funds used during construction. The allowance for funds used during construction, 6.5% on projects estimated to cost in excess of \$50,000 and estimated to require more than 90 days to construct, represents the cost of borrowed funds used for construction and a reasonable rate on other funds so used.

Maintenance of property and replacements and renewals of items determined to be less than units of property are charged to operating expenses—maintenance. The actual or average book cost of units of property replaced or renewed, plus removal cost, less salvage, is charged to accumulated depreciation.

### *Depreciation*

HL&P computes depreciation using the straight-line method. The provisions for the years 1974 through 1978 were about 3%, 3.2%, 3.3%, 3.3% and 3.2%, respectively, of the depreciable cost of electric plant.

### *Operating Revenues*

Revenues are recognized from the sale of electricity as bills are rendered to customers. Rate schedules include fuel adjustment clauses which permit recovery of fuel expenses in the month incurred.

### *Federal Income Taxes*

Houston Industries and its subsidiaries file a consolidated income tax return. HL&P records as its current income tax expense an amount equal to the tax it would have to pay if it filed a separate income tax return.

HL&P follows the policy of comprehensive interperiod income tax allocation, except that deferred income taxes were not provided on interest which is deducted currently for federal income tax purposes but capitalized for accounting purposes, and additions to the property insurance reserve which are expensed currently for accounting purposes but not allowed as a deduction for tax purposes until a loss is incurred.

The investment tax credit applied as a reduction of federal income taxes has been deferred and is being amortized over the estimated lives of the related property.

### *Property Insurance Reserve*

The costs of replacing major uninsured plant losses, less related tax effects, are charged to the reserve when incurred.

### *Retirement Plan*

HL&P has a noncontributory retirement plan covering eligible employees. The cost of the plan for the years 1974 through 1978 was about \$1,120,000, \$2,235,000, \$3,994,000, \$3,925,000 and \$4,773,000, respectively. Unfunded prior service costs of \$20,863,000 are being amortized over a 40-year period. The policy of HL&P is to fund pension costs accrued. The actuarially computed value of vested benefits does not exceed the fund's assets.

NOTES TO FINANCIAL STATEMENTS—(Continued)

- (2) Any part or all of the preferred stock may be redeemed at the option of HL&P at the following per share prices, plus any unpaid accrued dividends to date of redemption:

\$4 Series—\$105.00. \$6.72 Series: through July 31, 1983—\$103.51; thereafter—\$102.51. \$7.52 Series: through October 31, 1982—\$105.35; thereafter—\$103.35 to \$102.35. \$9.52 Series: through September 30, 1985—\$109.52; thereafter—\$105.00 to \$101.00. \$9.08 Series: through March 31, 1981—\$109.08; thereafter—\$105.00 to \$101.00. \$8.12 Series: through November 30, 1982—\$109.37; thereafter—\$106.25 to \$102.25.

On January 30, 1979, HL&P sold 300,000 shares of \$9.04 cumulative preferred stock at a price of \$100 per share. The net proceeds from the sale will be used to defray the cost of HL&P's construction program.

- (3) At December 31, 1978, sinking or improvement fund requirements of HL&P's first mortgage bonds outstanding will be \$22,100,000 for the year 1979, \$23,350,000 for the year 1980, \$25,600,000 for the year 1981, and \$25,200,000 for the years 1982 and 1983. Of such requirements, \$12,800,000 for each of the years 1979 through 1981 and \$12,600,000 for each of the years 1982 and 1983 may be satisfied by certification of property additions at 100% of the requirements and the remainder by certification of such property additions at 166 $\frac{2}{3}$ % of the requirements. Sinking or improvement fund requirements for 1978 and prior years have been satisfied by certification of property additions.

The issuable amount of first mortgage bonds is unlimited as to authorization, but limited by property, earnings, and other provisions of the mortgage and deed of trust and the supplemental indentures thereto. All of HL&P's plant is subject to lien securing its long term debt.

- (4) The interim financing requirements of HL&P are met through short-term bank loans and the issuance of commercial paper. HL&P has bank lines of credit aggregating \$200,000,000 (as compared with \$216,000,000 during 1977) which limit its total short-term borrowings and provide for interest at the prime rate. No compensating balances are required by the lines of credit.

Additional information with respect to short-term borrowings is as follows:

	1977	1978
At December 31:		
Borrowings outstanding:		
Bank Loans .....	\$ 24,000,000	\$ 1,000,000
Weighted average interest rate on borrowings outstanding .....	7.75%	11.75%
For the year ended December 31:		
Weighted average aggregate borrowings outstanding .....	\$ 27,160,000	\$ 51,703,000
Weighted average interest rate on aggregate borrowings outstanding .....	6.62%	8.29%
Maximum aggregate borrowings outstanding at any month end .....	\$106,100,000	\$110,000,000

- (5) Significant commitments have been incurred in connection with HL&P's construction program and for nuclear fuel purchases. See Item 1, "Business — Construction Program". Commitments in connection with the construction program, principally for generating plants and related facilities, are generally revocable by HL&P subject to reimbursement of manufacturers for expenditures incurred or other cancellation penalties.

HL&P has no material lease commitments.

NOTES TO FINANCIAL STATEMENTS—(Continued)

HL&P is presently negotiating certain vendor claims resulting from cancellation in 1976 of one of two units of its Allens Creek nuclear project. Recovery over a five-year period of claims settled through March 31, 1978 has been authorized by the regulatory authority. As remaining claims are settled and rate applications are pending, requests will be made for recovery. If the requests are denied, the costs will be charged to income in the period such denial is made. Such charge, if any, is not expected to have a significant effect on future operating results.

In October 1978, HL&P terminated its financial support of a uranium exploration project in which it had invested \$8,958,000 as of December 31, 1978. HL&P will request rate relief sufficient to amortize such costs over a reasonable period. If the request is denied, these costs will also be charged to income in the period such denial is made.

- (6) Effective federal income tax rates are lower than statutory corporate rates for each year as follows:

	Twelve Months Ended December 31,				
	1974	1975	1976	1977	1978
	Thousands of Dollars				
Federal income taxes at statutory corporate rate .....	\$58,619	\$58,494	\$97,792	\$109,988	\$112,365
Reduction in taxes resulting from:					
Allowance for funds used during construction .....	3,949	4,112	7,864	11,476	13,761
Other—net .....	2,425	2,905	1,350	3,495	3,889
Total .....	6,374	7,017	9,214	14,971	17,650
Federal income taxes .....	\$52,245	\$51,477	\$88,578	\$ 95,017	\$ 94,715
Effective rate .....	42.8%	42.2%	43.5%	41.5%	40.5%

- (7) Supplementary Information:

	Twelve Months Ended December 31,				
	1974	1975	1976	1977	1978
	Thousands of Dollars				
Taxes, other than income taxes, were charged to Operating Expenses as follows:					
Ad valorem .....	\$21,300	\$24,833	\$28,428	\$33,253	\$38,131
State gross receipts .....	5,873	6,713	8,852	10,747	12,686
Payroll .....	2,848	3,303	3,067	3,766	4,897
Miscellaneous .....	6,756	7,773	7,017	3,669	4,58
Total taxes, other than income taxes .....	\$36,777	\$42,622	\$47,364	\$51,435	\$60,172
Research and development costs charged to Operating Expenses .....	\$ 9,319	\$ 8,069	\$ 8,530	\$ 9,752	\$ 8,775

Maintenance, depreciation, amortization, rents, royalties and advertising other than amounts set out separately in the Statements of Income are not significant.

- (8) The following describes the principal transactions between HL&P, its parent and other related companies:

Pursuant to the corporate restructuring plan, Houston Industries assumed joint and several liability with HL&P for payment of principal and interest on the \$40,000,000 of 5½% Convertible

NOTES TO FINANCIAL STATEMENTS — (Continued)

Debentures issued by HL&P. In consideration thereof, HL&P issued Houston Industries a \$40,000,000, 5½% debenture. Included in "Interest on long-term debt" in the accompanying Statements of Income for the years ended December 31, 1977 and 1978 is \$2,200,000 related to this debenture.

HL&P issued 2,252,515 shares in 1977 and 2,310,354 shares in 1978 of common stock to Houston Industries for a total consideration of \$67,440,000 in 1977 and \$65,224,000 in 1978 and plans to issue approximately 2,000,000 additional shares of common stock to Houston Industries in February 1979. Common stock dividends paid to Houston Industries by HL&P amounted to \$52,884,000 in 1977 and \$65,915,000 in 1978.

"Nuclear fuel in process" in the accompanying Balance Sheets includes \$5,224,000 in 1977 and \$5,218,000 in 1978 of uranium loaned to Utility Fuels, Inc., another subsidiary of Houston Industries. Interest on this loan is calculated on the basis of the prime rate at each month end.

In May 1978, HL&P sold at cost its coal handling facilities to Utility Fuels.

"Operating Expenses — Fuel" in the accompanying Statement of Income for the year ended December 31, 1978 includes \$20,823,000 of coal purchased from Utility Fuels.

(9) Unaudited Replacement Cost Information:

The following tabulations compare the original cost of HL&P's investment in electric plant at December 31, 1978 and 1977 with an estimated cost of replacing such electric plant at that date. The tabulations also compare accumulated depreciation and amortization and such expense based upon original cost and replacement cost.

	December 31, 1978		
	Original Cost	Replacement Cost	Difference
	Thousands of Dollars		
Investment in electric plant:			
Subject to replacement cost computation	\$2,594,003	\$4,603,871	\$2,009,868
Original cost	792,460	792,460	
Total	3,386,463	5,396,331	2,009,868
Less accumulated depreciation and amortization	512,604	913,187	400,583
Electric plant — net	\$2,873,859	\$4,483,144	\$1,609,285
Depreciation and amortization — Year Ended	\$ 74,361	\$ 124,319	\$ 49,958

	December 31, 1977		
	Original Cost	Replacement Cost	Difference
	Thousands of Dollars		
Investment in electric plant:			
Subject to replacement cost computation	\$2,294,639	\$3,826,492	\$1,531,853
Original cost	654,582	654,582	
Total	2,949,221	4,481,074	1,531,853
Less accumulated depreciation and amortization	450,946	763,596	312,650
Electric plant — net	\$2,498,275	\$3,717,478	\$1,219,203
Depreciation and amortization — Year Ended	\$ 64,821	\$ 103,912	\$ 39,091

NOTES TO FINANCIAL STATEMENTS — (Continued)

The estimated replacement cost of electric plant has been calculated by using indexes developed for HL&P by Whitman, Requardt and Associates (Engineers & Consultants) based upon actual construction experience and trends in costs of labor and material used in HL&P's construction projects. These indexes translate original construction costs recorded in the property records to current costs based on historic inflation. They reflect technology changes in the substitution of new materials for those actually used and for changes in construction methods and the use of construction labor. The estimated replacement cost is based upon the electric plant currently used in providing service. In the event that plant directly associated with the generation of electricity is scheduled for retirement during the next three years, the current construction cost per KWH, based on the size and type of plant scheduled to replace the retired plant, will be applied to the capacity to be retired. Accordingly, the replacement cost information does not reflect economies of scale which might be experienced by increasing the size of generating plants, nor does it reflect costs relating to the use of different fuels and costs which were not originally incurred for such items as changes in work rules, additional overheads, requirements of the Occupational Safety and Health Administration, environmental requirements, and other governmental requirements. Land, construction work in progress, nuclear fuel payments and electric plant acquisition adjustments have been included at original cost.

Accumulated depreciation related to replacement costs has been determined by calculating the ratio of original cost to accumulated depreciation for each plant account and applying such ratio to the estimated replacement costs for that account.

Depreciation expense related to replacement cost has been computed by multiplying the average of the beginning and ending year balances of such cost by the current depreciation rate for each plant account.

HL&P cautions that the above information represents only a compilation of data on a piecemeal basis to indicate a possible effect of inflation on the results of operation. Replacement of the various components of electric plant will take place over many years and the actual replacement costs will be affected by, among other factors, changes in technological developments, the rate of inflation, environmental requirements, and national energy policy. Additionally, replacement of existing plant could result in changes in operating and maintenance expense. Because of these factors, as well as others, which cannot presently be foreseen, the Company is unable to estimate the effect that the cost of replacing existing electric plant will have upon its future operating results.

HL&P also cautions that replacement cost is not the current value of existing plant, but only an estimate of the cost of replacing such assets at December 31, 1978 and 1977. The difference between original cost and replacement cost does not represent additional book value but might be indicative of funds (the excess over accumulated book depreciation) that may be required to replace existing electric plant. Such funds, if required, would first be provided by depreciation, reinvested earnings and probable ongoing deferred income tax provisions resulting from accelerated depreciation and investment tax credit. Any additional funds required would be provided from short-term borrowings which are repaid through the issuance of additional securities. It is the current policy of HL&P to maintain a capitalization consisting of approximately 40% common equity, 10% preferred stock and 50% long-term debt.

HL&P believes that the difference between depreciation expense based on original cost and depreciation expense based on replacement cost, which difference is not deductible in determining income tax expense, is not truly an additional amount of depreciation expense. Rather, it is a measure of the extent that rates for electric service would have to be increased in the future when such assets are replaced, assuming no growth in demand for such service, no further inflation in costs, and no change in the current return on investment allowed by regulatory authorities. If such increased rates are not permitted by regulatory authorities or otherwise not achieved, then this differential amount will have to be furnished by investment of additional funds provided from issuance of additional securities. HL&P would be entitled to earn a return on this additional investment equal to the cost of such additional funds.

**SCHEDULE V - ELECTRIC PLANT, AT ORIGINAL COST**

**For the Two Years Ended December 31, 1978**

(Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements	Other Changes Add (Deduct)	Balance at End of Period
Year Ended December 31, 1978:					
Electric plant in service:					
Production .....	\$1,296,211	\$257,147	\$ 1,396		\$1,551,962
Transmission .....	273,381	19,321	1,751		290,951
Distribution .....	616,936	80,133	13,644		683,425
General .....	160,127	7,311	1,649		165,789
Total .....	<u>2,346,655</u>	<u>333,912</u>	<u>18,440</u>		<u>2,692,127</u>
Construction work in progress .....	538,109			\$83,066	621,175
Nuclear fuel in process .....	61,291	8,704			69,995
Total .....	<u>\$2,946,055</u>	<u>\$372,616</u>	<u>\$18,440</u>	<u>\$83,066</u>	<u>\$3,383,297</u>
Year Ended December 31, 1977:					
Electric plant in service:					
Production .....	\$ 987,961	\$308,523	\$ 273		\$1,296,211
Transmission .....	257,675	16,692	986		273,381
Distribution .....	561,528	63,256	7,848		616,936
General .....	119,567	42,419	1,859		160,127
Total .....	<u>1,926,731</u>	<u>430,890</u>	<u>10,966</u>		<u>2,346,655</u>
Construction work in progress .....	532,706			\$ 5,403	538,109
Nuclear fuel in process .....	32,109	29,182			61,291
Total .....	<u>\$2,491,546</u>	<u>\$460,072</u>	<u>\$10,966</u>	<u>\$ 5,403</u>	<u>\$2,946,055</u>

**SCHEDULE VI – ACCUMULATED PROVISION FOR DEPRECIATION  
OF ELECTRIC PLANT**

For the Two Years Ended December 31, 1978

(Thousands of Dollars)

Col. A	Col. B	Col. C		Col. D		Col. E
Description	Balance at Beginning of Period	Additions		Deductions from Reserve		Balance at Close of Period
		Charged to Income	Charged to Other Accounts	Retirements, Renewals, and Replacements	Other	
Year Ended December 31, 1978 –						
Depreciation of electric plant .....	\$450,946	\$74,361		\$12,703		\$512,604
Year Ended December 31, 1977 –						
Depreciation of electric plant .....	\$396,417	\$64,821	\$53	\$10,345		\$450,946

**SCHEDULE XII – RESERVES**  
**for the Two Years Ended December 31, 1978**  
**(Thousands of Dollars)**

Col. A	Col. B	Col. C		Col. D	Col. E
Description	Balance at Beginning of Period	Additions		Deductions from Reserves (Note 1)	Balance at Close of Period
		Charged to Income	Charged to Other Accounts		
Year Ended December 31, 1978:					
Accumulated provisions, deducted from related assets on balance sheet:					
Uncollectible accounts .....	\$ 453	\$3,653		\$3,856	\$ 250
Inventory adjustments (Note 2) ..	689	49	\$294	247	785
Reserves other than those deducted from assets on balance sheet:					
Property insurance .....	8,000	500			8,500
Injuries and damages .....	353	450		395	408
Year Ended December 31, 1977:					
Accumulated provisions, deducted from related assets on balance sheet:					
Uncollectible accounts .....	\$ 476	\$2,262		\$2,285	\$ 453
Inventory adjustments (Note 2) ..	558	46	\$223	138	689
Reserves other than those deducted from assets on balance sheet:					
Property insurance .....	7,500	500			8,000
Injuries and damages .....	243	450		340	353

**NOTES:**

- (1) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of uncollectible accounts reserve, such deductions are reduced by recoveries of amounts previously written off.
- (2) Reserve provided by charges to various accounts on basis of materials issued.



## AUDITORS' OPINION

### Houston Lighting & Power Company:

We have examined the balance sheets and the statements of capitalization of Houston Lighting & Power Company as of December 31, 1977 and 1978 and the related statements of income, retained earnings and changes in financial position for each of the five years in the period ended December 31, 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of HL&P at December 31, 1977 and 1978 and the results of its operations and the changes in its financial position for each of the five years in the period ended December 31, 1978, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations also comprehended schedules V, VI and XII for the two years ended December 31, 1978, and in our opinion, such schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SFLS

Houston, Texas  
February 12, 1979

1516 015

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOUSTON LIGHTING & POWER COMPANY  
(Registrant)

By H. R. DEAN  
H. R. DEAN  
*Chief Financial Officer*

Date: March 21, 1979

PROSPECTUS

300,000 Shares

**Houston Lighting & Power Company**

**\$9.04 CUMULATIVE PREFERRED STOCK**

(without par value)

Redeemable on at least 20 days' notice at any time, at the option of the Company, as a whole or in part, at \$109.04 per share if redeemed prior to February 1, 1984, at \$105.00 per share if redeemed on or after February 1, 1984 and prior to February 1, 1989, at \$103.00 per share if redeemed on or after February 1, 1989 and prior to February 1, 1994, and thereafter at \$101.00 per share, plus in each case an amount equal to dividends accrued to the redemption date; provided, however, that no redemption may be made prior to February 1, 1984 through certain refunding operations. See "Description of New Preferred Stock".

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**PRICE \$100 A SHARE**

	Price to Public (1)	Underwriting Commissions (2)	Proceeds to Company (1) (3)
Per Share .....	\$100.00	\$1.10	\$98.90
Total .....	\$30,000,000	\$330,000	\$29,570,000

- (1) Plus accrued dividends, if any, from the date of issuance.
- (2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.
- (3) Before deduction of expenses payable by the Company estimated at \$95,000.

The New Preferred Stock is offered by the several Underwriters named herein, subject to prior sale, when, as and if accepted by the Underwriters. It is expected that delivery of such New Preferred Stock will be made on or about February 6, 1979 at the office of Morgan Stanley & Co. Incorporated, 55 Water Street, New York, N. Y., against payment therefor in New York funds.

**MORGAN STANLEY & CO.**  
Incorporated

**DEAN WITTER REYNOLDS INC.**

**KIDDER, PEABODY & CO.**  
Incorporated

January 30, 1979

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**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NEW PREFERRED STOCK AND ANY OTHER PREFERRED STOCK OF THE COMPANY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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No person has been authorized to give any information or to make any representations other than as contained herein, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

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#### AVAILABLE INFORMATION

The Company is subject to the information requirements of the Securities Exchange Act of 1934 and, in accordance with such Act, files reports and other information with the Securities and Exchange Commission. Information as of particular dates concerning directors and officers, their remuneration, the principal holders of securities and any material interest of such persons in transactions with the Company is disclosed in such reports of the Company and filed with the Commission. Such reports and other information filed with the Commission can be inspected and copied at the public reference facilities maintained by the Commission at Room 6101, 1100 L Street, N.W., Washington, D.C.; Room 1228, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois; Room 1100, Federal Building, 26 Federal Plaza, New York, New York; and Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, California. Copies of such material can also be obtained at prescribed rates from the Public Reference Section of the Commission at its principal office at 500 North Capitol Street, N.W., Washington, D.C. 20549.

#### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

There are hereby incorporated in this Prospectus by reference the following documents and information heretofore filed with the Securities and Exchange Commission:

(1) The Company's Prospectus dated December 6, 1978, relating to \$100,000,000 principal amount of its First Mortgage Bonds, filed pursuant to Rule 424(b) under the Securities Act of 1933. Such Prospectus includes, in addition to the most recent audited financial statements of the Company, recent information respecting the Company.

(2) The Company's Current Reports on Form 8-K for the months of May, June and July 1978 and for September 21, 1978, all filed pursuant to the Securities Exchange Act of 1934 (Exchange Act).

(3) The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 1978, filed pursuant to the Exchange Act.

All documents filed by the Company pursuant to Sections 13, 14 or 15(d) of the Exchange Act after the date of this Prospectus and prior to the termination of the offering of the shares of New Preferred Stock shall be deemed to be incorporated in this Prospectus by reference and to be a part hereof on the date of filing of such documents.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents. Written requests for such copies should be directed to Mr. J. M. Dugdale, Secretary, Houston Lighting & Power Company, 611 Walker Avenue, Houston, Texas 77002.

### THE COMPANY

Houston Lighting & Power Company (Company) is engaged in the generation, transmission, distribution and sale of electric energy, serving an area in the Texas Gulf Coast Region, estimated at approximately 5,000 square miles, in which are located Houston (the largest city in Texas) and 153 smaller cities, villages and communities. The address of the Company's principal executive offices is 611 Walker Avenue, Houston, Texas 77002 (telephone number 713-228-9211).

The Company is a subsidiary of Houston Industries Incorporated (Houston Industries) which owns all of the Company's outstanding common stock. Houston Industries is a holding company as defined in the Public Utility Holding Company Act, but is exempt from regulation as a "registered" holding company under that Act except with respect to the acquisition of securities of other public utility companies. The other subsidiaries of Houston Industries are Primary Fuels, Inc. and Utility Fuels, Inc. The principal asset of Primary Fuels is a 50% interest in a venture that engages in oil and gas exploration and production in offshore Texas waters. Such venture is not regarded as a potential source of fuels for the Company's utility operations. Utility Fuels provides coal supply services to the Company.

### APPLICATION OF PROCEEDS AND CONSTRUCTION PROGRAM

The Company proposes to offer the 300,000 shares of Cumulative Preferred Stock offered hereby (New Preferred Stock) on or about January 30, 1979. Houston Industries has filed a Registration Statement covering 2,000,000 additional shares of its Common Stock which it proposes to offer on or about February 7, 1979, subject to market conditions. The offering and sale of the New Preferred Stock of the Company and of the additional shares of Common Stock of Houston Industries are being made by separate prospectuses, are separate and unrelated transactions, and are not contingent one upon the other.

The net proceeds to be received by the Company from the sale of the New Preferred Stock and all but approximately \$2,000,000 of the proceeds to be received by Houston Industries from the sale of additional shares of its Common Stock, will be used to defray the cost of the Company's construction program, including the repayment of short-term debt incurred in connection with such program (presently estimated to be \$24,000,000 at the time of issuance of the New Preferred Stock). To the extent that such proceeds are not immediately so used, they will be temporarily invested in short-term interest bearing obligations.

The Company's construction program (exclusive of allowance for funds used during construction and nuclear fuel expenditures) is estimated to cost approximately \$624,647,000 in 1979, \$800,810,000 in 1980 and \$917,687,000 in 1981. Of the \$2,343,144,000 total estimated construction expenditures for the 1979-1981 period, approximately 76% is expected to be expended on additions and improvements to generating facilities, approximately 5% for transmission facilities, approximately 15% for distribution facilities and the balance for general plant facilities. The 1979-1981 construction budget contemplates expenditures for six new generating units as follows:

Plant and Location (County)	Estimated Unit Capacity (MW)	Fuel	Scheduled In-Service Date	Estimated Expenditures in 1979-1981
W. A. Parish No. 7 (Fort Bend) .....	600	Coal	1980	\$129,864,000
South Texas No. 1 (Matagorda) .....	385	Nuclear	1982	} 321,745,000
South Texas No. 2 (Matagorda) .....	385	Nuclear	1983	
W. A. Parish No. 8 (Fort Bend) .....	600	Coal	1983	
To be determined .....	750	Lignite	1985	289,744,000
Allens Creek (Austin) .....	1,200	Nuclear	1985	618,252,000

An additional \$73,235,000 is expected to be expended by the Company during the 1979-1981 period for uranium concentrate and nuclear fuel processing services. Additional nuclear fuel expenditures, which could include substantial sums for long-term storage of spent nuclear fuel, will be required after 1981.

Actual construction expenditures by the Company for the 1979-1981 period will vary from the above estimates as a result of numerous factors, including changes in equipment delivery schedules, construction delays, availability of fuel, environmental protection expenditures, licensing delays, changes in the construction program, legislative changes and changes in customer demand and business conditions. The capacity and expenditures presented in the table for the South Texas nuclear units represent the Company's 30.8% share of a 2,500 megawatt project to be jointly owned with the Cities of Austin and San Antonio and Central Power and Light Company. On January 20, 1979, voters in the City of Austin rejected a referendum which would have authorized that City to seek to reduce its participation in the project. In order to maintain its present share of the project, however, the City of Austin is expected to seek voter authorization for the issuance of bonds in an aggregate amount that substantially exceeds the amount presently authorized for such share. No prediction can be made as to whether such voter authorization will be obtained or, if it is not obtained, how the shares of the participants (and their respective construction programs) might be affected.

The Company's ability to continue with its construction program as presently proposed will be substantially dependent upon the availability of adequate and timely rate relief. Assuming such rate relief can be obtained, it is estimated that from 40% to 45% of the estimated construction expenditures for the 1979-1981 period can be financed from internal sources while the balance will be financed from the proceeds of short-term borrowings and sales of securities. Based on a November 20, 1978 order of the Public Utility Commission of Texas, the Company is currently placing into effect throughout its system a general rate increase of approximately 7%, which would have increased its operating revenues for the adjusted test year ended March 31, 1978 by approximately \$98,000,000. A portion of such rate increase is being collected on an interim basis pending the outcome of appeals from the rate orders of certain municipalities in the Company's service area, including the City of Houston. It is anticipated that the Company will seek another general rate increase prior to the end of 1979.

### SELECTED FINANCIAL INFORMATION

Set forth below is a summary of certain information from the statements of income of the Company. With respect to the information for the twelve months ended November 30, 1978, it is the opinion of the Company that such information includes all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation of the results for such period.

	Twelve Months Ended November 30, 1978  (Unaudited)	Year Ended December 31,				
		1977	1976	1975	1974	1973
		(Thousands of Dollars Except Ratios)				
Operating Revenues.....	\$1,283,642	\$1,069,786	\$841,616	\$634,153	\$486,837	\$409,060
Operating Income .....	194,582	182,560	165,405	129,004	109,044	97,620
Allowance for Borrowed and Other Funds Used During Con- struction (a) .....	28,182	23,909	16,384	8,567	8,228	8,452
Net Income.....	138,119	134,124	115,156	70,385	69,878	71,909
Preferred Stock Dividends.....	17,330	13,711	12,362	6,475	5,830	5,830
Ratio of Earnings to Fixed Charges and Preferred Divi- dends.....	2.73(b)	3.10	3.01	2.38	2.90	3.55

(a) This is a non-cash item which does not represent operating income and is based upon the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate

upon other funds when so used. For each period presented the accrual rate was 6½%. Effective January 1, 1979, the Company has increased such rate to 7½%.

(b) The pro forma ratio of earnings to fixed charges and preferred dividend requirements for the twelve months ended November 30, 1978, including the annual interest requirements at a rate of 9¼% on \$100,000,000 principal amount of First Mortgage Bonds issued in December 1978 and the annual dividend requirements on the New Preferred Stock at an assumed rate of 9½%, would be (i) 2.25, assuming that short-term borrowings outstanding during the period were unchanged and (ii) 2.35, assuming that no short-term borrowings were incurred during the period.

The following table summarizes the capitalization of the Company as of November 30, 1978 and as adjusted after giving effect to (i) the issuance in December 1978 of \$100,000,000 principal amount of First Mortgage Bonds, (ii) the issuance of the New Preferred Stock offered hereby (assuming net proceeds of \$30,000,000), and (iii) the investment by Houston Industries of \$56,000,000 in the common stock of the Company from the proceeds of the proposed sale of 2,000,000 shares of its Common Stock (see "Application of Proceeds and Construction Program"):

	As of November 30, 1978	As Adjusted	
		Amount	Percent
(Thousands of Dollars)			
Long-Term Debt .....	\$1,254,067	\$1,354,067	50.7%
Cumulative Preferred Stock .....	213,945	243,945	9.1
Common Stock .....	454,126	510,126	19.1
Retained Earnings .....	561,378	561,378	21.1
Total Common Stock Equity .....	1,015,504	1,071,504	40.2
Total Capitalization .....	\$2,483,516	\$2,669,516	100.0%

Financial statements for the five years ended December 31, 1977 and the twelve months ended June 30, 1978 and the related "Management's Discussion and Analysis of Statements of Income" are included in the Company's Prospectus dated December 6, 1978, and unaudited financial statements and information for interim periods of 1978 compared to 1977 are included in the Company's Quarterly Reports on Form 10-Q, all of which documents are incorporated in this Prospectus by reference.

### DESCRIPTION OF NEW PREFERRED STOCK

The information set forth below is summarized from the Restated Articles of Incorporation of the Company, as amended, and from the resolution of the Board of Directors fixing the terms of the New Preferred Stock, which documents are filed as exhibits to the Registration Statement of which this Prospectus is a part. The statements and descriptions hereinafter contained do not purport to be complete, and are qualified in their entirety by reference to such documents.

#### ISSUANCE IN SERIES

Preferred Stock may be issued in series which may vary as to distinctive serial designations, rates of dividends, redemption prices, liquidation prices, liquidation premiums, conversion rights and requirements as to any sinking or purchase fund. The Board of Directors may fix such terms of any new series of Preferred Stock from time to time as it is established.

#### DIVIDEND RIGHTS

The holders of each series of Preferred Stock, including the New Preferred Stock, shall be entitled to receive, if and when declared by the Board of Directors, cumulative quarterly dividends at the rates per annum fixed for each series thereof, respectively, payable on January 1, April 1, July 1 and October 1 in each year (except for the \$4 Preferred Stock, the dividend payment dates for which are February 1, May 1,

August 1 and November 1), before any dividends, other than a dividend payable in Common Stock of the Company, may be paid or set apart for the Common Stock. In the event that more than one series of Preferred Stock is outstanding, and dividends are paid in an amount less than full cumulative dividends in arrears on all Preferred Stock, then the dividends shall be divided between the different series in proportion to the aggregate amounts which would be distributable to the Preferred Stock of each series if full cumulative dividends were declared and paid thereon.

The dividend rate per share per annum of the New Preferred Stock is the rate stated in the title thereof, payable quarterly, cumulative from the date of issuance which is expected to be February 6, 1979. The first dividend on the New Preferred Stock will be payable on April 1, 1979.

#### **VOTING RIGHTS**

No voting rights are conferred on any series of Preferred Stock except as set forth below and under "Restrictions on Corporate Action" and except as provided by the laws of the State of Texas. The holders of Preferred Stock of any series, in cases where they have a right to vote, are entitled to one vote for each share held.

Whenever dividends on Preferred Stock are in arrears in an amount equal to four quarterly dividends, the holders of Preferred Stock of all series shall have the right to elect one-third of the Board of Directors until such arrearages are cured, and whenever such dividends are in arrears in an amount equal to eight quarterly dividends such holders shall have the right to elect a majority of the Board of Directors.

#### **LIQUIDATION RIGHTS**

In the event of any liquidation, dissolution or winding up of the Company, or any reduction or decrease of its capital stock resulting in a distribution of assets to the holder or holders of its common stock other than by way of dividends out of the net profits or out of the surplus of the Company, the holders of the Preferred Stock shall be entitled to receive, from the assets of the Company available for distribution to stockholders, the fixed liquidation price established for the respective series plus, in case such liquidation, dissolution, winding up, reduction or decrease shall have been voluntary, the fixed liquidation premium for such series, if any, together in all cases with a sum equal to all accrued and unpaid dividends to the date payment is made available. If the assets distributable among the holders of the Preferred Stock should be insufficient to permit the payment in full of the preferential amounts fixed for all series, then the distribution shall be made among the holders of each series ratably in proportion to the full preferential amounts to which they are respectively entitled.

The fixed liquidation price of the New Preferred Stock will be \$100 per share and the fixed liquidation premium of the New Preferred Stock will be such amount as is equal to the excess over \$100 of the fixed redemption price of the New Preferred Stock at the time in effect.

#### **REDEMPTION AND REPURCHASE PROVISIONS**

Subject to restrictions on refunding applicable to the New Preferred Stock and to the Company's outstanding \$9.52, \$9.08 and \$8.12 series of Cumulative Preferred Stock, the Company may at any time redeem the whole or any part of the Preferred Stock, or of any series thereof, upon notice mailed to the holders of the stock to be redeemed not less than twenty nor more than fifty days prior to the date fixed for redemption. The price at which the shares shall be redeemed is the fixed redemption price of the series of such shares together with the amount of any dividends accrued or in arrears to the date of redemption. If less than all of any one series of the Preferred Stock is to be redeemed, then the shares to be redeemed are to be selected ratably or by lot. The Company may also repurchase any of its capital stock of any class so long as it is not in default in the payment of any dividends on the Preferred Stock, and, if it is so in default, may repurchase Preferred Stock (but not Common Stock) only pursuant to an offer made to all preferred stockholders. All shares of Preferred Stock redeemed or repurchased assume the status of authorized but unissued shares.

The New Preferred Stock will be redeemable at the following fixed redemption prices, together with dividends accrued thereon to the date of redemption: \$109.04 per share if redeemed prior to February 1,



1984; \$105.00 per share if redeemed on or after February 1, 1984 and prior to February 1, 1989; \$103.00 per share if redeemed on or after February 1, 1989 and prior to February 1, 1994; and \$101.00 per share if redeemed on or after February 1, 1994; provided, however, that the New Preferred Stock will not be redeemable prior to February 1, 1984 from the proceeds of any refunding, directly or indirectly, of shares of the New Preferred Stock through the incurring of debt or through the issuance of Preferred Stock ranking equally with or prior to the New Preferred Stock as to dividends or on liquidation, where such debt has an effective interest cost or such Preferred Stock has an effective dividend cost to the Company of less than 9.04% per annum (the effective dividend rate on the New Preferred Stock based on the initial public offering price).

#### **RESTRICTIONS ON CORPORATE ACTION**

The Restated Articles of Incorporation provide that the vote of two-thirds of the outstanding shares of Preferred Stock will be required: (a) to create, authorize or issue any additional stock, or securities convertible into stock, ranking prior to the Preferred Stock as to dividends or liquidation rights; (b) to alter or amend the Restated Articles of Incorporation in any manner prejudicial to the Preferred Stock; or (c) to issue additional Preferred Stock or stock of equal rank unless (i) the total fixed liquidation price of all such stock and any stock of prior rank to be outstanding shall be equaled or exceeded by the capital represented by junior stock and (ii) for a period of twelve months prior to such issuance the net earnings of the Company available for dividends shall be at least 2½ times the annual dividend requirements on all such stock to be outstanding after such issuance, and the earnings available for interest, amortization and dividends (after taxes and depreciation) shall be at least 1½ times the sum of such dividend requirements plus the annual interest requirements on all indebtedness of the Company. Under the most restrictive of these provisions, the earnings of the Company for the twelve months ended November 30, 1978 would permit it to issue additional Preferred Stock having an aggregate fixed liquidation price of approximately \$317,000,000, after giving effect to (a) the issuance of the New Preferred Stock offered hereby having an assumed annual dividend rate of 9½% and (b) the issuance in December 1978 of \$100,000,000 principal amount of 9¼% First Mortgage Bonds. There are no charter or mortgage provisions limiting the payment of dividends on the Company's Preferred Stock.

The substantial capital expenditures for the Company's construction program has required, and will continue to require, the issuance of equity securities, including Preferred Stock, during periods of high capital costs when other major users of capital may also be seeking large amounts of capital. The annual dividend requirements on the New Preferred Stock will be \$2,712,000.

#### **MISCELLANEOUS**

None of the Preferred Stock, including the New Preferred Stock, has any pre-emptive or conversion rights or is entitled to the benefits of any sinking or purchase fund. The New Preferred Stock when issued will be fully paid and nonassessable.

#### **TRANSFER AGENTS AND REGISTRARS**

The Transfer Agents for the New Preferred Stock will be Bank of the Southwest National Association, Houston, Texas, and the Marine Midland Bank, New York, New York. The Registrars will be First International Bank in Houston, N.A., and Citibank, N.A., New York, New York.

## UNDERWRITERS

Under the terms of an Underwriting Agreement dated January 30, 1979, the Underwriters listed below have severally agreed to purchase, and the Company has agreed to sell to them, severally, the respective numbers of shares of New Preferred Stock set forth below.

<u>Name</u>	<u>Number of Shares</u>	<u>Name</u>	<u>Number of Shares</u>
Morgan Stanley & Co. Incorporated.....	30,850	J. J. B. Hilliard, W. L. Lyons, Inc. ....	1,000
Dean Witter Reynolds Inc. ....	30,825	E. F. Hutton & Company Inc. ....	6,000
Kidder, Peabody & Co. Incorporated.....	30,825	The Illinois Company Incorporated .....	700
ABD Securities Corporation.....	1,500	Investment Corporation of Virginia .....	700
Advest, Inc. ....	1,500	Janney Montgomery Scott Inc. ....	1,000
American Securities Corporation .....	1,500	Johnston, Lemon & Co. Incorporated .....	700
A. E. Ames & Co. Incorporated.....	700	Josephthal & Co. Incorporated .....	700
Arnhold and S. Bleichroeder, Inc. ....	1,500	Kirkpatrick, Pettis, Smith, Polian Inc. ....	700
Atlantic Capital Corporation .....	2,500	Ladenburg, Thalmann & Co. Inc. ....	1,500
Bache Halsey Stuart Shields Incorporated.....	6,000	Laidlaw Adams & Peck Inc. ....	700
Bacon, Whipple & Co. ....	1,500	Lazard Frères & Co. ....	6,000
Robert W. Baird & Co. Incorporated.....	1,500	Legg Mason Wood Walker, Incorporated .....	1,000
Baker, Watts & Co. ....	700	Lehman Brothers Kuhn Loeb Incorporated .....	6,000
Basle Securities Corporation.....	2,500	Loeb Rhoades, Hornblower & Co. ....	6,000
Bateman Eichler, Hill Richards Incorporated .....	1,500	McDonadd & Company .....	1,500
Bear, Stearns & Co. ....	4,000	Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	8,000
William Blair & Company.....	1,500	Moore, Leonard & Lynch, Incorporated .....	700
Blunt Ellis & Loewi Incorporated.....	1,500	Moore & Schley, Cameron & Co. ....	700
Blyth Edelman Dillon & Co. Incorporated .....	6,000	Moseley, Hallgarten & Estabrook Inc. ....	2,500
J. C. Bradford & Co. ....	1,500	Nomura Securities International, Inc. ....	700
Alex. Brown & Sons .....	2,500	The Ohio Company .....	1,000
Bruns, Nordeman, Rea & Co. ....	700	Oppenheimer & Co., Inc. ....	2,500
Butcher & Singer Inc. ....	700	Paine, Webber, Jackson & Curtis Incorporated .....	6,000
The Chicago Corporation .....	700	Parker Hunter Incorporated .....	700
Cowen & Company.....	1,000	Piper, Jaffray & Hopwood Incorporated .....	1,500
Craigie Incorporated.....	700	Wm. E. Pollock & Co., Inc. ....	1,500
Crowell, Weedon & Co. ....	1,000	Prescott, Ball & Turben .....	1,500
Dain, Kalman & Quail, Incorporated .....	1,500	Rauscher Pierce Refsnes, Inc. ....	2,500
Dillon, Read & Co. Inc. ....	6,000	The Robinson-Humphrey Company, Inc. ....	1,500
Doft & Co., Inc. ....	700	Rodman & Renshaw, Inc. ....	700
Dominion Securities Inc. ....	700	Rotan Mosle Inc. ....	4,000
Donaldson, Lufkin & Jenrette Securities Corporation .....	6,000	L. F. Rothschild, Unterberg, Towbin .....	4,000
Drexel Burnham Lambert Incorporated .....	6,000	Salomon Brothers .....	8,000
A. G. Edwards & Sons, Inc. ....	2,500	Schneider, Bernet & Hickman, Inc. ....	700
Elkins, Stroud, Suplee & Co. ....	1,000	Shearson Hayden Stone Inc. ....	4,000
Eppler, Guerin & Turner, Inc. ....	1,500	Shuman, Agnew & Co., Inc. ....	1,500
Fahnestock & Co. ....	1,000	Smith Barney, Harris Upham & Co. Incorporated .....	6,000
The First Boston Corporation .....	8,000	SoGen-Swiss International Corporation .....	2,500
First of Michigan Corporation .....	1,500	Stuart Brothers .....	1,500
First Southwest Company .....	700	Sutro & Co. Incorporated .....	1,500
Freeman Securities Company, Inc. ....	700	Thomson McKinnon Securities Inc. ....	2,500
Fulton, Reid & Staples Div. of Wm. C. Roney & Co. ....	700	Tucker, Anthony & R. L. Day, Inc. ....	2,500
Goldman, Sachs & Co. ....	8,000	Underwood, Neuhaus & Co., Incorporated .....	1,500
Gruntal & Co. ....	700	Wertheim & Co., Inc. ....	6,000
Herzfeld & Stern .....	700	Wheat, First Securities, Inc. ....	1,500
		Wood Gundy Incorporated .....	1,000
		Total.....	300,000*

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The Underwriting Agreement provides that the several obligations of the Underwriters are subject to certain conditions precedent. The nature of the Underwriters' obligations is such that they are committed to take and pay for all of the shares if any are taken.

The Underwriters propose to offer part of the shares directly to the public at the public offering price referred to on the cover page of this Prospectus and part to certain dealers at a price which represents a concession not in excess of 62.5 cents a share under the public offering price and any Underwriter may allow and such dealers may reallow a concession, not in excess of 50 cents a share, to other Underwriters or certain other dealers.

#### EXPERTS

The balance sheet and statement of capitalization of the Company as of December 31, 1977 and the related statements of income, retained earnings, and changes in financial position for each of the five years in the period then ended included in the Company's prospectus dated December 6, 1978, which is incorporated in this Prospectus by reference, have been examined by Deloitte Haskins & Sells, Independent Certified Public Accountants, as stated in their opinion appearing therein. Such financial statements are incorporated by reference in this Prospectus in reliance upon such opinion, given upon the authority of that firm as experts in accounting and auditing.

For purposes of estimating the replacement cost of property, plant and equipment set forth in Note 9 of the Notes to Financial Statements included in the Company's Prospectus dated December 6, 1978, the Company used indexes developed by Whitman, Requardt and Associates (Engineers & Consultants) in reliance upon such firm as experts.

#### LEGAL OPINIONS

Certain legal matters in connection with the New Preferred Stock are being passed upon for the Company by Baker & Botts, Houston, Texas, and for the Underwriters by Cahill Gordon & Reindel, New York, New York. Cahill Gordon & Reindel are not passing upon the incorporation of the Company or franchise matters and are relying as to matters covered by their opinion governed by Texas law upon the opinion of Baker & Botts. The Company has been advised by Baker & Botts that members of such firm who participated in the preparation of this Prospectus own in the aggregate 1,743 shares of Common Stock of Houston Industries, the Company's parent. William R. Brown, Esq., a member of Baker & Botts, is a director of the Company and of Houston Industries.

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**\$100,000,000**  
**CITY OF SAN ANTONIO, TEXAS**  
**ELECTRIC AND GAS SYSTEMS**  
**REVENUE IMPROVEMENT BONDS,**  
**NEW SERIES 1979-A**



**City Public Service**

1516 027

Bids to be Opened  
July 12, 1979, at 11:00 A.M., C.D.T.

ADDENDUM TO OFFICIAL NOTICE OF SALE AND OFFICIAL STATEMENT  
\$100,000,000  
CITY OF SAN ANTONIO, TEXAS  
ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS  
NEW SERIES 1979-A

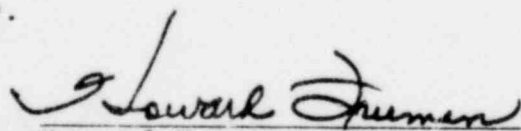
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The following updates information in the Official Notice of Sale and Official Statement at page 34 as follows:

On May 21, 1979, the staff of the Nuclear Regulatory Commission (NRC) submitted to the Commission a proposed reorganization and change in priorities in order that it could concentrate on an investigation of the March, 1979, accident at Unit No. 2 of the Three Mile Island nuclear plant in Pennsylvania, operated by Metropolitan Edison Company.

Subsequently, on June 13, 1979, the NRC Director of Licensing met with representatives of utilities having construction permit and operating license applications pending before the Commission. The Director advised these utilities that, subject to future Congressional or other governmental action providing for additional personnel, safety reviews in connection with nine pending applications for operating licenses, including South Texas Project, will be suspended until January 1980 or thereafter because of the manpower demands on NRC staff in connection with the investigation of the incident at Three Mile Island. San Antonio cannot now predict how much, if any, delay may be experienced in issuances of operating licenses for the project, or what additional costs, if any, may result from the NRC's investigation of the incident of Three Mile Island.

Dated June 18, 1979.

  
Howard Freeman, Secretary  
City Public Service Board

1516 028

## **CITY OF SAN ANTONIO, TEXAS**

### **CITY COUNCIL**

Mrs. Lila Cockrell, Mayor

Joe Alderete, Jr.  
Gene Canavan  
Bernardo Eureste  
Robert Thompson

Frank D. Wing, Mayor Pro-Tem  
Henry G. Cisneros

Van Henry Archer  
Mrs. Helen Dutmer  
John Steen  
Joe Webb

Thomas E. Huebner - City Manager  
Carl L. White, Jr. - City Finance Director  
Garland V. Jackson - City Clerk

### **CITY PUBLIC SERVICE BOARD OF SAN ANTONIO**

Eloy Centeno, Chairman  
Mrs. Lila Cockrell, Mayor

Ruben M. Escobedo

Glenn Biggs, Vice Chairman  
Earl C. Hill

J.K. Spruce - General Manager  
Howard Freeman - Assistant General Manager for Finance and Administration  
J.B. Poston - Assistant General Manager for Operations

### **CONSULTANTS**

Matthews, Nowlin, Macfarlane  
& Barrett  
Legal Advisors

Peat, Marwick, Mitchell & Co.  
Auditors

Ebasco Services, Incorporated  
Consulting Engineers

McCall, Parkhurst & Horton  
Bond Counsel

Russ Securities Corporation  
Municipal Finance Subsidiary of Rotan Mosle Financial Corp.  
Financial Consultant

The date of this Official Statement is June 6, 1979.

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## OFFICIAL NOTICE OF SALE

**\$100,000,000**  
**CITY OF SAN ANTONIO, TEXAS**  
**ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS,**  
**NEW SERIES 1979-A**

**Bids to be Opened**  
**Thursday, July 12, 1979, at 11:00 A.M., C.D.T.**

**PLACE AND TIME OF SALE:** Sealed bids will be received by the City Clerk of the City of San Antonio, Texas, at his office in the City Hall until 11:00 A.M., C.D.T., Thursday, July 12, 1979, for the above Bonds as described in the OFFICIAL STATEMENT, at which time said bids will be opened, read and tabulated. Award of the Bonds by the City Council is expected to be made by 1:00 P.M., C.D.T. the same day.

**ADDRESS OF BIDS:** Sealed bids, plainly marked "Bid for Revenue Bonds" and addressed to the Mayor and City Council, City of San Antonio, Texas, must be delivered to the office of the City Clerk, City Hall, San Antonio, Texas 78204 not later than 11:00 A.M., C.D.T., on Thursday, July 12, 1979. All bids must be submitted on the Official Bid Form, copies of which are enclosed herewith.

**TYPES OF BIDS AND INTEREST RATES:** The Bonds will be sold in one block on an "all or none" basis, and no bid of less than par and accrued interest will be considered. Bidders are invited to name the rate or rates of interest to be borne by the Bonds, provided that the rates are stated in multiples of 1/8th or 1/20th of 1%, and that the difference between the lowest and highest interest rates named does not exceed one and one-half per cent (1-1/2%). No limitation will be imposed upon bidders as to the number of coupon rates or coupon changes which may be used; however, bids involving supplemental coupons or split interest rates will not be considered, and all Bonds of one maturity must bear the same rate.

**GOOD FAITH DEPOSIT:** Bidders shall be required to submit a Cashier's Check payable to the "City of San Antonio, Texas, City Public Service Board" in the amount of \$2,000,000. This check will be considered as a good faith deposit, and the check of the successful bidder will be retained uncashed by the City to secure performance of the contract by such bidder. In the event such bidder should fail or refuse to take up and pay for the Bonds in accordance with his bid, then said good faith deposit shall be cashed by the City as full and complete liquidated damages. Otherwise, said good faith deposit will be returned to the successful bidder upon payment for the Bonds. The required Cashier's Check may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the City prior to the opening of the bids and shall be accompanied by instructions from the bank on which drawn which authorize its use as a good faith deposit by the successful bidder who shall be named in such instructions. No interest will be allowed on the good faith deposit of the successful bidder, and the checks of the unsuccessful bidders will be returned as soon as the best bid is determined.

**LEGAL OPINION:** The City will furnish a transcript of proceedings had incident to the issuance and authorization of the Bonds, including a no-litigation certificate and a certified copy of the unqualified approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, stating that the Bonds are valid and binding obligations of the City. The City will furnish the unqualified approving legal opinion of Messrs. McCall, Parkhurst & Horton, Dallas, Texas, Bond Counsel for the City ("Bond Counsel"), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding special revenue obligations of the City and that the interest on the Bonds is exempt from all present federal income taxes under existing statutes, regulations, rulings and court decisions. The legal opinion will be printed on the Bonds. Messrs. McCall, Parkhurst & Horton were not requested to participate and did not take part in the preparation of this Official Notice of Sale or the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds and the Bond Ordinance in this Official Notice of Sale and the Official Statement to verify that such description conforms to the provisions of the Bond Ordinance. The legal fees to be paid Messrs. McCall, Parkhurst & Horton for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

**NO-LITIGATION CERTIFICATE:** The no-litigation certificate will contain the following language: "That no litigation of any nature has been filed or is now pending which would affect the provision made for their payment or security, or in any manner question the authority concerning the issuance of said Bonds and interest coupons, and that so far as we know and believe no such litigation is threatened. That the corporate existence of said issuer is not being contested, and that no authority or proceedings for the issuance of said Bonds and interest coupons have been repealed, revoked or rescinded."

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**PRINTED BONDS AND CUSIP:** The City will furnish printed bonds on lithographed or steel engraved borders to the purchaser. It is anticipated that CUSIP identification numbers will be printed on said Bonds, but neither the failure to print such number on any bond nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for said Bonds in accordance with the terms of the purchase contract. The cost of printing the CUSIP numbers on the Bonds shall be paid for by the issuer; provided, however, that the CUSIP Service Bureau charge for the assignment of said number shall be the responsibility of and shall be paid for by the purchaser.

**CERTIFICATION AS TO OFFICIAL STATEMENT:** At the time of payment for and delivery of the Bonds, the City Public Service Board of San Antonio will furnish the successful bidder a certificate, executed by a proper officer or officers of the Board acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the Board contained in its Official Statement, as supplemented and amended, on the date of such Official Statement, on the date of sale of the Bonds and the acceptance of the best bid therefor, and on the date of the delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the Board and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in such Official Statement, as supplemented and amended, of or pertaining to entities other than the Board and their activities are concerned, such statements and data have been obtained from sources which the Board believes to be reliable and that the Board has no reason to believe that they are untrue in any material respect.

**DELIVERY:** Delivery of the Bonds will be made at the expense of the City of San Antonio at a bank in Austin, Texas, provided, however, that the purchaser may arrange with the City for delivery of the Bonds at a bank in another city at the expense of the purchaser. It is anticipated that delivery can be made on or about August 21, 1979, and it is understood and agreed that the purchaser will accept delivery and make payment in Federal Funds of the agreed purchase price on or before August 21, 1979, or thereafter when the Bonds are tendered for delivery up to and including September 18, 1979. The purchaser shall be given at least seven days notice of the time which the City has fixed for delivery. The purchaser shall make proper payment for the Bonds prior to 12:00 noon C.D.T. on the date so fixed for delivery. If for any reason the City is unable to tender the Bonds for delivery by September 18, 1979, then the City shall immediately contact the successful bidder not later than September 18, 1979, to allow said bidder to extend his bid for an additional 30 days. If the successful bidder does not elect to extend his offer within five days after such notification, then the good faith deposit will be returned, and both the City and the successful bidder shall be relieved of further obligation.

**NOT AN OFFER TO SELL:** This Official Notice of Sale does not alone constitute an offer to sell these Bonds but is merely a notice of sale of the Bonds. The offer to sell the Bonds to the underwriter is being made by means of this Official Notice of Sale, the Official Bid Form and the Official Statement.

**RESPONSIBILITY FOR QUALIFICATION OF BONDS FOR SALE IN RESPECTIVE STATES:** The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

**ADDITIONAL COPIES OF OFFICIAL NOTICE OF SALE, OFFICIAL STATEMENT AND OFFICIAL BID FORM:** Additional copies of the Official Statement relating to the Bonds, the Official Notice of Sale and Official Bid Form, and additional information relating to the Bonds and the San Antonio Electric and Gas Systems, may be obtained from Mr. Howard Freeman, Assistant General Manager for Finance and Administration, City Public Service Board, P. O. Box 1771, San Antonio, Texas, 78296, or Russ Securities Corporation, 100 National Bank of Commerce West, San Antonio, Texas 78205. The City will furnish the successful bidder up to 500 copies of the Official Statement at no expense prior to the delivery of the Bonds, upon his request. Arrangements have been made with the printer to supply additional copies, if desired, at the successful bidder's expense.

In case of errors in net interest cost calculations, coupons named will govern; however, the City reserves the right to reject any and all bids, and to waive any and all irregularities.

GIVEN pursuant to an Ordinance of the City Council of the City of San Antonio, Texas, passed and approved on the 31st day of May, 1979.

G. V. JACKSON, JR.  
City Clerk  
City of San Antonio, Texas

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This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman, or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of these Bonds, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion herein are subject to change without notice except as provided herein, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

## OFFICIAL STATEMENT

**NEW ISSUE**

**\$100,000,000  
CITY OF SAN ANTONIO, TEXAS  
ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS,  
NEW SERIES 1979-A**

Dated: August 1, 1979

Denomination: \$5,000

Principal and semiannual interest (February 1 and August 1) payable  
at the National Bank of Commerce in San Antonio, Texas, or,  
at the Chemical Bank, New York, New York.  
Coupon bearer bonds, not registerable.  
First interest coupon due February 1, 1980.

### AMOUNTS, MATURITIES, COUPON RATES AND PRICE OR YIELD

Amount	Due Feb. 1	Coupon Rate	Price or Yield	Amount	Due Feb. 1	Coupon Rate	Price or Yield
\$1,200,000	1981			\$ 2,750,000	1993		
1,300,000	1982			2,925,000	1994		
1,400,000	1983			3,125,000	1995		
1,500,000	1984			3,325,000	1996		
1,625,000	1985			3,550,000	1997		
1,750,000	1986			3,775,000	1998		
1,875,000	1987			4,025,000	1999		
2,025,000	1988			4,275,000	2000		
2,150,000	1989			4,575,000	2001		
2,300,000	1990			4,850,000	2002		
2,450,000	1991			20,000,000	2003		
2,575,000	1992			20,675,000	2004		

(Accrued Interest to be Added)

**REDEMPTION PROVISIONS:** Bonds maturing on and after February 1, 1991, will be redeemable, as a whole or in part on February 1, 1990, or on any interest payment date thereafter, at par and accrued interest, plus the following premium:

- February 1, 1990 and August 1, 1990 at 2½%;
- February 1, 1991 and August 1, 1991 at 2%;
- February 1, 1992 and August 1, 1992 at 1½%;
- February 1, 1993 and August 1, 1993 at 1%;
- February 1, 1994 and August 1, 1994 at ½ of 1%;
- February 1, 1995 and thereafter at 0%.

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**SUMMARY STATEMENT**

The following material is qualified in its entirety by the more complete information and financial statements contained elsewhere in this Official Statement.

<b>THE ISSUER</b> .....	City of San Antonio, Texas, a political subdivision of the State of Texas, located in Bexar County.
<b>THE BONDS</b> .....	\$100,000,000 Electric and Gas Systems Revenue Improvements Bonds, New Series 1979-A maturing serially in varying amounts in each of the years 1981 through 2004.
<b>AUTHORITY FOR ISSUANCE</b> .....	These New Series 1979-A Bonds will be issued under and in conformity with the Constitution and Laws of Texas, particularly Articles 1111 et seq. and Article 2368a of Vernon's Annotated Texas Civil Statutes, and pursuant to a Bond Ordinance to be adopted by the City Council of the City of San Antonio, Texas.
<b>PURPOSE OF THIS FINANCING</b> .....	The proceeds of these New Series 1979-A will be used to pay certain of the costs of a program of improvements to and extensions of the City's electric and gas systems. The overall improvement program includes site development, construction of generating units, distribution and transmission lines, additions and improvements to the gas system and miscellaneous project costs. These improvements, extensions and additions are in accord with long-range development and improvement plans which, together with the current improvement program, have been reviewed by Ebasco Services, Incorporated, Utility Consultants and Engineers, New York, New York.
<b>SECURITY</b> .....	The City of San Antonio currently has outstanding \$177,225,000 Electric and Gas Systems Revenue Improvements Bonds, Series 1957, Series 1962, Series 1968, Series 1971, Series 1973 and Series 1974 (hereinafter collectively referred to as the "Old Series Bonds"), which are of a senior rank and are secured by a first mortgage against all real property, a security interest in all personal property, and a pledge of all revenues of the City's electric and gas systems. In addition, the City has outstanding \$520,750,000 Electric and Gas Systems Revenue Improvements Bonds, New Series 1975, New Series 1976, New Series 1976-A, New Series 1977, New Series 1977-A, New Series 1978, New Series 1978-A, and New Series 1979. The \$100,000,000 New Series 1979-A Bonds offered herein, will constitute special obligations of the City of San Antonio on a parity with the aforementioned \$520,750,000 New Series Bonds, payable solely from and secured a lien on and pledge of the net revenues of the City's electric and gas systems subject to the prior lien of the pledge to the Old Series Bonds, all as fully set forth in the ordinance authorizing the subject New Series 1979-A Bonds.
<b>ADDITIONAL BONDS</b> .....	Additional bonds on a parity with the New Series Issues may be issued, when among other requirements, Net Revenues of the Electric and Gas Systems during the past year were at least 150% of the maximum annual debt service on all bonds to be outstanding. Said Net Revenues may be adjusted to reflect rate changes. The senior lien of the Old Series Bonds is closed.
<b>RATE COVENANT</b> .....	The City has covenanted to maintain Electric and Gas rates and charges sufficient to pay all expenses of maintenance and operation of the Systems, and to pay debt service requirements on all bonds and to establish and maintain the required reserves.

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**PAYMENT RECORD** ..... The City of San Antonio has never defaulted on any of its bonds.

**LEGALITY** ..... The Attorney General of Texas and Messrs. McCall, Parkhurst & Horton of Dallas, Texas.

**DELIVERY** ..... Anticipated on or about August 21, 1979.

**BOND RATING** ..... Applications for ratings of the Bonds have been made to Moody's Investors Service, Inc. and Standard & Poor's Corporation. An explanation of the significance of such ratings may be obtained upon request from Moody's Investors Service, Inc. or Standard & Poor's Corporation. Only the opinions of Moody's Investors Service Inc. and Standard & Poor's Corporation are represented by such ratings and the City makes no representation as to (1) the appropriateness of such ratings or (2) its ability or intent to maintain such ratings.

No assurance is given by the City that the ratings, once obtained, will be maintained for any specified period of time, or that they will not change or be suspended or withdrawn by Moody's Investors Service Inc. or Standard & Poor's Corporation if, in the opinion of the rating agencies, changes in the circumstances of the City should so warrant. Any such change, suspension or withdrawal of the bond ratings may have an adverse effect on the market price of the Bonds.

**GENERATING FACILITIES** ..... The City's major generating facilities include 12 units which have a dependable combined capability on natural gas or fuel oil of 2,198 MW. In addition, the City has two new 418 MW coal-fired generating units. The first unit was placed in commercial service in July, 1977, and the second coal unit was placed in commercial operation in August, 1978.

**CURRENT FUEL SUPPLY** ..... After experiencing varying degrees of curtailment of natural gas deliveries under its contract with its primary supplier, sufficient quantities of natural gas are now being obtained to meet present needs. Fuel oil is also burned when price advantages occur and current on-site fuel oil inventories are equal to total fuel requirements for about 20 days. Coal is purchased under a long-term contract and present coal on hand in stockpile is in excess of six months' supply.

**HISTORICAL NET REVENUES AND COVERAGE**

Fiscal Years Ended 1-31:

	1976	1977	1978	1979	1979 *
Gross Revenues	\$247,959,942	\$290,664,788	\$319,687,764	\$343,256,858	\$346,500,352
Maintenance & Operating Expenses	172,412,284	206,354,056	217,083,468	231,685,112	234,520,773
Net Revenues	\$ 75,547,658	\$ 84,310,732	\$102,604,296	\$111,571,746	\$111,979,579

Maximum Principal and Interest Requirements on all Old Series Bonds ..... \$16,590,265 in 1980

Maximum Principal and Interest Requirements on all Bonds, including these New Series 1979-A Bonds at 6% Interest ..... \$63,518,652 in 1983

**COVERAGE OF ABOVE MAXIMUM ANNUAL DEBT SERVICE REQUIREMENTS:**

Old Series Bonds	4.55x	5.08x	6.18x	6.73x	6.75x
Total Bonds	1.19x	1.33x	1.62x	1.76x	1.76x

\* 12 months ended March 31, 1979.

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**PRINCIPAL AND INTEREST REQUIREMENTS\***

The following schedule reflects total principal and interest requirements on all Old Series Bonds and New Series Bonds, including the New Series 1979-A bonds with interest computed at 6% for purpose of illustration:

Year Ending 2-1:	Old Series Bonds	New Series Bonds				Total New Series	Total All Bonds	% of Principal Retired
		Presently Outstanding	\$100,000,000 New Series 1979-A		Total New Series			
			Principal	Interest @ 6%				
1980	\$16,590,265	\$39,377,225		\$3,187,500	\$42,564,725	\$59,154,990		
1981	16,576,680	39,355,475	\$ 1,200,000	6,375,000	46,930,475	63,507,155		
1982	16,573,290	39,345,975	1,300,000	6,298,500	46,944,475	63,517,765		
1983	16,557,677	39,345,350	1,400,000	6,215,625	46,960,975	63,518,652		
1984	16,531,220	39,349,725	1,500,000	6,126,375	46,976,100	63,507,320	10.74%	
1985	16,498,035	39,355,725	1,625,000	6,030,750	47,011,475	63,509,510		
1986	16,475,985	39,359,350	1,750,000	5,927,156	47,036,506	63,512,491		
1987	16,425,945	39,382,225	1,875,000	5,815,593	47,072,818	63,498,763		
1988	16,388,725	39,394,925	2,025,000	5,696,062	47,115,987	63,504,712		
1989	16,358,855	39,430,375	2,150,000	5,566,968	47,147,343	63,506,198	25.39	
1990	16,312,100	39,467,937	2,300,000	5,429,906	47,197,843	63,509,943		
1991	16,281,750	39,499,750	2,450,000	5,283,281	47,233,031	63,514,781		
1992	16,219,875	39,573,750	2,575,000	5,127,093	47,275,843	63,495,718		
1993	16,156,975	39,634,787	2,750,000	4,962,937	47,347,724	63,504,699		
1994	16,109,700	39,674,462	2,925,000	4,787,625	47,387,087	63,496,787	44.95	
1995	14,677,500	41,093,825	3,125,000	4,601,156	48,819,981	63,497,481		
1996	14,587,500	41,198,012	3,325,000	4,401,937	48,924,949	63,512,449		
1997	14,445,000	41,325,500	3,550,000	4,189,968	49,065,468	63,510,468		
1998		55,776,867	3,775,000	3,963,656	63,515,518	63,515,518		
1999		55,769,625	4,025,000	3,723,000	63,517,625	63,517,625	71.30	
2000		55,763,937	4,275,000	3,466,406	63,505,343	63,505,343		
2001		55,746,650	4,575,000	3,193,875	63,515,525	63,515,525		
2002		55,751,225	4,850,000	2,902,218	63,503,443	63,503,443		
2003		30,968,250	20,000,000	2,593,031	53,561,281	53,561,281		
2004			20,675,000	1,318,031	21,993,031	21,993,031	100.00	

\* Cents omitted.

**FUND BALANCES  
(At March 31, 1979)**

Net Current Assets .....	\$ 41,604,507
Utility Plant (At Cost less Depreciation) .....	\$ 1,074,946,181
Restricted Cash and Securities:	
Old Series Bonds Reserve Account .....	\$ 17,055,244
Improvements and Contingencies Fund .....	\$ 27,900,911
New Series Bonds Reserve Amount .....	\$ 15,393,728

**PROPERTY ADDITIONS  
(At March 31, 1979)**

Additions, Improvements and Extensions to Electric and Gas Systems, 1942-1979 .....	\$ 1,331,766,128
Bonds Issued to Finance these Property Additions .....	\$ 760,000,000
Portion of Property Additions Financed by Issuance of Bonds .....	57.1%

1516 036

## REVENUE BOND INDEBTEDNESS AND UTILITY PLANTS

Date 1-31:	Revenue Bond Indebtedness	Electric and Gas Plant Equipment		Debt as a % of
		At Cost	Net (Depreciated)	Net Plant
1945	\$ 32,425,000	\$ 36,120,272	\$ 34,325,302	94.5
1950	26,783,000	61,412,456	54,665,803	49.0
1955	31,900,000	108,612,107	94,339,423	33.8
1960	44,145,000	187,026,225	159,317,177	27.7
1965	54,190,000	279,053,625	226,794,522	23.9
1970	71,040,000	420,480,731	335,125,890	21.2
1971	67,910,000	457,741,134	364,108,691	18.7
1972	94,190,000	501,731,982	398,542,240	23.6
1973	90,345,000	546,423,222	437,911,052	20.6
1974	120,860,000	599,315,589	479,155,098	25.2
1975	201,195,000	677,114,390	542,919,717	37.1
1976	245,595,000	809,025,826	659,773,046	37.2
1977	358,110,000	954,207,395	790,396,043	45.3
1978	484,290,000	1,100,709,068	918,110,351	52.7
1979	622,975,000	1,265,232,510	1,056,105,552	59.0
1979*	697,975,000	1,289,020,024	1,074,946,181	64.9

\* As of March 31, 1979.

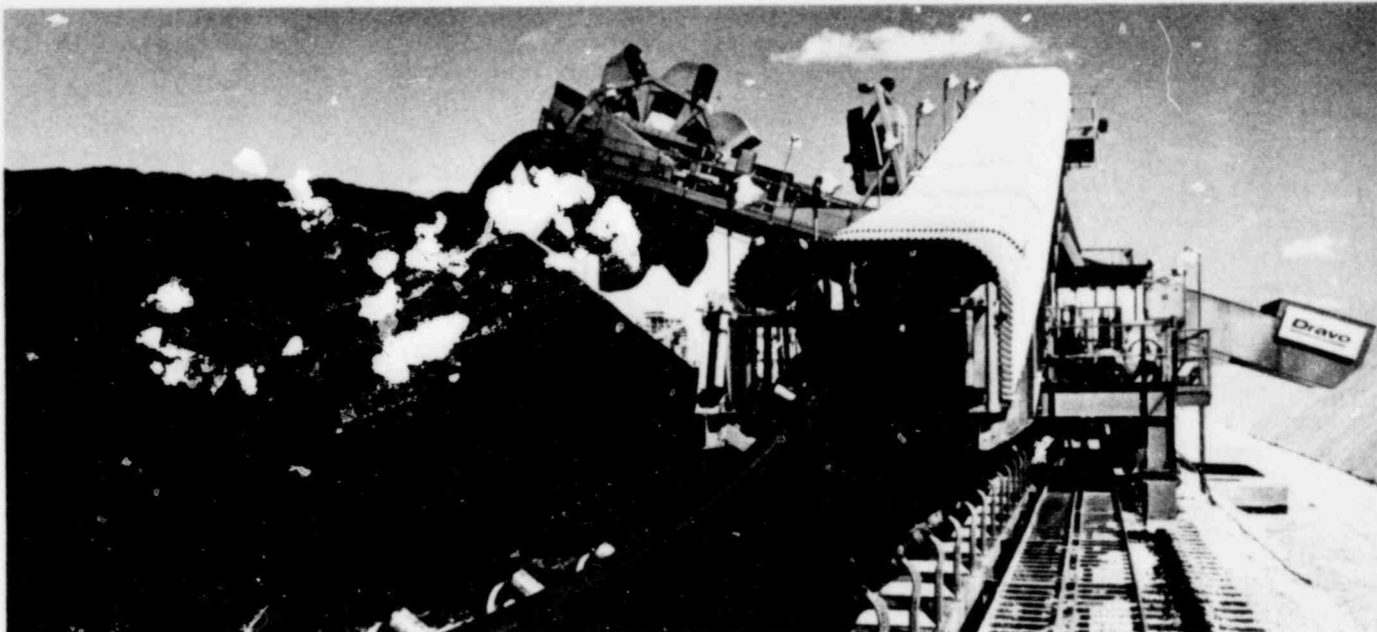
## OUTSTANDING INDEBTEDNESS

All revenue bonds of the City of San Antonio payable from the net revenues of the Electric and Gas Systems of the City and issued prior to 1957 have been retired. The City has outstanding Electric and Gas Systems Revenue Improvement Bonds in fourteen series as follows:

	Final Maturity	Original Average Life	Effective Interest Rate On Sale Date	20-Bond Yield Index Nearest Sale Date *	Amount Outstanding
<b>Old Series Bonds</b>					
(Prior Lien)					
Series 1957	1980	16.9 years	3.356%	3.03%	\$ 2,505,000
Series 1962	1984	16.2 years	3.218%	3.43%	13,150,000
Series 1968	1989	15.6 years	4.463%	4.41%	23,590,000
Series 1971	1992	14.7 years	5.166%	5.58%	24,780,000
Series 1973	1994	15.8 years	4.763%	5.03%	31,500,000
Series 1974	1997	17.3 years	6.896%	6.95%	81,700,000
Subtotal (Old Series Bonds)					\$177,225,000
<b>New Series Bonds</b>					
Series 1975	1998	16.0 years	7.390%	7.48%	47,700,000
Series 1976	1999	15.9 years	6.270%	6.98%	57,050,000
Series 1976-A	1999	16.4 years	6.179%	6.78%	58,000,000
Series 1977	2000	18.1 years	5.254%	5.78%	59,250,000
Series 1977-A	2002	23.7 years	5.718%	5.64%	75,000,000
Series 1978	2002	16.6 years	5.355%	5.65%	73,750,000
Series 1978-A	2003	16.5 years	5.978%	6.12%	75,000,000
Series 1979	2003	16.7 years	6.153%	6.50%	75,000,000
Series 1979-A	2004	18.3 years			100,000,000
Subtotal (New Series Bonds)					\$620,750,000
Total Bonds to Be Outstanding, Including New Series 1979-A Bonds					\$797,975,000

\* As published by "The Bond Buyer".

1516 037



*Coal Handling Equipment at J. T. Deely Power Plant.*

**CERTAIN PROVISIONS OF ORDINANCE AUTHORIZING THESE  
NEW SERIES 1979-A BONDS**

**SECTION 7: Definitions.** Unless the context shall indicate a contrary meaning or intent, the terms below defined, for all purposes of this ordinance or any ordinance amendatory or supplemental thereto, shall be construed, are used and are intended to have meanings as follows:

(a) "Additional Parity Bonds" - Bonds or other obligations authorized to be issued under the provisions of Section 18 hereof, including refunding bonds, which are secured by a lien on and pledge of the Net Revenues of the Systems on a parity with Previously Issued Parity Bonds and the New Series 1979-A Bonds.

(b) "City" - the City of San Antonio, Texas.

(c) "Board of Trustees," "Board," "City Public Service Board," "Public Service Board" - The City Public Service Board of San Antonio, Texas, existing and functioning pursuant to the Indenture or, subsequent to defeasance of the Indenture, existing and functioning pursuant to this Ordinance.

(d) "Depository" - Such bank or banks at any time selected by the Board of Trustees to serve as depository of the funds hereinafter provided for with relation to the Parity Bonds.

(e) "Fiscal Year" - The twelve-month operational period of the Systems commencing on February 1 of each year and ending on the following January 31.

(f) "Indenture" - The Trust Indenture dated February 1, 1951, together with eight supplements thereto dated August 1, 1953, February 1, 1957, February 1, 1960, August 1, 1962, February 1, 1968, February 1, 1971, February 1, 1973 and August 1, 1974, given as security for the Old Series Bonds.

(g) "Maintenance and Operating Expenses" - Those expenses required by the law (Article 1113, V.A.T.C.S.) to be a first lien on and charge against the income of the Systems, including the cost of insurance, the purchase and carrying of stores, materials and supplies, the purchase, manufacture and production of gas and electricity for distribution and resale, the payment of salaries and the payment of all other expenses properly incurred in operating and maintaining the Systems and keeping them in good repair and operating condition (classed as a maintenance and operating expense as opposed to a capital expenditure under the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners). Depreciation on the properties of the Systems shall not be considered or included as Maintenance and Operating Expenses in the determination of Net Revenues of the Systems.

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(h) "Net Revenues" - All income and revenues from the operation of the Systems after the deduction of Maintenance and Operating Expenses. The term "Net Revenues" shall also include any additional and further security for the payment of the Parity Bonds as may be pledged therefor consistent with the then applicable laws of the State of Texas, provided that any such additional and further security is made equally and ratably applicable as security for all outstanding Parity Bonds.

(i) "New Series 1979-A Bonds" - The bonds authorized by this Ordinance.

(j) "Old Series Bonds" - The presently outstanding San Antonio Electric and Gas Systems Revenue Improvement Bonds, Series 1957, Series 1962, Series 1968, Series 1971, Series 1973 and Series 1974.

(k) "Parity Bonds" or "New Series Bonds" - The Previously Issued Parity Bonds, the New Series 1979-A Bonds and Additional Parity Bonds.

(l) "Paying Agent" or "Paying Agents" - The places of payment for the Parity Bonds named in the ordinances authorizing the issuance thereof.

(m) "Previously Issued Parity Bonds" - The outstanding and unpaid bonds of the following series, to wit: "CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1975," dated August 1, 1975, and originally issued in the total principal amount of \$50,000,000; "CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1976," dated February 1, 1976, and originally issued in the total principal amount of \$60,000,000; "CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1976-A," dated August 1, 1976 and originally issued in the total principal amount of \$60,000,000; "CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1977," dated February 1, 1977, and originally issued in the total principal amount of \$60,000,000; "CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1977-A," dated August 1, 1977, and originally issued in the total principal amount of \$75,000,000; "CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1978", dated February 1, 1978, and originally issued in the total principal amount of \$75,000,000; "CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1978-A", dated August 1, 1978, and originally issued in the total principal amount of \$75,000,000; and "CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1979," dated February 1, 1979, and originally issued in the total principal amount of \$75,000,000.

(n) "Systems" - The entire electric light and power plants and systems and gas distribution system and all property of every kind appurtenant to and used or acquired in connection with said electric light and power plant and systems and gas distribution system owned by the City and described in and covered by the Indenture, together with all property of every kind now and hereafter owned or acquired by the City as a part of or for use in the operation of the City's electric light and power plants and systems and gas distribution system.

**SECTION 8: Pledge.** The City hereby covenants and agrees with the holders of the Parity Bonds that:

(a) Until such time as the terms, conditions and provisions of the Indenture become inoperative and the "Trust Estate" conveyed by the Indenture reverts to the City free and clear of the encumbrance created thereby, the Parity Bonds shall be and are hereby declared to be payable solely from and equally secured by an irrevocable pledge of and lien on that portion of the Net Revenues of the Systems deposited, and available for deposit in (i) the "Electric and Gas Systems Improvements and Contingencies Fund" established pursuant to Section 6 of Article V of the Indenture and (ii) the General Fund of the City pursuant to Sections 5 and 6 of Article V of the Indenture.

(b) At such time as the terms, conditions and provisions of the Indenture become inoperative and the "Trust Estate" conveyed by the Indenture reverts to the City free and clear of the encumbrance created thereby, the Net Revenues of the Systems shall be and are hereby irrevocably pledged to the payment of principal of and interest on (including the establishment and maintenance of a reserve, as provided in Sections 12 and 18 (e) of this ordinance) the Parity Bonds, and it is hereby ordained that at such time all Parity Bonds and the interest thereon shall constitute a first lien upon the Net Revenues of the Systems.

**SECTION 9: Rates and Charges.** The City hereby agrees and reaffirms its covenants to the holders of the Parity Bonds that it will at all times maintain rates and charges for the sale of electric energy, gas or other services furnished, provided, and supplied by the Systems to the City and all other consumers which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

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(a) All Maintenance and Operating Expenses, depreciation, replacement and betterment expenses and other costs as may be required by law (Article 1113, V.A.T.C.S.).

(b) The interest on and principal of all Old Series Bonds, as and when the same shall become due, and maintain the Funds and Accounts created and established for the payment and security of the Old Series Bonds.

(c) The interest on and principal of all Parity Bonds, as and when the same shall become due, and provide for the establishment and maintenance of the Funds and Accounts created for the payment and security of the Parity Bonds.

(d) Any legal debt or obligation of the Systems as and when the same shall become due.

**SECTION 10: General Account.** The City, acting through the Board of Trustees, hereby reaffirms its covenant to holders of the Old Series Bonds and hereby covenants with respect to the holders of the Parity Bonds, that all revenues of every nature received through the operation of the Systems shall be deposited as received in the "CITY OF SAN ANTONIO ELECTRIC AND GAS SYSTEMS GENERAL ACCOUNT" (hereinafter referred to as "General Account"), which shall be kept separate and apart from all other funds of the City. Revenues received for the General Account shall be deposited from time to time as received in such bank or banks as may be selected by the Board of Trustees in accordance with applicable laws relating to the selection of City Depositories.

**SECTION 11: Flow of Funds.** The City, acting through the Board of Trustees, hereby agrees and reaffirms its covenant to the holders of the Parity Bonds that:

(a) Until such time as all the terms, conditions and provisions of the Indenture shall become inoperative and the "Trust Estate" conveyed by the Indenture reverts to the City free and clear of the encumbrance created thereby, funds in the General Account shall be pledged and appropriated to the following uses in the order of precedence shown:

**FIRST:** For the payment of operation, maintenance, repairs and extensions of the Systems provided for in Article 1113, V.A.T.C.S., and Section 3 of Article V of the Indenture.

**SECOND:** To the payment of the principal of and interest on the Old Series Bonds, and to the "San Antonio Electric and Gas Systems Bond Reserve Account" for the benefit of the Old Series Bonds in the manner and to the extent required in Section 4 of Article 5 of the Indenture.

**THIRD:** To the payment of the annual sum to be deposited in the General Fund of the City in accordance with and to the extent set out in Section 5 of Article V of the Indenture.

**FOURTH:** To the payment of the annual sum (equal to not less than 12½% of the gross revenues of the Systems) to be deposited in the "Electric and Gas Systems Improvements and Contingencies Fund" in accordance with Section 6 (as amended) of Article V of the Indenture.

**FIFTH:** To the payment of the annual sum to the General Fund of the City for reimbursement of gas and electric services of the Systems used by the City for municipal purposes and amounts expended for additions to the street and traffic lighting system (such payment, together with the annual sum to be deposited in the General Fund of the City, in accordance with Section 5 of Article V of the Indenture, to total an amount equal to 14% of the gross revenues of the Systems for the current Fiscal Year), as provided in Section 6 (as amended) of Article V of the Indenture.

**SIXTH:** To the "Electric and Gas Systems Improvements and Contingencies Fund" until there is on deposit therein an amount equal to 20% of the value of fixed capital assets as shown on the audited statement as of the end of a Fiscal Year, as provided in Section 6 (as amended) of Article V of the Indenture.

**SEVENTH:** To the "Electric and Gas Systems Surplus Fund" in the manner and to the extent funds are available, as required by Section 6 (as amended) of Article V of the Indenture.

In further explanation of said flow of funds as to the payment and security of the Parity Bonds, the Net Revenues of the Systems deposited in the "Electric and Gas Systems Improvement and Contingencies Fund" shall be first appropriated and pledged to the "City of San Antonio Electric and Gas Systems Parity Bond Retirement Account" (heretofore created for the payment of principal of and interest on Parity Bonds and reaffirmed in Section 12 of this Ordinance); and to the extent necessary, all sums payable to the General Fund of the City from the Net Revenues of the Systems pursuant to Sections 5 and 6 (as amended) of Article V of the Indenture shall be first appropriated and pledged to said "City of San Antonio Electric and Gas Systems Parity Bond Retirement Account".

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(Note: The following schedule is not a part of the Bond Ordinance)

**ACTUAL APPLICATION OF REVENUES UNDER  
TRUST INDENTURE AND SECTION 11 (a) OF NEW SERIES BOND ORDINANCE  
(Flow of Funds)**

	Fiscal Year Ended January 31:				
	1976	1977	1978	1979	1979 <sup>3</sup>
<b>OPERATING REVENUES</b>					
Electric	\$190,179,522	\$221,325,327	\$246,624,784	\$257,675,393	\$260,440,300
Gas	53,940,450	65,209,937	67,787,701	78,306,226	77,586,519
Total	<u>\$244,119,972</u>	<u>\$286,535,264</u>	<u>\$314,412,485</u>	<u>\$335,981,619</u>	<u>\$338,026,819</u>
<b>OPERATING EXPENSES</b>					
Electric	\$119,951,358	\$138,528,203	\$152,542,443	\$155,747,265	\$158,601,965
Gas	52,431,073	67,731,887	64,488,517	75,872,133	75,850,710
Total	<u>\$172,382,431</u>	<u>\$206,260,090</u>	<u>\$217,030,960</u>	<u>\$231,619,398</u>	<u>\$234,452,675</u>
Net Operating Income	\$ 71,737,541	\$ 80,275,174	\$ 97,381,525	\$104,362,221	\$103,574,144
Non-Operating Income (Net)	3,810,117	4,035,558	5,222,771	7,209,525	8,405,436
Net Revenues	<u>\$ 75,547,658</u>	<u>\$ 84,310,732</u>	<u>\$102,604,296</u>	<u>\$111,571,746</u>	<u>\$111,979,580</u>
<b>ALLOCATION OF NET REVENUES</b>					
1. Operating Funds (To increase working capital)			\$ 22,000,000 <sup>4</sup>	\$ 3,000,000	\$ 3,000,000
Payment of debt					
Principal & Interest <sup>1</sup>	\$ 16,632,765	\$ 16,635,885	\$ 16,620,545	\$ 16,611,360	\$ 16,607,855
Reserve Fund Reqmts. <sup>1</sup>	4,326,866	55,793	150,248	518,020	499,034
Total Payment of Debt <sup>1</sup>	\$ 20,959,631	\$ 16,691,678	\$ 16,770,793	\$ 17,129,380	\$ 17,106,889
Less: Interest Capitalized From Bond Issues	<u>(5,844,553)</u>	<u>(13,127,659)</u>	<u>(13,511,090)</u>	<u>(12,866,866)</u>	<u>(13,326,366)</u>
Net Payment of Debt	\$ 15,115,078	\$ 3,564,019	\$ 3,259,703	\$ 4,262,514	\$ 3,780,523
2. Payments to General Fund of City in lieu of taxes	4,315,990	4,662,516	4,702,586	4,900,896	4,904,666
3. To Improvements and Contingencies Fund - Minimum Requirements	30,994,993	36,333,099	39,960,970	42,907,107	43,312,544
4. Payment to General Fund of City as reimbursement for electric and gas services used by City during year	6,077,484	7,560,557	8,126,363	8,323,265	8,362,559
5. Additional payment to City to bring benefits to 14% of Gross Revenues <sup>2</sup>	17,421,449	19,486,698	23,889,625	26,406,978	26,316,000
6. Balance transferred to Improvements and Contingencies Fund	1,622,664	12,703,843	665,049	21,770,986	21,803,288
Total Allocations	<u>\$ 75,547,658</u>	<u>\$ 84,310,732</u>	<u>\$102,604,296</u>	<u>\$111,571,746</u>	<u>\$111,979,580</u>

**Footnotes:**

<sup>1</sup> Old Series Bonds.

<sup>2</sup> Annual amounts shown are less than 14% because of voluntary reduction by the City.

<sup>3</sup> 12 months ending March 31, 1979.

<sup>4</sup> An additional amount of \$9,600,000 was transferred from the Improvements and Contingencies Fund from prior years' allocations.

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**SECTION 11: Flow of Funds (Cont'd.)**

(b) At such time as all the terms, conditions and provisions of the Indenture shall become inoperative and the "Trust Estate" conveyed by the Indenture reverts to the City free and clear of the encumbrance created thereby, funds in the General Account shall be pledged and appropriated to the following uses and in the order of precedence shown:

**FIRST:** To the payment of reasonable and proper Maintenance and Operating Expenses of the Systems upon approval by the Board of Trustees.

**SECOND:** To the payment of Parity Bonds, including the establishment and maintenance of the reserve therefor.

**THIRD:** To the payment and security of obligations hereinafter issued which are inferior in lien to the Parity Bonds.

**FOURTH:** To the payment of an annual amount equal to six percent (6%) of the gross revenues of the Systems to be deposited in the Repair and Replacement Fund, hereinafter provided for in Section 13 of this ordinance.

**FIFTH:** To the payment of the annual amount due the General Fund of the City of San Antonio, as provided in Section 14 of this ordinance; and

**SIXTH:** Any remaining Net Revenues of the Systems in the General Account, to the Repair and Replacement Fund, in accordance with Section 13 of this ordinance.

**SECTION 12: Parity Bond Retirement Account.** For purposes of paying the principal of and interest on the Parity Bonds, when and as the same shall become due, and providing a reserve to prevent a default in the payment of such principal and interest on Parity Bonds, the City, acting through the Board of Trustees, hereby reaffirms the creation and establishment of a special account known as the "CITY OF SAN ANTONIO ELECTRIC AND GAS SYSTEMS PARITY BOND RETIREMENT ACCOUNT" (hereinafter referred to as "Retirement Account"), which account shall continue to be kept separate and apart from all other funds or accounts of the Systems or of the City. The City hereby reaffirms its covenant that the Retirement Account shall be established and kept at such Depository as the Board of Trustees shall designate and funds deposited therein shall be used only for the purpose of paying the principal of and interest on the Parity Bonds.

From the Net Revenues of the Systems pledged to the payment and security of the Parity Bonds (identified in Section 8 of this ordinance), the Board of Trustees shall cause to be paid in the Retirement Account such amounts as will be fully sufficient to (i) promptly pay, when due, all principal of and interest on the Parity Bonds (hereinafter sometimes referred to as the "interest and sinking fund portion" of the Retirement Account) and (ii) establish and maintain in the Retirement Account a reserve amount (hereinafter sometimes referred to as the "Reserve Amount" or "reserve fund portion") equal to not less than the average annual principal and interest requirements of all outstanding Parity Bonds (calculated on a fiscal year basis as of the date the last series of Parity Bonds were authorized). In addition, all sums received from the purchasers of Parity Bonds constituting accrued interest and premium, if any, shall be placed in the interest and sinking fund portion of the Retirement Account.

In addition to the deposits required to be made in the interest and sinking fund portion of the Retirement Account to pay the annual debt service requirements of the Previously Issued Parity Bonds, the City Public Service Board is hereby directed to deposit in said Account the following amounts to pay the principal of and interest on the New Series 1979-A Bonds, to wit:

(a) **Deposit for payment of interest** - on or before the first 15th day of a month to occur following the date of delivery of the Bonds to the purchasers thereof and on or before the 15th day of each following month through January 15, 1980, an equal amount of money with such deposits totalling not less than the amount of the installment of interest coming due on the Bonds on February 1, 1980, and beginning on or before February 15, 1980 and on or before the 15th day of each following month, until the New Series 1979-A Bonds are no longer outstanding, an amount of money equal to not less than one-sixth (1/6) of the next semiannual installment of interest to become due on said Bonds.

(b) **Deposits for payment of principal** - on or before the first 15th day of a month to occur following the date of delivery of the Bonds to the purchasers thereof and on or before the 15th day of each following month through January 15, 1981, an equal amount of money with such deposits totalling not less than the principal payment due on the Bonds on February 1, 1981, and beginning on or before the 15th day of February, 1981, and on or before the 15th day of each following month, until the New Series 1979-A Bonds are no longer outstanding, an amount of money equal to not less than one-twelfth (1/12) of the next annual principal payment to become due on said Bonds.

In compliance with the provisions of the ordinance authorizing the issuance of the Previously Issued Parity Bonds and this ordinance, the Board of Trustees shall cause to be accumulated and maintained in the Retirement Account a Reserve Amount equal to not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 1979 Bonds, such Reserve Amount to be determined on the basis of cash on deposit and the book value of securities in which moneys in the reserve fund portion of the Retirement Account are invested, and to be in addition to the amount on deposit in the Retirement Account for purposes of paying the annual debt service requirements of the outstanding Parity Bonds. In addition to the monthly deposits of \$553,965 now required to be made to the reserve fund portion of the Retirement Account in accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Parity Bonds, beginning on or before the first 15th day of a month to occur following the date of delivery of the Bonds to the purchasers thereof, and on or before the 15th day of each month thereafter, to and including the sixty-first (61st) month after the passage of this ordinance, the City Public Service Board shall cause to be deposited therein an equal amount of money with such deposits totalling the additional amount to be accumulated in the reserve fund portion of the Retirement Account by virtue of the issuance of the New Series 1979-A Bonds. After a Reserve Amount equal to not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 1979-A Bonds (calculated on a fiscal year basis as of the date the New Series 1979-A Bonds are authorized) has been accumulated, monthly deposits to the reserve fund portion of the Retirement Account may be terminated; provided, however, whenever the amount in the reserve fund portion of the Retirement Account equals less than the total amount required to be on deposit therein in accordance with the provisions of this ordinance monthly deposits in an amount equal to the sum of the monthly deposits required under the provisions of the ordinance authorizing the Previously Issued Parity Bonds and this ordinance shall be resumed and continued to be made on or before the 15th day of each month until the total amount required to be on deposit in the reserve fund portion of the Retirement Account has been fully restored.

In the event there are insufficient funds available in any month to permit the required monthly deposits in the Retirement Account for purposes of paying the annual debt service requirements on the Parity Bonds and accumulating and maintaining the Reserve Amount, either or both, amounts equivalent to such deficiencies shall be set apart and paid into the said Account from the first available and unallocated Net Revenues pledged to the payment of the Parity Bonds in the next following month or months, and such payments shall be in addition to the monthly amounts otherwise required to be paid into said Account during such month or months.

Accrued interest and premium, if any, received from purchasers of Parity Bonds which is deposited in the interest and sinking fund portion of the Retirement Account and income and profits received from the investment of funds in the Retirement Account may be taken into consideration and reduce the monthly deposits which would otherwise be required to be placed in the interest and sinking fund portion and reserve fund portion of the Retirement Account from the pledged Net Revenues of the Systems.

**SECTION 13: Repair and Replacement Account.** At such time as the provisions of the Indenture become inoperative, the City reaffirms its covenant with the holders of Parity Bonds that a special fund or account shall be created and established to be known as the "CITY OF SAN ANTONIO ELECTRIC AND GAS SYSTEMS REPAIR AND REPLACEMENT ACCOUNT" (hereinafter called "Repair and Replacement Account") at such Depository as may be designated by the Board of Trustees. Moneys on deposit in the Repair and Replacement Account shall be used for the following purposes, to-wit: (i) providing extensions, additions and improvements to the Systems; (ii) to meet contingencies of any nature in connection with the operations, maintenance, improvement, replacement or restoration of properties of the Systems; and (iii) the payment of bonds or other obligations for which other funds are not available, or for any or all of such purposes as, from time to time, may be determined by the Board of Trustees.

From the Net Revenues remaining in the General Account after payment and provisions for payments and additions to the Retirement Account in accordance with the provisions of Section 12 hereof, there shall be paid into the Repair and Replacement Account an annual sum equal to six percent (6%) of the gross revenues of the Systems for the then current Fiscal Year. This annual payment to the Repair and Replacement Account shall be accumulated each Fiscal Year by monthly installments, such monthly installments to be based on each month's gross revenues to the extent funds in the General Account are available each month; provided, however, should the total annual payment to the Repair and Replacement Account in any Fiscal Year exceed six percent (6%) of the gross revenues of the Systems, as shown by the Systems' audited annual financial statement, proper year-end adjustments shall be made (on or before March 1 after the close of each Fiscal Year) by causing any excess amount deposited therein to be transferred to the General Account.

No deposit in excess of six percent (6%) of the annual gross revenues of the Systems shall be made to the Repair and Replacement Account (as provided in the preceding paragraph of this Section) unless and until complete and full payments, or provisions for such payments, shall have been paid over or credited to the General Fund of the City in accordance with Section 14 of this Ordinance. After complete and full payments, or provisions for such payments, shall have been paid over or

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credited to the General Fund of the City to the full extent required in Section 14 thereof, additional deposits may be made to the Repair and Replacement Fund; and at the close of each Fiscal Year, all Net Revenues of the Systems remaining in the General Account after full and complete payment to the General Fund of the City has been made (except such amounts as may be required to meet unpaid accounts and obligations which have accrued or are payable during the year to insure continued operation of the Systems), shall be deposited in the Repair and Replacement Account.

**SECTION 14: Payments or Credits to the General Fund of the City.** In accordance with the provisions of the ordinance authorizing the issuance of the Previously Issued Parity Bonds and at such time as the provisions of the Indenture shall become inoperative and after the payments to the Retirement Account and the Repair and Replacement Account (for purposes of accumulating therein an amount equal to six percent (6%) of the annual gross revenues of the Systems) have been made in full in accordance with the provisions of Section 12 and 13 of this ordinance, there shall be paid over or credited to the General Fund of the City (for general purposes of the City), to the extent Net Revenues of the Systems are available in the General Account and in monthly installments, an amount in cash not to exceed 14% of the gross revenues of the Systems for the month next preceding the month in which the monthly deposit is made, less the value of gas and electric services of the Systems used by the City for municipal purposes and the amount expended for additions to the street lighting system for the month for which such payment is being made. The maximum amount in cash to be transferred or credited to the General Fund of the City from the Net Revenues of the Systems during any Fiscal Year shall not exceed 14% of the gross revenues of the Systems less the value of gas and electric services of the Systems used by the City for municipal purposes and the amounts expended during the Fiscal Year for additions to the street lighting system. The percentage of gross revenues of the Systems to be paid over or credited to the General Fund of the City each Fiscal Year shall be determined (within the 14% limitation) by the governing body of the City.

**SECTION 15: Investments.** In accordance with the provisions of the ordinance authorizing the issuance of the Previously Issued Parity Bonds and this Ordinance, funds on deposit in the Retirement Account and the Repair and Replacement Fund may be, at the option of the Board of Trustees, invested in direct obligations of the United States of America; obligations which in the opinion of the Attorney General of the United States are general obligations of the United States and backed by its full faith and credit; obligations guaranteed by the United States of America; evidences of indebtedness of the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Federal National Mortgage Association; Participation Certificates in the Federal Assets Financing Trust; and Certificates of Deposit of any bank or trust company which are fully secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds. Any obligations, or evidences of ownership of said obligations, in which funds on deposit in the aforementioned Accounts are so invested shall be kept in escrow in the respective Depository for such Accounts and such investments shall be promptly sold when required and the proceeds of the sale applied to the making of payments required to be made from the Account from which the investment was made whenever such payments are necessary to be made. All income and profits received from the investment of funds in the Repair and Replacement Account shall be transferred and credited to the General Account. During the period of time the Reserve Amount in the Retirement Account totals not less than the total amount required to be on deposit therein, all income and profits received from the investment of such funds shall be transferred to the interest and sinking fund portion of the Retirement Account, thereby reducing the amount required to be deposited therein to meet the debt service requirements of Parity Bonds; otherwise income and profits received from investments of the funds constituting the Reserve Amount shall be retained as a portion of the Reserve Amount. Income and profits received from investments of funds on deposit in the interest and sinking fund portion of the Retirement Account shall be used only for the purposes of paying the principal of and interest on the Parity Bonds, as and when the same shall become due.

**SECTION 16: Transfer of Funds to the Paying Agent.** On or before an interest or principal payment date of any Parity Bonds, the Treasurer of the City Public Service Board shall make transfer of funds on deposit in the Retirement Account to the Paying Agent or Paying Agents in the amounts calculated as fully sufficient to pay and discharge promptly, as due, each installment of interest and principal pertaining to the Parity Bonds then outstanding. In the event Parity Bonds may be called for redemption prior to maturity, the Treasurer of the City Public Service Board shall cause amounts calculated as sufficient to pay and discharge the Parity Bonds (including accrued interest and premium, if any) so called for redemption to be transferred to the Paying Agent or Paying Agents on or before the date fixed for the redemption of such bonds.

**SECTION 17: Security of Funds.** All moneys on deposit in the special Funds or Accounts for which this Ordinance makes provision (except any portions thereof as may be at any time properly invested) shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds.

**SECTION 18: Issuance of Additional Parity Bonds.** In addition to the right to issue obligations of inferior lien, as authorized by the laws of the State of Texas, the City reserves the right to issue additional revenue obligations payable from the same source and equally secured in the same manner as the Previously Issued Parity Bonds and the New Series 1979-A Bonds and such additional revenue obligations, the Previously Issued Parity Bonds and the New Series 1979-A Bonds shall in all respects be

of equal dignity. The amount of additional revenue obligations for Systems' improvements and extensions to be issued from time to time shall be based upon the difference between the estimated costs of planned extensions and improvements and the total of the funds available and estimated to be available for extensions and improvements to the Systems; and it shall be the duty of the Board of Trustees to request the City Council to authorize and provide for the issuance and sale of additional revenue obligations in the amount necessary to meet the cost of such planned extensions and improvements, such request to be evidenced by resolution of the Board of Trustees; and upon receipt of such request, it shall be the duty of the City Council to review such request and to provide for the issuance and sale of such Additional Parity Bonds as the City Council may deem necessary in order that the planned extensions and improvements may be made. It is hereby covenanted and agreed that no additional revenue bonds or other obligations shall be issued or incurred on a parity with the New Series Bonds unless and until the following conditions can be satisfied and met:

(a) Until such time as the Indenture securing payment of the Old Series Bonds shall have terminated the Board of Trustees by resolution shall have consented to the issuance of such Additional Parity Bonds and the payment thereof from the Net Revenues of the Systems, and shall have further agreed to comply with all of the terms and provisions of the ordinance authorizing such Additional Parity Bonds with relation to the operation of the Systems and the disposition of revenues of the Systems.

(b) The Treasurer of the City Public Service Board shall have executed a certificate stating that the City is not in default as to any covenant, obligation or undertaking contained in any ordinance or other document relating to the issuance of any obligations then outstanding which are payable from and secured by a lien on and pledge of the Net Revenues of the Systems, and that each of the Funds and Accounts created and established for the sole purpose of paying the principal of and interest on such obligations contains the amount then required to be on deposit therein.

(c) The Board of Trustees shall have secured from an independent certified public accountant a certificate evidencing his determination that the Net Revenues of the Systems (including earnings from the investment of Systems funds) were, during the last completed Fiscal Year or for any consecutive twelve (12) month period during the last fifteen (15) consecutive months prior to the month of adoption of the ordinance authorizing the issuance of the additional obligations, equal to at least one and one-half times the maximum annual principal and interest requirements on the then outstanding Old Series Bonds and Parity Bonds and the Parity Bonds then proposed to be issued. For the purpose of determining said Net Revenues, the certified public accountant may adjust the Net Revenues to include a proper allowance for revenues arising from any increase in electric and gas rates which has become effective prior to the issuance of the proposed Additional Parity Bonds, but which during all or any part of the past Fiscal Year or other twelve (12) month period used for determining said Net Revenues was not in effect, in an amount equal to the amount by which the billings of the Systems to customers for such Fiscal Year or twelve (12) month period would have been increased if such increase in rates had been in effect during the whole of such Fiscal Year or twelve (12) month period.

(d) The Additional Parity Bonds are to mature on February 1 or August 1, or both, in each of the years in which they are scheduled to mature.

(e) The ordinance authorizing the issuance of the Additional Parity Bonds provides that the amount to be accumulated and maintained in the Retirement Account as the Reserve Amount shall be an amount equal to not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be outstanding after giving effect to the issuance of the Additional Parity Bonds then being issued; and provides that any increase to the Reserve Amount in the Retirement Account shall be accumulated within five (5) years and one (1) month from the date of passage of the ordinance authorizing the issuance of the Additional Parity Bonds.

Provided, however, that Parity Bonds may be issued from time to time (pursuant to any law then available) for purposes of refunding outstanding Old Series Bonds and Parity Bonds upon such terms and conditions as the governing body of the City and the Board of Trustees may deem to be in the best interest of the City and, if less than all outstanding Parity Bonds are refunded, or if Parity Bonds are issued to refund outstanding Old Series Bonds, the proposed refunding bonds shall be considered as "Additional Parity Bonds" under the provisions of this Section, but the certificate required in paragraph (c) of this Section shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the bonds being refunded following their cancellation or provision being made for their payment). Parity Bonds and Old Series Bonds shall not be considered to be "outstanding" (under the provisions of this Ordinance) when provision has been made for their payment in the manner and to the extent permitted by the laws of the State of Texas applicable at the time such provision is made.

And provided, further, that any obligations hereafter issued which are junior and subordinate in all respects to the Parity Bonds may (without impairment of the obligation of contract of the Parity Bonds) be refunded as Parity Bonds by meeting all the terms and conditions for the issuance of Additional Parity Bonds; and such junior lien obligations may achieve the status

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of and become, for all purposes Parity Bonds when the following conditions can be met and upon the happening of the following events, to-wit: (i) the Board of Trustees shall have caused to be filed with the City Clerk of the City a certified written report of an independent certified public accountant demonstrating that the Net Revenues, during the last completed Fiscal Year or for any twelve (12) consecutive months during the last fifteen (15) months prior to the month of filing such report, were equal to at least one and one-half (1½) times the maximum annual requirements for the payment of principal of and interest on the then outstanding Old Series Bonds, Parity Bonds and for the bonds then proposed to achieve the status of Parity Bonds, (ii) the Treasurer of the City Public Service Board shall have filed with the City Clerk of the City a certificate stating that the City is not in default as to any covenant, obligation or undertaking contained in any ordinance or other document relating to the issuance of any obligations then outstanding which are payable from and secured by a lien on and pledge of the Net Revenues of the Systems, and that each of the Funds and Accounts created and established for the sole purpose of paying the principal of and interest on such obligation, contains the amount then required to be on deposit therein, (iii) the obligations proposed to achieve the status of Parity Bonds mature on February 1 or August 1, or both, in each of the years they are scheduled to mature and (iv) the Reserve Amount required to be accumulated or then on deposit in the Retirement Account equals not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be outstanding after giving effect to the bonds then proposed to achieve the status of Parity Bonds.

**SECTION 19: No Obligation of Lien Superior to that of the Parity Bonds.** The City will not hereafter issue any additional bonds on a parity with the Old Series Bonds under the terms of the Indenture or create or issue evidences of indebtedness for any purpose possessing a lien on Net Revenues superior to that to be possessed by the Parity Bonds. The City, however, retains the right to create and issue evidences of indebtedness whose lien on Net Revenues shall be subordinate to that possessed by the Parity Bonds.

**SECTION 20: Management of the Systems.** In accordance with the provisions of the ordinance authorizing the Previously Issued Parity Bonds and this Ordinance, the City hereby agrees, covenants and reaffirms that:

(a) Until such time as the terms, conditions and provisions of the Indenture become inoperative and the "Trust Estate" conveyed by the Indenture reverts to the City free and clear of the encumbrance created thereby, the management of the Systems and all of its properties and affairs shall be conducted, operated and controlled in the manner and to the same extent as set forth in the Indenture to which reference is here made for a specific description thereof.

(b) At such time as the terms, conditions and provisions of the Indenture become inoperative and the "Trust Estate" conveyed by the Indenture revert to the City free and clear of the encumbrance created thereby and during such time as any Parity Bonds issued hereunder are outstanding and unpaid, the complete management and control of the Systems, pursuant to the authority contained in Article 1115, V.A.T.C.S., shall be vested in a Board of Trustees consisting of five citizens (one of whom shall be the Mayor of the City) of the United States of America permanently residing in Bexar County, Texas, to be known as the "City Public Service Board" of San Antonio, Texas. Those persons serving as appointed members of the Board of Trustees at the time defeasance of the Indenture occurs shall continue in office until their respective terms as established under Article VI of the Indenture have expired. The Mayor of the City shall be a voting member of the Board, shall represent the City Council thereon, and shall be charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations and decisions of the Board and its conduct of the management of the Systems.

All vacancies in membership on the Board (excluding the Mayor of the City), whether occasioned by failure or refusal of any person previously named to accept appointment or by expiration of term of office or otherwise, shall be filled in the following manner: a nominee to fill such vacancy shall be elected by the majority vote of the remaining members of the Board of Trustees, such majority vote to include the vote of the Mayor. The name of such nominee shall then be submitted by the Mayor to the vote of the City Council, which by a majority vote of the members thereof then in office shall, as evidenced by ordinance or resolution, either confirm or reject such nominee; provided, however, if the City Council fails to act upon such nomination within thirty (30) days after submission to it of such nominee, such failure to do so shall be considered as a rejection of such nominee and another nominee shall be selected by the Board. If a vacancy occurs and the remaining members of the Board (including the Mayor) fail to elect a nominee to fill such vacancy within sixty (60) days after the vacancy occurs (or fail to select another nominee within sixty (60) days after rejection of a nominee by the City Council), the City Council, by a majority vote of the members thereof then in office, shall elect a person to fill such vacancy and shall appoint such Trustee by resolution or ordinance. In the event the City rejects or fails to confirm three (3) consecutive nominees of the Board to fill a vacancy on the Board, the City Council shall, within thirty (30) days after the third rejection, appoint a temporary Trustee to fill such vacancy pending the appointment of a permanent Trustee to fill such vacancy. The appointment of a temporary Trustee by the City Council shall constitute the nomination of such appointee as the permanent Trustee to fill such vacancy. Unless the remaining members of the Board, by a majority vote, reject the nominee selected by the City Council within thirty (30) days after his appointment as a temporary Trustee, the appointment shall become final and



the temporary Trustee shall automatically become the permanent Trustee to fill such vacancy. In such vote, the vote of the Mayor shall automatically be cast as a vote in favor of the confirmation of such Trustee, whether cast by the Mayor or not.

If the nominee of the City Council is rejected by a majority vote of the remaining Trustees, the remaining Trustees shall within thirty (30) days after such rejection elect another nominee to fill such vacancy. Such nominee shall be considered by the City Council and if approved shall become the permanent Trustee. If such nominee is rejected by a majority vote of the members of the City Council then in office, or in the event the City Council fails to act upon such nomination within thirty (30) days after the nomination is presented to the Council, the temporary Trustee theretofore appointed by the Council shall automatically become the permanent Trustee to fill such vacancy. The term of office of each member appointed to the Board shall be five (5) years. A person who has served as an appointed member of the Board for a single five-year term shall be eligible for reappointment for one additional five-year term and one only. A member who is appointed to the Board to serve out an unexpired portion of a retired member's term shall not be considered to have served a "term" unless the unexpired portion of the term so served is three (3) years or more. Permanent removal of residence from Bexar County by any appointed member of the Board shall vacate his office as a member of the Board, or any member (other than the Mayor of the City) who shall be continuously absent from all meetings held by the Board for a period of four (4) consecutive months shall, unless he shall have been granted leave of absence by the unanimous vote of the remaining members of the Board, be considered to have vacated his office as a member of the Board. Any member of the Board, other than the Mayor of the City, may, by unanimous vote of the remaining members of the Board be removed from office, but only for adequate cause.

Notwithstanding any of the foregoing provisions as contained in this Section 20 (b) or in any other section of this ordinance pertaining to the appointment or selection of Trustees to the Board upon the defeasance of the Indenture securing payment of the Old Series Bonds, the City Council reserves unto itself the absolute right to at anytime upon passage of an ordinance approved by a majority vote of its members to change the method of selection of and appointment to the Board of Trustees to direct selection by the City Council, with such change of method to direct selection being at the sole option of the City Council without approval of any persons, party, holder of Parity Bond or Board.

Except as otherwise specifically provided in this Ordinance, the Board of Trustees shall have absolute and complete authority and power with reference to the control, management and operation of the Systems and the expenditure and application of the revenues of the Systems subject to the provisions contained in this Ordinance, all of which shall be binding upon and shall govern the Board of Trustees. In connection with the management and operation of the Systems and the expenditure and application of the revenues therefrom, the Board of Trustees shall be vested with all of the powers of the City with respect thereto, including all powers necessary or appropriate for the performance of all of the covenants, undertakings and agreements of the City contained in this ordinance, and shall have full power and authority to make rules and regulations governing the furnishing of electric and gas service to customers and for the payment of the same, and for the discontinuance of such services upon failure of customers to pay therefor, and, to the extent authorized by law, shall have full authority with reference to making of extensions, improvements and additions to the Systems and the acquiring by purchase or condemnation of properties of every kind in connection therewith.

The Board of Trustees in exercising the management powers granted herein, will ensure that policies adopted affecting research, development and corporate planning will be consistent with council policy, and policies adopted by the Board of Trustees pertaining to such matters will be subject to council review.

The Board of Trustees shall elect one of its members as Chairman and one as Vice Chairman of the Board and shall appoint a Secretary and a Treasurer, or a Secretary-Treasurer, who may, but need not be, a member or members of the Board. If a member of the Board of Trustees is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the Board whose duties in the operation of the Systems require performance of similar duties may be appointed as Secretary or Treasurer or Secretary-Treasurer. The Board of Trustees may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the Systems with the same freedom and in the same manner ordinarily employed by the Board of Directors of private corporations operating properties of a similar nature. No member of the Board of Trustees, however, shall ever vote by proxy in the exercise of his duties as a Trustee.

The Board of Trustees shall appoint and employ all officers, employees and professional consultants which it may deem desirable, including without limitation, a General Manager of the Systems, attorneys, engineers, architects, and other advisors. No officer or employee of the Board of Trustees may be employed who shall be related within the second degree of consanguinity or affinity to any member of the Board of Trustees.

The Board of Trustees shall obtain and keep continually in force an employees' fidelity and indemnity bond of the so-called "blanket" type, written by a solvent and recognized indemnity company authorized to do business in the State of Texas and covering losses to the amount of not less than One-Hundred Thousand Dollars (\$100,000).

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The members of the Board of Trustees, other than the Mayor of the City, shall receive annual compensation in the minimum amount of Two Thousand Dollars (\$2,000.00), except that the Chairman of the Board shall receive annual compensation in the minimum amount of Two Thousand Five Hundred Dollars (\$2,500.00). Such compensation may be increased from time to time by the majority vote of the City Council then in office.

The members of the Board of Trustees and administrative officers shall not be personally liable, either individually or collectively, for any act or omission not willfully fraudulent or in bad faith.

**SECTION 21: Method of Amendment.** The City hereby reserves the right to amend ordinances authorizing the issuance of Parity Bonds subject to the following terms and conditions, to-wit:

(a) The holders of Parity Bonds aggregating in principal amount sixty-six and two-thirds (66-2/3%) percent of the aggregate principal amount of then outstanding Parity Bonds shall have the right from time to time to approve any amendment to this ordinance which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this ordinance or in the bonds so as to:

- (1) Make any change in the maturity of outstanding Parity Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding Parity Bonds;
- (3) Reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Parity Bonds;
- (4) Modify the terms of payment of principal or of interest or redemption premium on outstanding Parity Bonds or any of them or impose any condition with respect to such payment;
- (5) Affect the rights of the holders of less than all of the Parity Bonds then outstanding; or
- (6) Change the minimum percentage of the principal amount of bonds necessary for consent to such amendment.

(b) If at any time the City shall desire to amend this ordinance under this Section, the City shall cause notice of the proposed amendment to be published at least once in a financial publication published in the City of New York, New York. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the Office of the City Clerk of the City of San Antonio for inspection by all holders of Parity Bonds then outstanding.

(c) Whenever at any time within one (1) year from the date of publication of such notice the City shall receive an instrument or instruments executed by the holders of at least sixty-six and two-thirds (66-2/3%) percent in aggregate principal amount of all Parity Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which shall specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the City Clerk of the City of San Antonio, the City may adopt the amendatory ordinance in substantially the same form.

(d) Upon the adoption of any amendatory ordinance pursuant to the provisions of this Section, the ordinances authorizing the Parity Bonds then outstanding shall be deemed to be modified and amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations of the City and all holders of outstanding Parity Bonds shall thereafter be determined, exercised and enforced, subject in all respects to such amendment.

(e) Any consent given by the holder of a bond pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same bond during such period. Such consent may be revoked at any time after six (6) months from the date of the publication of said notice by the holder who gave such consent, or by a successor in title, by filing notice with the City Clerk of the City of San Antonio, but such revocation shall not be effective if the holders of sixty-six and two-thirds (66-2/3%) percent aggregate principal amount of the then outstanding Parity Bonds as in this Section defined, have, prior to the attempted revocation, consented to and approved the amendment.

(f) For the purposes of establishing ownership of Parity Bonds, the fact of the holding of Parity Bonds by any bondholder, the amount and numbers of such bonds, and the dates of their holding such bonds, may be proved by the affidavit of the person claiming to be such holder, or by a certificate executed by any trust company, bank or any other depository wherever situated showing that at the date therein mentioned such person had on deposit with such trust company, bank or other

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depository the bonds described in such certificate. The City may conclusively assume that such ownership continues until notice to the contrary is served on the City.

**SECTION 22: Recognition of Provisions of Indenture.** It is specifically recognized and affirmed that until defeasance of the provisions of Article V of the Indenture, the pledge of revenues herein for the payment and security of the Parity Bonds is inferior to the pledge of revenues therein to the payment of principal of and interest on the Old Series Bonds and to the maintenance of the "SAN ANTONIO ELECTRIC AND GAS SYSTEMS RESERVE ACCOUNT" thereunder. All terms, conditions, covenants, agreements, stipulations and trust provisions whatsoever of the Indenture, providing and constituting the means of securing and providing for payment of the Old Series Bonds, including, but not limited to, the provisions of Article V thereof relating to application of revenues, are hereby recognized and affirmed and shall be given full force and effect in all respects until (i) the conditions for defeasance of the Indenture (set forth in Section 1 of Article XIV) have been fulfilled in such manner and to such extent as will have caused the "Trust Estate" to revert to the City free of the encumbrance thereof, or (ii) the Indenture has been amended in such manner as would permit the Parity Bonds to occupy a position of parity with the Old Series Bonds, in which event all such bonds will become Parity Bonds, or (iii) a defeasance of the Indenture has taken place by operation or application of the law.

**SECTION 23: Transition of Funds Upon Defeasance of the Indenture:** In accordance with the provisions of the ordinance authorizing the issuance of the Previously Issued Parity Bonds, and at such time as the conditions, provisions and terms of the Indenture shall become inoperative and the "Trust Estate" conveyed by the Indenture reverts to the City free and clear of the encumbrance created thereby, any funds remaining in the "San Antonio Electric and Gas Systems Bond Reserve Account" (created and established in Section 4 of Article V of the Indenture) shall be transferred and credited to the Reserve Amount on deposit in the "Retirement Account," and all moneys and funds remaining on deposit in the "Electric and Gas Systems Improvements and Contingencies Fund" and the "Electric and Gas Systems Surplus Fund" (created and established in Section 6 (as amended) of Article V of the Indenture) shall be transferred and credited to the "Repair and Replacement Account".

**SECTION 24: Maintenance and Operation - Insurance.** The City hereby agrees and reaffirms that the Systems shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Parity Bonds are outstanding, the City, acting by and through the Board of Trustees, agrees to maintain insurance of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business.

**SECTION 25: Records - Accounts - Accounting Reports.** The City, acting by and through the Board of Trustees, hereby agrees, covenants and reaffirms that so long as any Parity Bonds, or any interest thereon, remain outstanding and unpaid, a proper and complete set of records and accounts pertaining to the operation of the Systems shall be kept and maintained separate and apart from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Systems as provided in Article 1113, V.A.T.C.S., and that the holder or holders of any of the Parity Bonds or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto and to inspect the Systems and all properties comprising the same. The Board of Trustees shall, so far as practicable and to the extent consistent with the provisions of this ordinance, keep its books and records in the manner prescribed in the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners. It is further agreed that as soon after the close of each Fiscal Year as may reasonably be done, the City (acting by and through the Board of Trustees) will cause an annual audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountants, shall reflect the revenues and expenses of the Systems for said Fiscal Year, and the assets, liabilities and financial condition of the Systems (in reasonable detail) at the close of such Fiscal Year.

Expenses incurred in making the audit above referred to are to be regarded as Maintenance and Operating Expenses and paid as such. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, and to the original purchaser of a series of Parity Bonds and any subsequent holder thereof at his written request. At the close of the first six (6) months' period of each Fiscal Year, the Treasurer of the City Public Service Board is hereby directed to furnish a copy of an operating and income statement in reasonable detail covering such period to any bondholder upon his written request therefor received not more than thirty (30) days after the close of said six (6) months' period. Any bondholder shall have the right to discuss with the accountant making the annual audit the contents thereof and to ask for such additional information as he may reasonably require, provided such bondholder shall have offered to the Board of Trustees sufficient indemnity to pay any costs, expenses and liabilities which may or might be incurred in providing such additional information.

**SECTION 26: Remedies in the Event of Default.** In addition to all of the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payments to be made to the

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Retirement Account as required by this Ordinance, or (ii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the following remedies shall be available:

(a) The holder or holders of any Parity Bonds shall be entitled to a writ of mandamus issued by a Court of proper jurisdiction, compelling and requiring the City, its officers, the Board of Trustees, and/or all of them, to observe and perform any covenants, conditions or obligations prescribed in this Ordinance.

(b) No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedies herein provided shall be cumulative of all other existing remedies and the specifications of such remedies shall not be deemed to be exclusive.

**SECTION 27: Special Covenants.** The City hereby further covenants as follows:

(a) The City has secured from the Board of Trustees a resolution acknowledging its duties, responsibilities and obligations under this Ordinance and agreeing to fully comply with all its terms and provisions, including the administration and operation of the Systems and the disposition of revenues of the Systems.

(b) It has the lawful power to pledge the revenues supporting this issue of bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, including said power existing under Articles 1111 et seq., that the bonds issued hereunder, the Previously Issued Parity Bonds and Additional Parity Bonds, when issued, shall be ratably secured under said pledge of income in such manner that one bond shall have no preference over any other bond of said issues.

(c) Other than for the payment of the bonds herein authorized, the Previously Issued Parity Bonds, and the previously issued Old Series Bonds, the rents, revenues and income of the Systems have not in any manner been pledged to the payment of any debt or obligation of the City or of the Systems.

(d) So long as any of the Parity Bonds or any interest thereon remain outstanding, the City will not sell or encumber the Systems or any substantial part thereof, provided that this shall not be construed to prohibit the sale of such machinery or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the Systems; and, further, with the exception of the Additional Parity Bonds expressly permitted by this Ordinance, the City will not encumber the Net Revenues unless such encumbrance is made junior and subordinate to all of the provisions of this Ordinance.

(e) No free service of the Systems shall be allowed and should the City or any of its agents or instrumentalities make use of the services or facilities of the Systems, payments for services rendered by the Systems should either be made by the City or amounts equal in value to the services rendered by the Systems shall be deducted from the annual payment due the General Fund of the City from the Net Revenues of the Systems as provided in Section 14 hereof.

(f) To the extent it legally may, the City further covenants and agrees that, so long as any Parity Bonds or any interest thereon are outstanding, no franchise shall be granted for the installation or operation of any competing electric or gas system other than that owned by the City, and the operation of any such systems by anyone other than the City is hereby prohibited.

**SECTION 28: Bonds are Special Obligations.** The bonds authorized by this Ordinance are special obligations of the City payable from the pledged Net Revenues and the holders thereof shall never have the right to demand payment out of funds raised or to be raised by taxation.

**SECTION 29: Bonds Negotiable.** The New Series 1979-A Bonds constitute negotiable instruments within the meaning of the Uniform Commercial Code of the State of Texas. Each and every successive holder of any such bond, or of interest coupons appertaining thereto, is conclusively presumed to forego and renounce his equities in favor of subsequent holders for value without notice and agrees that such bond and said interest coupons may be negotiated by delivery by any person having possession, however acquired.

**SECTION 30: Ordinance to Constitute Contract.** The provisions of this Ordinance shall constitute a contract between the City of San Antonio and the holder or holders from time to time of the New Series 1979-A Bonds and after the issuance of any of said bonds, no change, variation, or alteration of any kind in the provisions of this Ordinance may be made, unless as herein

otherwise provided, until all of said bonds issued hereunder shall have been paid as to both principal and interest.

**SECTION 31: Approval by Attorney General and Registration by the Comptroller of Public Accounts.** The Mayor of the City and Treasurer of the City Public Service Board are hereby authorized to have control and custody of the New Series 1979-A Bonds and all necessary records and proceedings pertaining thereto pending the sale of said bonds and the delivery thereof to the purchasers, and the Mayor and other officers and employees of the City and the City Public Service Board are hereby authorized and instructed to make such certifications, execute such instruments and perform such acts as may be necessary to assure the proper investigation, examination and approval thereof by the Attorney General of the State of Texas, and their registration by the State Comptroller of Public Accounts, and to accomplish delivery of said bonds to the purchasers thereof.

**SECTION 32: No Arbitrage.** The City covenants to and with the purchasers of the New Series 1979-A Bonds that it will make no use of the proceeds of such bonds at any time throughout the term of this issue of bonds which, if such use had been reasonably expected on the date of delivery of the bonds to and payment for the bonds by the purchasers, would have caused the New Series 1979-A Bonds to be arbitrage bonds within the meaning of Section 103(c) of the Internal Revenue Code of 1954, as amended, or any regulations or rulings pertaining thereto; and by this covenant the City is obligated to comply with the requirements of the aforesaid Section 103(c) and all applicable and pertinent Department of the Treasury regulations relating to arbitrage bonds. The City further covenants that the proceeds of the New Series 1979-A Bonds will not otherwise be used directly or indirectly so as to cause all or any part of the New Series 1979-A Bonds to be or become arbitrage bonds within the meaning of the aforesaid Section 103(c), or any regulations or rulings pertaining thereto.

(End of Bond Ordinance Excerpts)

## **SAN ANTONIO ELECTRIC AND GAS SYSTEMS**

### **HISTORY AND MANAGEMENT**

San Antonio acquired its gas and electric utilities in 1942 from the American Light and Traction Company which had been ordered by the Federal Government to sell properties under provisions of the Holding Company Act of 1933. The total funds required for the purchase were raised by the sale of \$33,950,000 first mortgage revenue bonds. The Trust Indenture securing the Old Series Bonds establishes management requirements and provides that the complete management and control of the electric and gas systems, while the Old Series Bonds are outstanding, shall be vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, to be known as the "City Public Service Board of San Antonio", sometimes also referred to herein as "Board" or "CPS". The Mayor of the City of San Antonio is a permanent ex officio member. The present members of the Board are:

**ELOY CENTENO, CHAIRMAN**  
President,  
Centeno Supermarkets, Inc.

**GLENN BIGGS, VICE CHAIRMAN**  
Chairman,  
First National Bank of San Antonio

**RUBEN M. ESCOBEDO**  
Certified Public Accountant  
Escobedo and Stinson

**EARL C. HILL**  
Attorney at Law  
Hill and Walls

**MRS. LILA COCKRELL**  
Mayor,  
City of San Antonio  
(Ex Officio Member)

While the Old Series Bonds are outstanding, vacancies in membership on the Board are filled by majority vote of the remaining members. No person who is related within the second degree of consanguinity or affinity to any Board member or any person who has been a member of the Board within a period of five years prior to the election shall be eligible for election as a member of the Board. The members of the Board are eligible for reelection at the expiration of their first term of office to one additional term only.

The Board is vested with all of the powers of the City with respect to the management and operation of the systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings and agreements of the City contained in the Trust Indenture, except regarding rates and issuance of additional bonds. The Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements and additions to the systems, and to adopt rules for the orderly handling of its affairs. It is empowered to appoint and employ all officers and employees and obtain and keep in force a "blanket" type employees' fidelity and indemnity bond covering losses in the amount of not less than \$100,000.

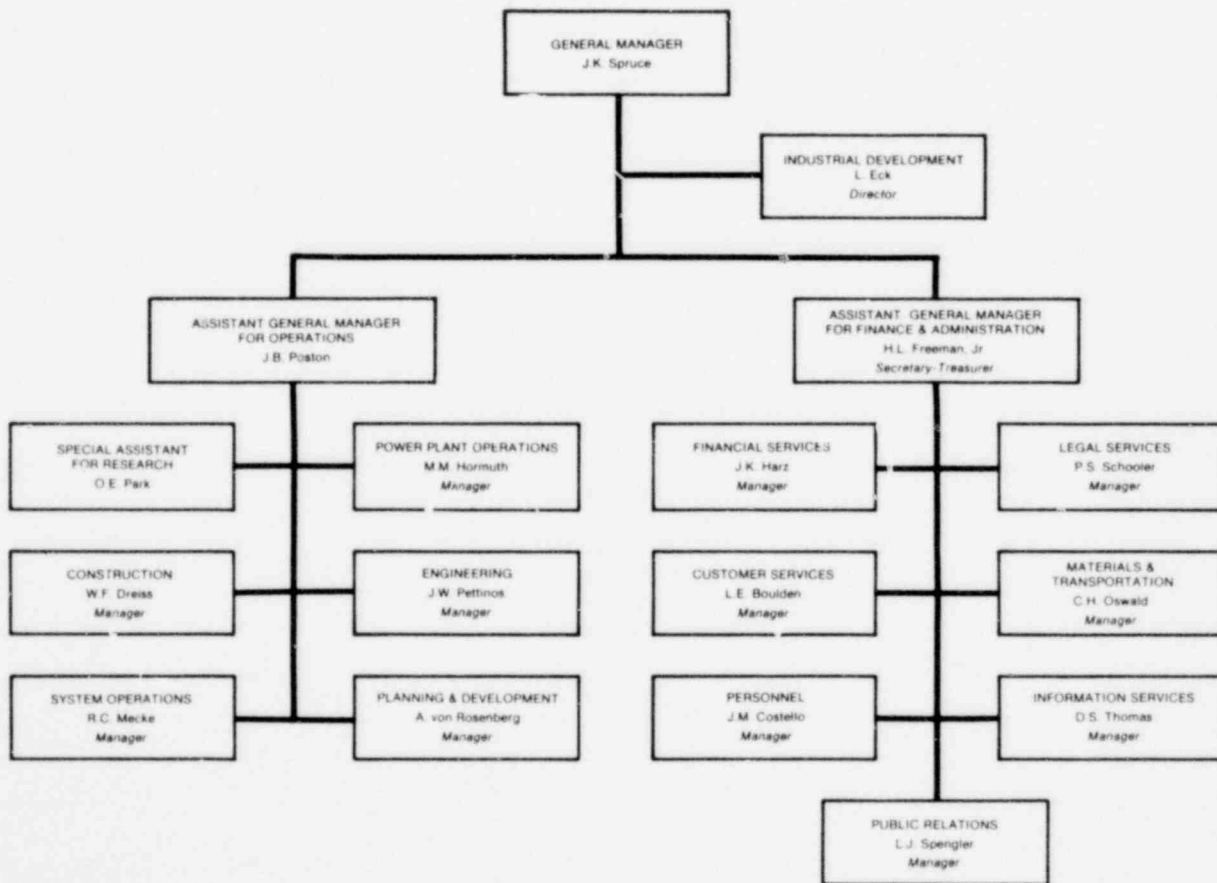
The Ordinances which authorize the issuance of the New Series Bonds, and which will control after the Old Series Bonds are no longer outstanding, contain similar management provisions. The management provisions of this Ordinance, which are set out in full in a previous section, add, among other things, the requirement that new Board appointees must also be approved or in certain cases appointed by a majority vote of the City Council and grants the City Council authority to review Board action with respect to research, development and planning. See *Material Litigation - Other Matters* on pp. 40-41 for information relating to a lawsuit challenging the present method of appointment of Board trustees.

### ADMINISTRATION AND OPERATING PERSONNEL

Long-time career service is typical of CPS employees, who presently number 2,880. All executive and supervisory positions are held by individuals who have been thoroughly schooled and trained in the utilities field.

CPS employees have a full range of fringe benefits including a pension plan augmented by Social Security, group life insurance, hospitalization and major medical and other benefits. Generally good working conditions have produced a stable, well-qualified, highly motivated work force which for the past year recorded the very low turnover rate of 0.80% per month.

Principal executive personnel and organization are shown on the following chart.



May 1, 1979

**ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY**

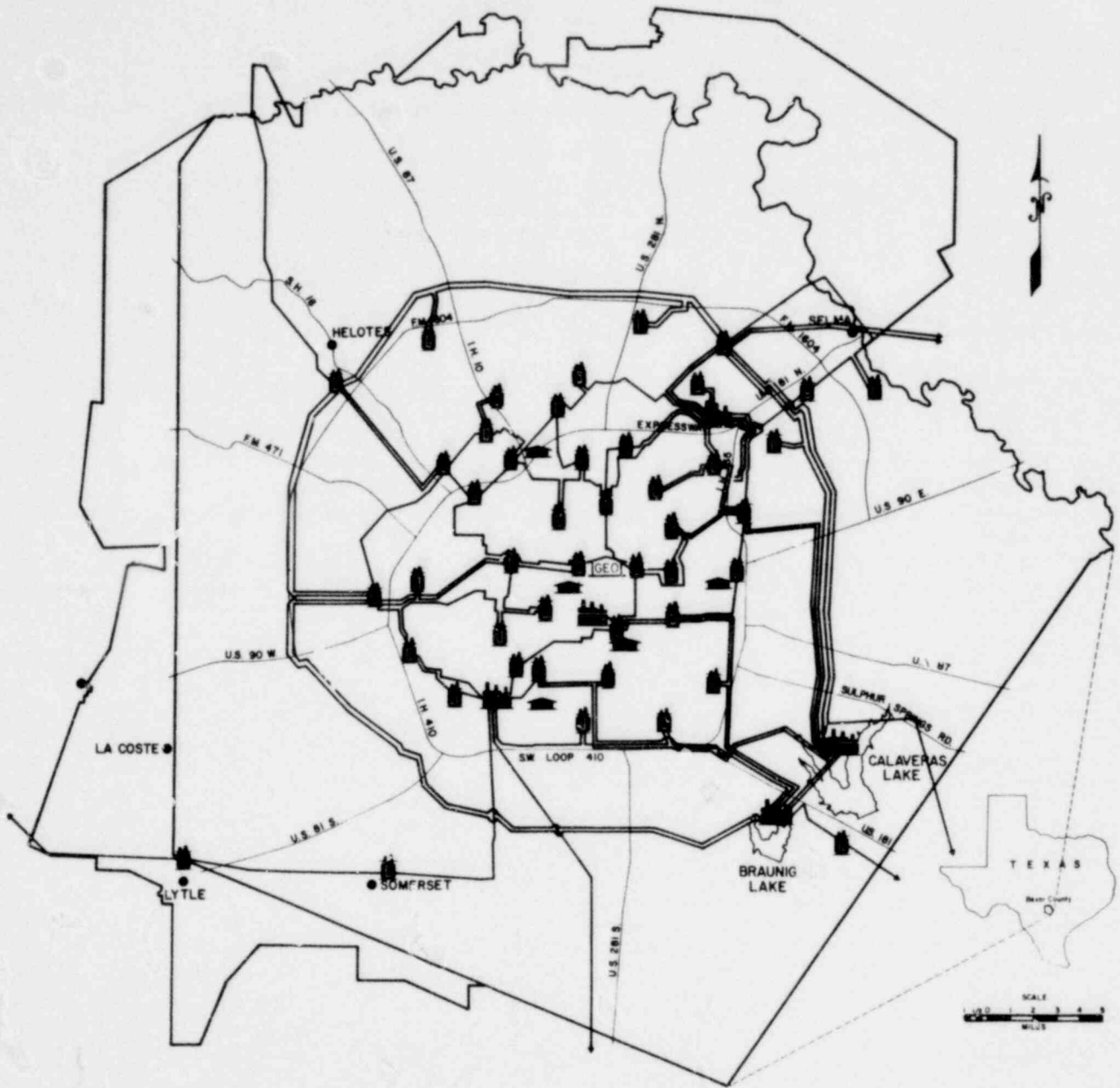
Fiscal Years Ended January 31:

	1976	1977	1978	1979	1979*
<b>ELECTRIC SYSTEM</b>					
<b>SALES IN KWH</b>					
Residential	1,941,245,967	1,928,326,373	2,155,884,079	2,318,020,427	2,332,539,731
Commercial & Industrial	2,645,439,577	2,748,937,271	2,919,511,452	3,059,620,744	3,083,150,702
Street Lighting	63,104,513	64,265,627	65,257,868	66,085,279	66,334,723
Public Authorities	965,196,593	983,537,835	1,025,463,732	1,050,396,902	1,051,198,130
Other Utilities	93,874,280	96,684,320	105,999,400	335,000,540	331,916,060
ANSL	8,281,414	8,887,802	9,372,657	9,697,386	9,723,987
Total Sales in KWH	<u>5,717,142,344</u>	<u>5,830,639,228</u>	<u>6,281,489,188</u>	<u>6,839,321,278</u>	<u>6,874,863,333</u>
<b>AVERAGE NUMBER OF CUSTOMERS</b>					
Residential	237,427	242,468	250,072	262,769	265,108
Commercial & Industrial	26,436	26,952	28,155	29,393	29,551
Street Lighting	23	28	35	41	41
Public Authorities	2,192	2,278	2,351	2,403	2,418
Other Utilities	3	3	3	5	4
ANSL	5,484	5,890	6,078	6,249	6,270
Total Customers	<u>271,565</u>	<u>277,619</u>	<u>286,694</u>	<u>300,860</u>	<u>303,392</u>
<b>GAS SYSTEM</b>					
<b>SALES IN MCF</b>					
Residential	13,101,777	14,691,364	13,248,917	15,597,842	14,890,004
Commercial	6,048,435	6,701,652	6,109,391	6,856,216	6,631,178
Industrial	5,993,699	5,736,020	5,221,150	5,076,945	5,108,628
Public Authorities	1,962,519	2,192,842	1,944,347	2,279,048	2,199,479
Total Sales in MCF	<u>27,106,430</u>	<u>29,321,878</u>	<u>26,523,805</u>	<u>29,810,051</u>	<u>28,829,289</u>
<b>AVERAGE NUMBER OF CUSTOMERS</b>					
Residential	209,808	213,694	218,840	226,168	227,369
Commercial	16,438	16,379	16,494	16,723	16,753
Industrial	390	373	349	370	376
Public Authorities	2,170	2,122	2,104	2,074	2,064
Total Customers	<u>228,806</u>	<u>232,567</u>	<u>237,787</u>	<u>245,335</u>	<u>246,562</u>
<b>KWH SALES PER CUSTOMER</b>					
Residential	8,176	7,953	8,621	8,822	8,798
Commercial & Industrial	100,070	101,994	103,694	104,094	104,333
<b>MCF SALES PER CUSTOMER</b>					
Residential	62	69	61	69	66
Commercial	368	409	370	410	396





\* 12 months ending March 31, 1979.

1516 053

# ELECTRIC DISTRIBUTION SYSTEM



## LEGEND

-  Substation
-  Central GEO System Control
-  Power Plants
-  Transmission Lines  
 345,000 VOLT, 138,000 VOLT  
 OR 69,000 VOLT



## DESCRIPTION OF PHYSICAL PROPERTY

### ELECTRIC SYSTEM

#### Generating Plants

The electric generating system operated by the Board consists of six steam electric generating stations with step up substation systems.

The J. T. Deely Plant, located at Calaveras Lake, southeast of the City, is equipped to burn either coal or fuel oil. Unit No. 1 was placed in service in July, 1977 and Unit No. 2 has been in commercial operation since August, 1978. These two units will carry approximately one-half of the maximum system load for the near future on coal, which is less expensive and more available than oil or gas.

Also located at Calaveras Lake and sharing its cooling capability is the O. W. Sommers Plant, composed of two units which are capable of operating on either natural gas or fuel oil.

The V. H. Braunig Plant is located on Braunig Lake, also southeast of the City. It has three units which operate on either natural gas or fuel oil.

Both Calaveras Lake and Braunig Lake have additional space and cooling capability for future generating units. These lakes, which cover approximately 5,000 surface acres, are man-made and utilize treated sewage effluent and runoff waters. CPS was a pioneer in the use of poorer quality water for cooling purposes, thereby saving the higher quality underground water for other uses.

While the above plants now generate most of the load, there are three older plants which are held in reserve. They are the W. B. Tuttle, Mission Road, and Leon Creek Plants. They can burn either natural gas or fuel oil and are cooled by water recirculated through cooling towers.

CPS owns over 800 railroad cars which are used in unit trains to haul coal from mines in Wyoming to the Deely Plant. CPS also performs its own required car maintenance and servicing at their car maintenance shops located at the Deely Plant.

Details of installed units at CPS generating stations are as follows:

<u>Generating Station</u>	<u>Fuel</u>	<u>Year Installed</u>	<u>Capability MW</u>
J.T. Deely Plant	Coal	1978	418
	Coal	1977	418
O.W. Sommers Plant	Gas/Oil	1974	400
	Gas/Oil	1972	400
V.H. Braunig Plant	Gas/Oil	1970	390
	Gas/Oil	1968	220
	Gas/Oil	1966	200
W.B. Tuttle Plant	Gas/Oil	1963	140
	Gas/Oil	1961	85
	Gas/Oil	1956	80
	Gas/Oil	1954	59
Leon Creek Plant	Gas/Oil	1959	85
	Gas/Oil	1953	59
Mission Road Plant	Gas/Oil	1958	80
Total Active Capability			3,034

#### Units in Storage—Not Commercially Available

Leon Creek Plant	Gas/Oil	1951	26
	Gas/Oil	1949	26
Mission Road Plant	Gas/Oil	1948	20
	Gas/Oil	1945	20
Total Capability in Storage			92

1510 000

## Transmission System

A network is provided for the movement of large blocks of power from the generating stations to the various parts of the service area and to or from neighboring utilities as required. This is composed of 69,000 volt, 138,000 volt and 345,000 volt lines with transformers and switching stations to provide the necessary flexibility in the movement of bulk power.

The San Antonio System is integrated with eleven other electric utilities to form the Texas Interconnected System (TIS) which covers a large portion of Texas. The other utilities in the TIS are listed below:

- West Texas Utilities (WTU)
- Houston Lighting and Power Company (HL&P)
- Dallas Power and Light Company (DP&L)
- Central Power and Light Company (CP&L)
- Texas Electric Service Company (TESCO)
- Lower Colorado River Authority (LCRA)
- Texas Power and Light Company (TP&L)
- City of Austin, Texas, Municipal Utilities (Austin)
- Texas Municipal Power Pool (TMPP)
- Medina Electric Co-op/South Texas Electric Co-op (MEC/STEC)
- City of Brownsville

These interconnections, through operating agreements between the several utilities, provide standby power in case of outages as well as firm power in the event capacity deficiencies occur at a particular locality within the area. The arrangements serve to reduce the standby capacity which each utility would otherwise need to have running. This membership in TIS, which in turn is united with approximately 75 other utilities, municipalities and co-ops in Texas in the Electric Reliability Council of Texas (ERCOT), provides CPS with a high level of electric service reliability.

CP&L and WTU are subsidiaries of the Central and Southwest Corporation (C&SW), a public utility holding company which also owns and operates electric utilities within the Southwest Power Pool (SWPP) which serve portions of Oklahoma, Arkansas and Louisiana. Since 1974, C&SW has taken the position that its subsidiaries can be most economically operated as a single synchronous system and that this result will be best achieved by an interconnection between SWPP and the now intrastate TIS/ERCOT. C&SW has introduced evidence intended to support its contentions in a proceeding now pending in the Securities and Exchange Commission. HL&P and the Texas Utilities (TU) subsidiaries TESCO, DP&L and TP&L have controverted C&SW's contentions in that proceeding and maintain that they have the right, in the interests of their own customers, to disconnect from CP&L and WTU if the two Texas subsidiaries of C&SW operate on an interstate basis. San Antonio, Austin and LCRA have historically viewed their own customers' best interests as lying in an intrastate system including the power reserves of the TU and HL&P systems, preferably the existing TIS, and have participated in the SEC hearing and various other proceedings arising from C&SW's actions.

San Antonio has also intervened in appeals pending in State and Federal District Courts from an order issued by the Public Utility Commission of Texas (PUCT) on July 11, 1977. The Commission's order, entered after a hearing initiated by petitions filed by HL&P, TU, San Antonio, Austin and LCRA, requires the continuation of the historical interconnections of TIS unless, upon notice and hearing, the Commission finds a change to be in the public interest, and prohibits any TIS member from interconnecting with others except pursuant to a valid court or regulatory order. The order, which San Antonio, Austin, LCRA, HL&P and TU support, is attacked by CP&L and WTU on grounds, among others, that it constitutes undue interference with interstate commerce. On May 11, 1978, the Federal District Court issued an order ruling that it would abstain from exercising its jurisdiction until the State District Court has resolved questions concerning the PUCT's powers under State law. The 5th Circuit Court of Appeals affirmed that result in an opinion of March 28, 1979. In the State District Court suit, briefs have been filed and oral argument has been heard by the Court.

In February, 1979 CP&L, WTU, and the other C&SW subsidiaries jointly filed with the Federal Energy Regulatory Commission (FERC) an application which requests the commission to initiate a proceeding and enter orders establishing interconnections and coordinated operations between TIS/ERCOT and SWPP, and to exempt CP&L and WTU from the PUCT's order. San Antonio, Austin, LCRA, HL&P, TU and the PUCT have filed interventions in the FERC proceeding. The relief sought in the C&SW companies petitions is based on provisions of the Public Utility Regulatory Policies Act of 1978, which amends the Federal Power Act to give FERC authority to order interconnections between utilities, require the provision of transmission services by one utility to another ("wheeling"), and to exempt utilities from any state law or rule which prevents voluntary coordination of electric utilities. Any such interconnection and wheeling orders must be based on considerations of public interest, energy conservation, reliability, and other factors.

Other proceedings arising from C&SW's contentions include an antitrust suit brought in a Dallas Federal District Court by WTU and CP&L against HL&P and TU, which has been decided against the plaintiffs but is being appealed, a proceeding commenced in the Nuclear Regulatory Commission by CP&L which raises antitrust issues in connection with the application for operating licenses for the South Texas Nuclear Project (See NEW GENERATING UNITS, page 33), and a proceeding filed in 1976 by the C&SW companies in the Federal Power Commission (now FERC) seeking ERCOT/SWPP interconnections, which is still pending on appellate remand.

Although the outcome of these various proceedings and their effect on the interconnected system as it now exists cannot be predicted, the City Public Service Board is taking and will continue to take all steps necessary to maintain the most reliable and economical service possible for the consumers dependent upon its system.

**Distribution System**

The Distribution System is supplied by 61 substations strategically located on the high voltage transmission system.

The central business section of San Antonio is served by five underground network systems, each consisting of four primary feeders operated at 13 KV, transformers equipped with network protectors, and a 4 wire 120/208 volt secondary grid. This system is well designed for both service and reliability.

There are over 6,000 miles of pole lines and over 40 miles of underground duct lines in the distribution system. The overhead lines also carry secondary circuits and street lighting circuits. Presently there are approximately 40,000 street lighting units in service, with the vast majority of these being modern, high intensity units. Many of the subdivisions added in recent years have been served by underground distribution systems.

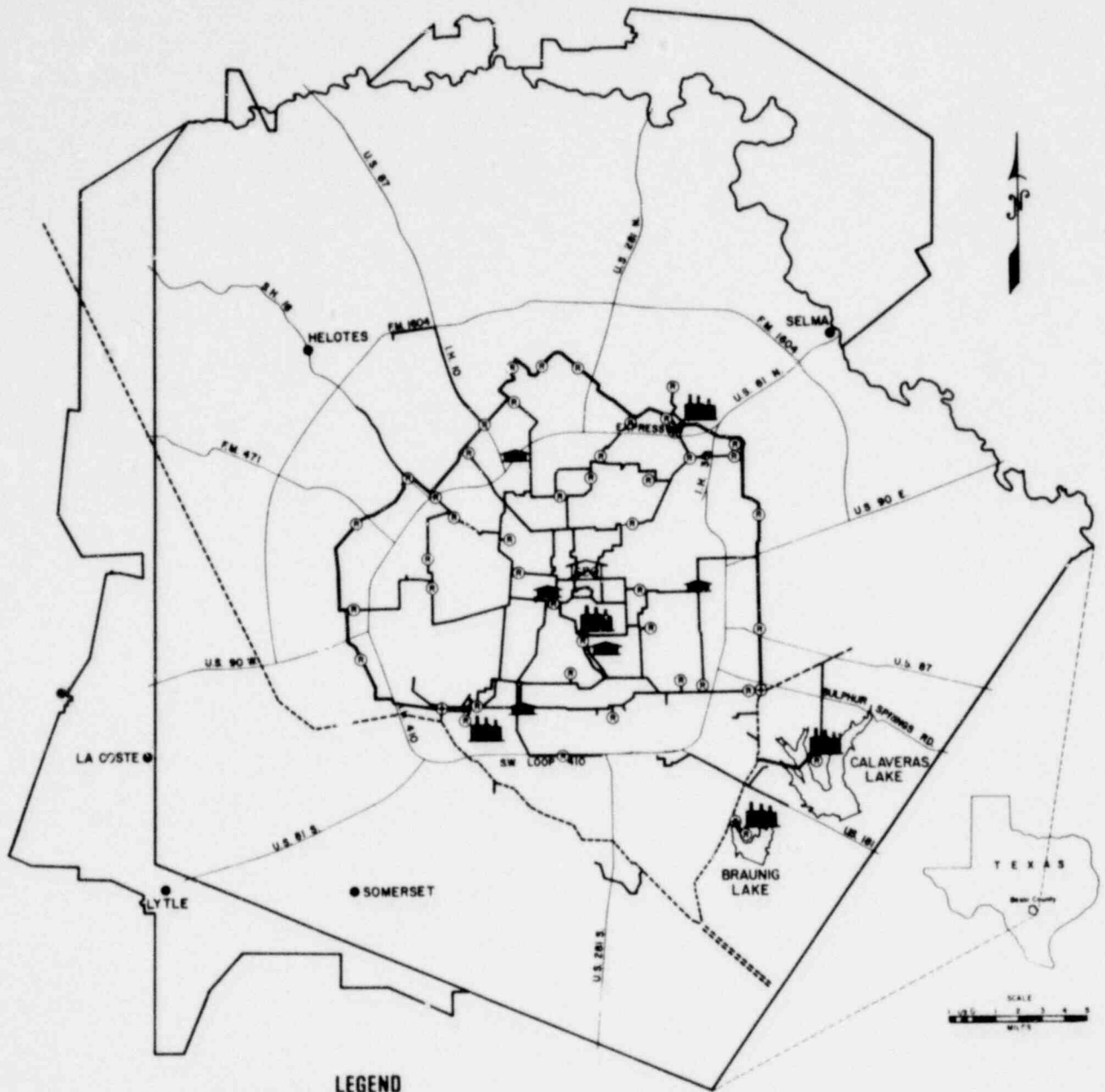
**TOTAL TRANSFORMER CAPACITY  
INDICATING NET ANNUAL INCREASE  
KVA**

<u>F/Y Ended 1-31:</u>	<u>Overhead</u>	<u>Underground</u>	<u>Total</u>
1972	2,007,134.5	199,781.0	2,206,915.5
1973	2,183,263.5	203,781.0	2,387,044.5
1974	2,337,149.5	202,856.0	2,540,005.5
1975	2,563,716.0	204,331.0	2,768,047.0
1976	2,731,886.5	205,081.0	2,936,967.5
1977	2,915,456.0	205,581.0	3,121,037.0
1978	3,120,524.5	213,581.0	3,334,105.5
1979	3,383,280.0	214,081.0	3,597,361.0
1979*	3,416,081.5	220,581.0	3,636,662.5





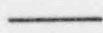

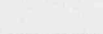
\* As of March 31, 1979.

1516 057

# GAS DISTRIBUTION SYSTEM



## LEGEND

- 
CENTRAL GEO SYSTEM CONTROL
- 
SERVICE CENTERS
- 
GAS REGULATING STATIONS
- 
GAS DELIVERY STATION
- 
GAS SUPPLY LINES
- 
ALAMO GAS SUPPLY
- 
PLANNED SUPPLY LINE

1516 058

## **GAS SYSTEM**

### **Gas Delivery**

Natural gas is transported to San Antonio by Lo-Vaca Gathering Company, a subsidiary of Coastal States Gas Producing Company, through two parallel 24-inch supply mains from South Texas, and a 30-inch supply main from West Texas. Gas is purchased and metered at two City Gate Stations and at the O. W. Sommers and V. H. Braunig Power Plants.

### **Outer Supply Line System**

The CPS has constructed 54.3 miles of 24 and 30-inch lines to form an outer loop supply line system between the two main City Gate Stations. Twin one-mile lengths of 20-inch line connect the V. H. Braunig Plant to City Gate Station No. 3. 24-inch and 16-inch source lines bring gas to O. W. Sommers Power Plant giving that station a double feed. Lines are now being extended beyond the outer loop system to feed the perimeter of the city.

### **Inner Supply Line System**

A network of approximately 140 miles of lines, ranging from 4 to 24-inch, supply gas at intermediate pressures to regulator installations located at strategic points throughout the distribution system. The inner supply operates at pressures of from 25 to 60 p.s.i. These pressures, and that on the outer supply line system, at 150 p.s.i., are maintained through the use of remote control equipment.

### **Distribution System**

The inner supply line system feeds into the distribution system consisting of over 2,900 miles of 2 to 16-inch lines, together with the necessary pressure control equipment, valves, gauges, service lines, service regulators and meters. A program to replace all old mains and services with new, welded and coated steel pipe is substantially completed. Cathodic protection for prevention of corrosion has been completed for substantially all of the gas distribution system. A high molecular weight polyethylene pipe has been used for distribution lines in the 2 and 4-inch sizes since 1974.

## **GENERAL PROPERTIES**

### **Operation Control System**

The nerve center of CPS operations is the Gas & Electric Operations (GEO) System. This is a computerized monitoring and control system which was placed in service in 1971 as the first in the industry after having been designed by CPS personnel. All substations, power plants and major gas regulating points are continually monitored and displayed on one line diagrams on video screens. Any abnormality registers an alarm and the system operator can bring up on another screen any detail of the control points and, with a light pen, operate the various switches and valves as required. In addition to the control capability, the system gathers data which is recorded on the computer for various reporting needs, such as loads, peaks, and BTU content. As this control system was the first of its type in the industry, it has attracted nationwide interest.

### **Support Facilities**

The operating systems are supported by modern shops for the maintenance of such items as meters, transformers, communication equipment, vehicles, railroad cars and heavy construction equipment. These shops, together with warehouses, supervisory offices and vehicle storage, are strategically located throughout the area to minimize driving time to work locations.

### **General Offices**

The general offices are located at the intersection of Navarro and Villita Streets in the central business district of San Antonio. The administrative, accounting and engineering functions are handled at this location. Adjacent thereto are a parking garage and the Customer Service Center. At this location customer contacts are handled either in person or by telephone. Information concerning any customer account is available to contact personnel in a matter of seconds from the computer system by use of video data terminals. Work orders are transmitted to the decentralized work locations by teletype.

A second Customer Service Center was opened February 6, 1978, at the site of the Mission Road Power Plant. The new center

was established to provide the same services as the original center but in a location more accessible to the freeways and with ample free parking.

### Assembly Building

The Villita Assembly Building is located near the General Office Building and is used for employee meetings or rented for civic events. It has a capacity of 2,000 persons as an auditorium or 1,200 for dinner.

### Vehicles and Work Equipment

A complete fleet of automobiles, trucks and work equipment is owned by the utility. To provide the optimum use of employees' time. Minor maintenance is performed on the equipment at decentralized facilities and major maintenance is handled at a central garage.

## TERRITORY SERVED

The electric system serves a territory consisting of all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson and Kendall. Certification of this service area has been approved by the Texas Public Utility Commission. (See RATES on page 45). In addition to the area served at retail, electricity is sold at wholesale rates to the City of Floresville Electric Light and Power System, City of Hondo Utilities and the City of Castroville. Bulk power from electric generating capacity in excess of the requirements of retail and wholesale customers is sold to other south Texas utilities on a periodic or emergency basis. CPS also has negotiated a contract for the sale of up to 80 MW of power per year for a 2 year period (with a 1 year renewal option) to South Texas Electric Cooperative, Inc. and Medina Electric Cooperative, Inc. The gas system serves the City of San Antonio and its environs.

## THIRTY LARGEST CUSTOMERS Excluding Government Bases and City of San Antonio (Based on Sales for Calendar Year of 1978)

### Gas Customers

### Electric Customers

Customer Name	Annual MCF	Annual Revenue	Customer Name	Annual KWH	Annual Revenue
San Antonio Portland Cement Company	549,455.0	\$1,226,722.45	Capitol Cement	58,928,000	\$1,551,282.48
Lone Star Energy Corporation	420,257.6	929,047.44	United Services Automobile Association	42,313,600	1,206,780.38
Howell Refinery Company	316,035.4	707,225.54	Longhorn Portland	39,264,000	1,147,052.56
Celotex Corporation	246,083.3	550,876.33	University of Texas Medical School	31,092,600	846,179.49
Pearl Brewing Company	241,934.1	540,491.93	Pearl Brewing Company	29,260,000	717,290.13
McDonough Brothers, Inc.	199,338.0	445,556.69	Southwestern Bell Telephone (Martin St.)	26,192,000	741,049.55
Thermonetics, Inc.	176,342.8	393,766.60	Southwest Research Institute	25,644,800	709,090.95
Roegelein Provision Company	139,882.3	290,128.81	Santa Rosa Hospital	22,243,200	600,953.29
Lone Star Brewing (Can Plant)	136,393.4	304,575.48	Trinity University	20,809,600	563,998.13
Frito Lay	133,315.7	297,972.50	Kaiser Cement & Gypsum	19,622,400	592,328.61
Swift Packing Company	123,629.3	277,197.91	Frost National Bank	17,314,560	509,268.61
City Water Board	111,536.8	250,073.04	City Water Board (Basin St.)	16,977,000	489,211.11
Santa Rosa Hospital	111,028.3	245,318.89	Southwest Texas Methodist Hospital	16,653,600	447,811.87
Aztec Ceramic Inc.	87,930.5	196,915.05	Southwestern Bell Telephone (St. Mary's)	16,402,560	469,338.29
Metropolitan General Hospital	80,651.9	190,453.01	City Water Board (Commerce St.)	16,174,000	474,097.84
L & H Packing	77,406.8	173,532.27	University of Texas at San Antonio	16,021,600	443,178.09
Friedrich Refrigeration Inc.	72,632.5	162,568.02	City Water Board (Wurzbach Rd.)	14,913,300	414,801.51
Texas State Hospital & Special School	71,918.9	160,535.64	Lone Star Brewing (Can Plant)	13,731,840	373,388.62
P & M Products	71,917.2	160,104.91	San Antonio Union Junior College	13,372,000	359,788.28
Robert B. Green Hospital	65,250.4	144,744.20	Roegelein Provision Company	13,074,200	355,189.53
Gebhardt Chili	63,589.8	140,073.60	Lone Star Brewing (Brewery)	12,768,000	367,949.73
Southwest Research	62,639.8	140,286.91	Turbine Support Division	12,172,800	345,310.94
Lone Star Brewing (Brewery)	59,714.7	133,873.23	Baptist Memorial Hospital (Richmond St.)	12,153,600	333,360.12
Southwest Research	58,715.9	131,327.42	Bexar County Hospital	10,873,600	295,633.31
R.J. Reynolds	58,247.8	130,226.13	K.O. Steel Castings	10,704,200	333,868.83
Flint Chemical	57,946.0	130,181.56	Friedrich Refrigeration Inc.	10,623,000	308,436.72
Southwest Texas Methodist Hospital	57,192.0	128,396.49	H.E.B. Grocery (Warehouse)	10,120,320	292,504.77
Turbine Support Division	56,051.4	126,219.51	San Antonio Community Hospital	9,638,400	274,955.98
Sunshine Laundry	55,482.0	131,022.97	Baptist Memorial Hospital (Dallas St.)	9,288,000	250,898.78
Colonial Cake	54,447.6	121,976.58	H.E. Butt Grocery Company (Milk Plant)	9,068,160	255,162.84

**STATEMENT OF REVENUES, EXPENSES AND NET INCOME**

Fiscal Years Ended January 31:

	1975	1976	1977	1978	1979
<b>ELECTRIC DEPARTMENT</b>					
<b>BILLED REVENUES</b>					
Residential	\$ 58,367,358	\$ 73,663,630	\$ 82,686,781	\$ 97,534,606	\$102,567,648
Commercial & Industrial	56,753,468	82,896,391	98,910,987	107,065,657	108,724,239
Street Lighting	2,903,512	3,762,512	4,309,624	4,676,029	4,742,370
Public Authorities	17,194,067	26,429,513	31,494,195	33,040,451	32,622,424
Other Utilities	1,563,319	2,367,737	2,864,076	3,117,915	7,597,096
Miscellaneous	1,082,170	1,059,689	1,059,664	1,190,126	1,421,615
Total Revenues	<u>\$137,863,894</u>	<u>\$190,179,522</u>	<u>\$221,325,327</u>	<u>\$246,624,784</u>	<u>\$257,675,392</u>
<b>OPERATION &amp; MAINTENANCE EXPENSE</b>					
Production	\$ 63,691,933	\$102,172,718	\$119,519,344	\$132,270,382	\$134,254,461
Transmission	337,346	507,799	454,635	469,254	445,477
Distribution	6,162,310	7,405,023	7,463,012	7,783,894	8,745,565
Customer Acc't & Collection	1,712,224	1,933,695	2,034,206	2,153,074	2,303,922
Customer Information	694,957	568,525	601,476	668,103	605,283
Administrative & General	5,074,480	6,513,073	7,562,374	8,243,504	8,162,643
Payroll Taxes	806,453	850,522	893,156	954,232	1,229,912
Total Expenses	<u>\$ 78,479,703</u>	<u>\$119,951,355</u>	<u>\$138,528,203</u>	<u>\$152,542,443</u>	<u>\$155,747,263</u>
Operating Income -Electric	\$ 59,384,191	\$ 70,228,167	\$ 82,797,124	\$ 94,082,341	\$101,928,129
<b>GAS DEPARTMENT</b>					
<b>BILLED REVENUES</b>					
Residential	\$ 20,182,687	\$ 28,856,788	\$ 35,413,850	\$ 36,633,834	\$ 44,000,955
Commercial & Industrial	14,567,166	21,282,067	25,020,166	26,212,056	28,421,774
Public Authorities	2,213,558	3,448,123	4,376,593	4,561,102	5,432,901
Miscellaneous	301,824	353,472	399,328	380,709	450,596
Total Revenues	<u>\$ 37,265,235</u>	<u>\$ 53,940,450</u>	<u>\$ 65,209,937</u>	<u>\$ 67,787,701</u>	<u>\$ 78,306,226</u>
<b>OPERATION &amp; MAINTENANCE EXPENSE</b>					
Gas Purchased	\$ 27,284,932	\$ 44,419,128	\$ 59,047,169	\$ 55,360,622	\$ 66,117,264
Distribution	2,900,003	3,406,152	3,562,028	3,594,477	4,126,944
Customer Acc't & Collection	1,239,888	1,400,261	1,473,046	1,559,123	1,668,357
Customer Information	297,838	243,653	257,775	286,330	259,407
Administrative & General	2,072,674	2,660,268	3,088,857	3,367,066	3,334,038
Payroll Taxes	267,719	301,614	303,012	320,899	366,123
Total Expenses	<u>\$ 34,063,054</u>	<u>\$ 52,431,076</u>	<u>\$ 67,731,887</u>	<u>\$ 64,488,517</u>	<u>\$ 75,872,133</u>
Operating Income-Gas	\$ 3,202,181	\$ 1,509,374	\$ (2,521,950)	\$ 3,299,184	\$ 2,434,093
Combined Operating Income - Electric and Gas	\$ 62,586,372	\$ 71,737,541	\$ 80,275,174	\$ 97,381,525	\$104,362,222
Non-Operating Income	4,462,828	3,839,970	4,129,524	5,275,279	7,275,239
Total	<u>\$ 67,049,200</u>	<u>\$ 75,577,511</u>	<u>\$ 84,404,698</u>	<u>\$102,656,804</u>	<u>\$111,637,461</u>
Add: Interest During Construction	\$ 2,154,682	\$ 5,844,553	\$ 13,127,659	\$ 13,511,090	\$ 12,866,866
Less: Amortization of Debt Expense and Other Interest	\$ 13,354	\$ 29,853	\$ 93,966	\$ 52,508	\$ 65,714
Net Revenues	<u>\$ 69,190,528</u>	<u>\$ 81,392,211</u>	<u>\$ 97,438,391</u>	<u>\$116,115,386</u>	<u>\$124,438,613</u>
<b>OTHER DEDUCTIONS</b>					
Interest on Bonds	\$ 7,643,267	\$ 11,779,529	\$ 19,462,274	\$ 26,929,420	\$ 34,362,315
Payments & Refund to City	22,759,008	27,814,923	31,709,773	36,718,574	39,631,139
Depreciation	15,404,984	16,231,42	17,477,449	20,889,372	27,502,563
Total Deductions	<u>\$ 45,807,259</u>	<u>\$ 55,827,494</u>	<u>\$ 68,649,496</u>	<u>\$ 84,537,366</u>	<u>\$101,496,017</u>
Net Income	<u>\$ 23,383,269</u>	<u>\$ 25,564,717</u>	<u>\$ 28,788,895</u>	<u>\$ 31,578,020</u>	<u>\$ 22,942,596</u>

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**CONDENSED STATEMENTS OF ASSETS AND LIABILITIES**  
**January 31, 1970 to March 31, 1979**

**Assets**

Date	Plant and Equipment Accounts			Current Assets & Construction Funds	Other Assets	Total
	At Cost	Accumulated Depreciation	Net			
1-31-70	\$ 420,480,731	\$ 85,354,841	\$ 335,125,890	\$ 43,547,382	\$ 6,221,232	\$ 384,894,504
1-31-71	457,741,134	93,632,443	364,108,691	37,470,509	6,638,506	408,217,706
1-31-72	501,731,982	103,189,742	398,542,240	56,116,968	7,979,136	462,638,344
1-31-73	546,423,222	108,512,170	437,911,052	41,011,811	8,504,627	487,427,490
1-31-74	599,315,589	120,160,491	479,155,098	53,117,044	10,371,751	542,643,893
1-31-75	677,114,390	134,194,473	542,919,917	104,119,549	12,358,323	659,397,789
1-31-76	809,025,826	149,252,780	659,773,046	73,118,432	17,162,152	750,053,630
1-31-77	954,207,395	163,811,352	790,396,043	82,349,961	19,982,542	892,728,546
1-31-78	1,100,709,068	182,598,717	918,110,351	100,666,917	24,887,407	1,043,664,675
1-31-79	1,265,232,510	209,126,958	1,056,105,552	132,666,709	32,174,890	1,220,947,151
3-31-79	1,289,020,024	214,073,843	1,074,946,181	172,224,609	42,944,843	1,290,115,633

**Liabilities**

Date	Revenue Bonds	Current Liabilities*	Deferred Credits and Reserves	Contributions In Aid Of Construction	City Equity In Plant	Total
1-31-70	\$ 71,040,000	\$ 7,535,644	\$ 1,047,565	\$ 8,939,243	\$ 296,332,052	\$ 384,894,504
1-31-71	67,910,000	8,484,040	1,672,557	10,064,750	320,086,359	408,217,706
1-31-72	94,190,000	10,511,602	1,250,383	11,870,539	344,815,820	462,638,344
1-31-73	90,345,000	11,871,812	2,702,383	14,013,491	368,494,804	487,427,490
1-31-74	120,860,000	16,154,612	1,724,969	15,888,615	388,015,697	542,643,893
1-31-75	201,195,000	28,147,738	1,794,946	16,858,703	411,401,402	659,397,789
1-31-76	245,595,000	48,331,153	1,891,712	17,259,079	436,976,686	750,053,630
1-31-77	358,110,000	48,142,063	3,158,921	18,529,474	464,788,088	892,728,546
1-31-78	484,290,000	40,651,961	2,075,149	20,367,567	496,279,998	1,043,664,675
1-31-79	622,975,000	54,035,211	2,538,062	22,175,416	519,223,462	1,220,947,151
3-31-79	697,975,000	36,753,005	2,855,073	22,481,492	530,051,063	1,290,115,633

\* Excludes current maturities of long-term debt.



**COMPARATIVE ANALYSIS OF ELECTRIC AND GAS UTILITY OPERATIONS<sup>1</sup>**  
**(Dollar Amounts in Thousands Rounded)**

	Fiscal Years Ending January 31:											Increase 1970-1979
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1979 <sup>2</sup>	
<b>INCREASE</b>												
<b>DOLLARS</b>												
Revenue	\$79,508	\$83,451	\$90,716	\$100,614	\$107,098	\$179,592	\$247,960	\$290,665	\$319,688	\$343,257	\$346,500	336%
Operating Expense	33,417	35,913	38,907	45,795	55,816	112,543	172,382	206,354	217,083	231,685	234,521	602%
Balance Available												
For Debt Service	46,091	47,538	51,809	54,819	51,282	67,019	75,578	84,311	102,905	111,572	111,979	143%
Depreciation Expense	9,248	9,819	10,855	12,558	13,856	15,405	16,233	17,478	20,889	27,502	28,449	208%
Earnings Before												
Interest Expense	36,843	37,719	40,954	42,261	37,426	51,644	59,345	66,833	81,716	84,070	83,530	127%
Interest on Bonds	2,695	2,601	4,041	3,997	5,528	7,656	11,810	19,462	26,929	34,362	36,142	1,241%
Payments and Benefits												
To City <sup>3</sup>	10,698	11,396	12,168	13,697	14,475	22,759	27,815	31,710	36,719	39,631	40,083	275%
Interest During												
Construction	-0-	-0-	-0-	-0-	(2,098)	(2,154)	(5,845)	(13,128)	(13,511)	(12,867)	(13,326)	-0-
Net Income	<u>\$23,450</u>	<u>\$23,722</u>	<u>\$24,745</u>	<u>\$24,567</u>	<u>\$ 19,521</u>	<u>\$ 23,383</u>	<u>\$ 25,565</u>	<u>\$ 28,789</u>	<u>\$ 31,579</u>	<u>\$ 22,944</u>	<u>\$ 20,631</u>	(12%)
<b>PERCENTAGES</b>												
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
Operating Expense	42.03%	43.03%	42.89%	45.52%	52.12%	62.67%	69.52%	70.99%	67.90%	67.50%	67.68%	
Balance Available												
For Debt Service	57.97%	56.97%	57.11%	54.48%	47.88%	37.33%	30.43%	29.01%	32.10%	32.50%	32.32%	
Depreciation Expense	11.63%	11.77%	11.97%	12.48%	12.94%	8.58%	6.55%	6.01%	6.53%	8.01%	8.21%	
Earnings Before												
Interest Expense	46.34%	45.20%	45.14%	42.00%	34.94%	28.75%	23.93%	23.00%	25.57%	24.49%	24.11%	
Interest on Bonds	3.39%	3.12%	4.45%	3.97%	5.16%	4.26%	4.76%	6.70%	8.42%	10.01%	10.43%	
Payments and Benefits												
To City <sup>3</sup>	13.46%	13.66%	13.41%	13.61%	13.51%	12.67%	11.22%	10.91%	11.49%	11.55%	11.57%	
Interest During												
Construction	-0-	-0-	-0-	-0-	(1.96%)	(1.20%)	(2.36%)	(4.52%)	(4.23%)	(3.75%)	(3.85%)	
Net Income	<u>29.49%</u>	<u>28.42%</u>	<u>27.28%</u>	<u>24.42%</u>	<u>18.23%</u>	<u>13.02%</u>	<u>10.31%</u>	<u>9.91%</u>	<u>9.89%</u>	<u>6.68%</u>	<u>5.96%</u>	
Times Bonds Interest												
Covered	17.10	18.23	12.82	13.72	9.28	8.76	6.40	4.33	3.81	3.25	3.10	
Number of Customers												
(Average For Period)												
Electric	231,682	237,558	246,520	256,821	265,832	270,190	271,565	277,619	286,694	300,860	303,392	31%
Gas	198,350	202,681	208,699	215,647	222,475	227,078	228,806	232,567	237,787	245,335	246,562	24%

**Footnotes:**

<sup>1</sup> The only changes in rates during the 10-year period shown were increases of approximately 19% in June, 1974, and 5.25% in August, 1976.

<sup>2</sup> 12 months ending March 31, 1979.

<sup>3</sup> Does not include Street Light Construction.

**CITY PUBLIC SERVICE BOARD OF SAN ANTONIO  
RECORD OF GROWTH-PRODUCTION OF ELECTRIC POWER**

<u>F/Y</u> <u>Ended</u> <u>1-31:</u>	<u>Net KWH</u> <u>Generation</u>	<u>Percent</u> <u>Increase</u>	<u>Maximum</u> <u>KW Demand</u>	<u>Percent</u> <u>Increase</u>	<u>Average*</u> <u>KW Demand</u>	<u>Percent</u> <u>Load Factor</u>
1958	1,467,403,000	0.47	333,700	11.20	255,600	50.20
1959	1,574,182,000	7.28	358,800	7.52	254,200	50.08
1960	1,747,943,700	11.04	395,800	10.31	308,900	50.28
1961	2,060,063,700	17.86	438,000	10.69	335,900	53.69
1962	1,990,182,700	(3.39)	440,700	.59	360,200	51.55
1963	2,306,680,600	15.90	548,000	24.35	404,000	48.05
1964	2,567,732,500	11.32	571,000	4.20	438,000	51.19
1965	2,636,078,000	2.66	623,000	9.46	456,000	48.15
1966	2,811,697,900	6.66	664,000	6.24	486,000	48.34
1967	3,107,039,900	10.50	759,000	14.31	562,000	46.73
1968	3,512,454,400	13.05	840,000	10.67	625,000	47.60
1969	3,930,182,600	11.89	941,000	12.02	689,000	47.68
1970	4,524,422,200	15.12	1,107,000	17.64	786,000	46.66
1971	4,827,311,000	6.69	1,144,000	3.34	834,000	48.17
1972	5,334,120,600	10.50	1,274,000	11.36	964,000	47.67
1973	5,884,186,800	10.31	1,364,000	7.06	1,060,000	49.25
1974	5,784,500,600	(1.69)	1,415,000	3.74	1,059,000	46.67
1975	5,806,029,700	.37	1,412,000	(.21)	1,030,000	46.94
1976	6,071,902,600	4.58	1,493,000	5.74	1,089,000	46.42
1977	6,211,489,100	2.30	1,560,000	4.49	1,078,000	45.45
1978	6,691,908,500	7.73	1,641,000	5.19	1,133,000	46.55
1979	7,267,236,400	8.60	1,688,000	2.86	1,203,000	49.15

\* Average of Monthly Peak Demands.

**FIVE-YEAR FORECAST OF ELECTRIC AND GAS OPERATING DATA  
(Dollars in Thousands)**

	<u>Fiscal Years Ended 1-31:</u>				
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Gross Revenue*	\$382,932	\$446,188	\$469,807	\$496,698	\$517,197
Total Operating Expenses	261,295	295,895	312,290	324,154	320,962
Available for Debt Service	\$121,637	\$150,293	\$157,517	\$172,544	\$196,235
Annual Debt Service Requirements	\$ 59,155	\$ 73,707	\$ 82,893	\$ 90,108	\$ 93,486
Estimated Debt Service Coverage	2.06x	2.04x	1.90x	1.91x	2.10x
Estimated KWH Sales (000,000)	7,891**	8,476**	8,221	8,781	9,314
Revenue per KWH					
Total	3.79¢**	4.15¢**	4.50¢	4.32¢	3.98¢
Residential	4.46¢	4.82¢	4.99¢	4.80¢	4.45¢
Estimated Peak Demand (MW)	1,834	1,963	2,124	2,270	2,409

\* Assumes a proposed 6.2 % rate increase will be granted effective October 1, 1979. There is, of course, no assurance that this rate increase will be forthcoming.

\*\* Includes STEC/MEC Electric Firm Power Sales estimated at 780,600, MWH and 850,600 MWH, respectively.

## THE 1980 - 1982 CONSTRUCTION PROGRAM

A comprehensive program of planning and construction to meet current and future electric and gas needs is continually being reviewed, updated and extended. To reduce time required and maximize accuracy and efficiency, CPS utilizes a computer-based mathematical model for its forecasting process. CPS bases its near term construction and operating needs on a three-year forecast, which is a part of a twenty-year development and electric generation plan that is maintained.

The current three-year forecast calls for construction expenditures of \$601 million. The \$100 million which will be raised by this issue will supply certain of the required funds, as will revenues from operations. It is anticipated that additional revenue bonds will be issued to help fund the total program, with the next sale of additional New Series Bonds tentatively scheduled for early 1980. However, prior to the issuance of additional revenue bonds, the current three-year forecast and the longer term construction estimates will be reviewed and revalidated by both CPS staff and consultants.

Currently proposed capital expenditures for 1980 - 1982, based upon detailed estimates which include interest during construction, are shown in the following table:

### ESTIMATED CAPITAL EXPENDITURES FOR THE CONSTRUCTION PROGRAM (Thousands of Dollars)

	Fiscal Years Ending 1-31:		
	1980	1981	1982
<b>Gas System</b>	\$ 6,063	\$ 5,545	\$ 5,828
<b>Electric System:</b>			
DISTRIBUTION	26,307	24,410	23,810
TRANSMISSION	6,896	12,081	1,446
<b>POWER PLANTS:</b>			
South Texas Project (1982-83, Nuclear)	172,618	135,305	130,317
Acquisition of Additional Fuel Reserves	1,069	4,514	3,564
Tools and Equipment	555	241	257
Special Projects	3,853	2,873	589
1987 Lignite Mine	-0-	190	459
1988 Lignite Site	-0-	792	838
<b>General Property</b>	<u>7,261</u>	<u>19,602</u>	<u>3,465</u>
Total Construction Budget	\$ 224,622	\$ 205,553	\$ 170,573
Anticipated Bond Issues	\$ 175,000	\$ 170,000	\$ 115,000

The cost of the CPS interest in the two nuclear units of the South Texas Project scheduled for completion in 1982 and 1983, is estimated to be approximately \$986.00 per KW, including interest used during construction but excluding fuel costs. A cost of \$1,137.00 per KW is the estimated construction cost of the lignite unit which is included in tentative plans for 1988. As a final cost comparison, CPS engineers estimate that if additional nuclear units were added in 1990 and 1992, the cost would be approximately \$1,394.00 per KW and \$1,536.00 per KW, respectively including interest used during construction but excluding fuel cost.

### NEW GENERATING UNITS

The major portion of the schedule 1980-1982 construction program is for new generating units at the South Texas Nuclear Project, (the "Project" or "STP"). In June, 1973, CPS agreed to participate in the Project, which involves the construction of

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two 1,250,000 KW units in the Palacios-Bay City area near the Texas Gulf Coast. Participants in the Project and their share therein are as follows:

Houston Lighting & Power Company	30.8%
City Public Service Board of San Antonio	28.0%
Central Power and Light Company	25.2%
City of Austin	16.0%
	<u>100.0%</u>

A 12,000 acre site for the Project has been purchased and the required construction permits approving the Project were awarded by the Nuclear Regulatory Commission (NRC) in December, 1975. The two 1,250,000 KW units are now expected to be completed in 1982 and 1983. San Antonio's share is 700,000 KW. This capacity will serve a significant portion of the basic kilowatt hour needs at that time.

A report released in October, 1978, by independent management consultants engaged by Project participants has projected a substantial increase in the estimated cost of the Project from the level of prior estimates, due in part to the interaction of inflation and construction delays, and regulatory requirements more onerous than anticipated. The report also indicates that commercial operation dates for each unit will be two years later than originally estimated. The total estimated cost of the CPS share of the Project is now anticipated to be \$783 million, including construction, interest during construction, and fuel through 1983. Through March 31, 1979, San Antonio's investment in the Project totalled \$272,510,000.

On June 4, 1976, CP&L, one of the four Project participants, petitioned the NRC to convene an out-of-time antitrust hearing on grounds of a significant change in circumstances arising from attempts by CP&L's parent, C&SW, to effect a merger of the ERCOT system with the Southwest Power Pool, seeking the modification of the construction permits for the Project to require replacement of the historically intrastate electrical connections existing among the participants and with other utilities and to allow access to their transmission lines by third parties operating interstate. (See Transmission System, pp. 24 - 25). The NRC's Atomic Safety and Licensing Appeal Board denied CP&L's petition, and the Commission declined to review the Appeal Board decision. The NRC, however, issued a Memorandum and Order on June 15, 1977, holding that such antitrust allegations must be reviewed in the context of licensing proceedings and that it would grant a request by HL&P to consider the need for any antitrust hearing in the context of an expedited application for operating licenses for the Project. The application for operating licenses has accordingly been filed and the NRC has, based upon advice from the Attorney General of the United States that significant changes have occurred which warrant an antitrust hearing, given notice of an antitrust hearing in connection with the operating license proceedings for the Project and designated an Atomic Safety and Licensing Board to conduct the hearing. The Board will consider issues raised including whether or not the operating licenses for the Project should be conditioned on HL&P and other participants maintaining their current interconnections and not unreasonably refusing to interconnect with other utilities engaged in interstate commerce in order to avoid the creation or maintenance of a situation inconsistent with the antitrust laws on the basis of significant changes in activities of the participants since the previous antitrust review. The Board has set a schedule for prehearing proceedings which, if maintained, would lead to a hearing beginning in September, 1979.

A separate Atomic Safety and Licensing Board has been appointed to consider petitions to intervene in any hearing in connection with the application for operating licenses. Five petitions to intervene were filed based upon various safety, environmental and financial allegations. On April 3, 1979, the Board issued an Order granting the intervention of two groups based upon the residency of members living near the STP site as to issues involving construction quality, safety standards and local environmental conditions. On May 18, 1979, the Atomic Safety and Licensing Appeals Board denied an appeal of that Order which was filed on behalf of the Project participants. Until the exact nature and scope of issues raised by the two intervenors has been determined, it cannot be predicted whether or when a hearing may be held and, if held, its length and effect on the cost or schedule of the Project.

On January 5, 1978, Matagorda County and other taxing authorities within whose boundaries the Project is being constructed filed suit against the Project participants alleging that the Project is a taxpaying entity which is liable for 100% of the ad valorem taxes on the Project site, and alternatively that the Cities of San Antonio and Austin are proportionally liable for taxes attributable to their undivided property interests in the Project, and asserting a lien upon such real property which would be superior to any existing liens thereon. Ad valorem taxes have been paid by HL&P and CP&L on their undivided interest in STP, but San Antonio and Austin have claimed exemptions as municipal subdivisions of the State from ad valorem taxes on their undivided interests in the Project. On June 4, 1979, the trial court overruled Plaintiff's Motion for Summary Judgment and sustained Defendants' Motions for Summary Judgment, including San Antonio's Motion for Judgment that its interest in the Project is exempt. Counsel for the Board are of the opinion that the Project is not a taxpaying entity, that the undivided interest of San Antonio in the Project is exempt from county and state ad valorem taxes, and that the ruling of the

1516 066

trail court should be affirmed if appealed. An adverse determination in the suit on appeal, requiring that San Antonio pay ad valorem taxes on its undivided interest in the Project, would have a substantial impact on the cost of such generating capacity.

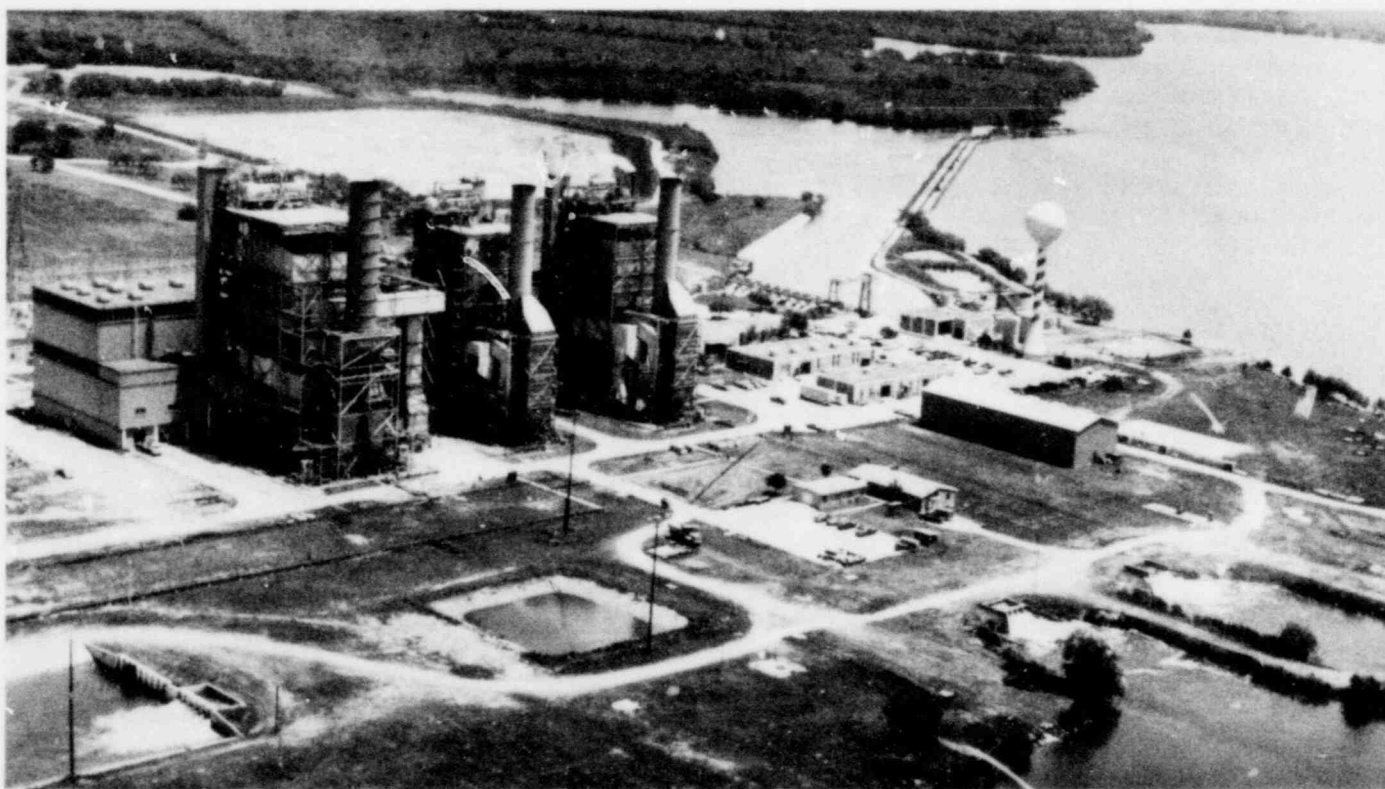
The CPS tentatively proposes the addition of further generator capacity for operation in 1988. This unit is tentatively planned to be a mine-mouth unit firing Texas lignite and may be built as a joint project with other utilities. CPS presently owns approximately 20 million tons of lignite reserves, but a decision to proceed with this unit will depend on the acquisition of additional environmentally suitable lignite reserves and future load growth developments.

Long range plans also indicate the need for additional capacity in the early 1990's which will probably be joint units with other utilities. Final commitment to install these units will depend on future load growth developments, economic considerations and full evaluation of the alternatives available.

Historically, peak demand of the CPS electric system has increased at about 11 percent per year. During the later 1960's and early 1970's a slight decline in system growth rate was observed. The decline in rate of growth accelerated after 1972 in response to rising costs and energy conservation efforts. During 1977, a new study of CPS future growth rate was prepared by the CPS staff. The resultant forecast reflects changes occurring in area economic factors and demographic considerations. The study indicated a growth rate averaging about 6.0 percent over the 1979 - 1993 period. CPS planners continually monitor very carefully growth experience as it occurs in order to identify new trends in time for appropriate modification of long range system planning.

### ENVIRONMENTAL MATTERS

CPS is subject to extensive regulation with respect to air and water quality, solid waste disposal and other environmental matters by various federal, state and local authorities. Environmental standards have been established by the Texas Air Control Board, the Texas Department of Water Resources and the Environmental Protection Agency (EPA). Permits from EPA and the Texas Department of Water Resources have been obtained for liquid waste releases for all CPS power plants in Bexar County, although CPS objections to certain permit provisions are currently pending with EPA. Construction permits have been obtained from the Texas Air Control Board for all new facilities having air emissions and operating permits will be obtained as CPS demonstrates compliance with the permit requirements.



V. H. Braunig Power Plant

1516-067

# EBASCO BUSINESS CONSULTING COMPANY

A Division of Ebasco Services Incorporated

100 CHURCH STREET  
NEW YORK, N.Y. 10007

May 30 1979

City Public Service Board  
Navarro At Villita  
San Antonio, Texas 78296

Attention: Mr. J. K. Spruce, General Manager

Gentlemen:

At your request we have reviewed the need for the issuance of \$100 million of revenue bonds which the Board proposes to sell. This is part of the bonds which the board plans to sell during the fiscal year 1979-80 to help finance \$601 million in new construction that it estimates will be required during the fiscal period 1979-80 to 1981-82. Of this amount \$225 million is scheduled for construction during the fiscal year 1979-80.

We have reviewed the Board's three-year construction program and find that it is based, generally, on sound engineering principles as they relate to the long-range design and planning of the Board's electric and gas utility systems. In reaching this opinion, we have knowledge of the fact that the Board, from time to time during the past thirty year period, has engaged independent engineering consultants to assist and advise it with every important step in the development of its engineering systems. These independent consulting engineers worked closely with the Board's competent engineering staff during these frequent system planning studies. In addition to these outside consultants, the Board's engineering staff has worked closely with engineers of the various members constituting the Texas Interconnected System.

As part of this assignment, we have reviewed the Board's long-range (1979-1993) system development and electric generation plans and have discussed the assumptions and conclusions upon which these plans are based. In our opinion, the timing of the installation of the major facilities included in the Board's three-year construction program is a compatible with (a) the realities of its changed fuel situation and (b) its projections are consistent with practices followed by the public utility industry.

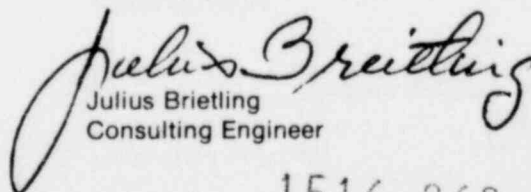
We have reviewed the estimated costs of the Board's three-year construction program and find that they were prepared in a reasonable and consistent manner. Out of a construction budget of \$601 million, a total of \$458 million, or 76%, is scheduled for power plant construction and the remaining \$143 million, or 24%, is for other gas and electric system construction requirements.

Improvements to the gas system during this three-year period are scheduled at \$18 million, while the improvements to the electric distribution system are \$75 million and the electric transmission system are \$20 million during the same period. Improvements to property common to the gas and electric systems are \$30 million.

The largest portion of the capital requirements during this period, is for the CPS' 28% interest in the South Texas Nuclear Project, which is currently approximately 40% complete. Total expenditures for this project are expected to be \$438 million during the three-year period and account for 73% of the total capital requirements.

The Board's selection of coal and nuclear generating facilities was based on engineering judgment which took into consideration the uncertainty of future gas and oil supplies for electric power plant operations. In our opinion, the Board's three-year construction program reflects its obligation and necessity to keep ahead of the demands on its electric and gas systems and at the same time to provide the people it serves with reliable service at the lowest practical cost. The Board proposes to finance this construction program mainly through revenue bond issues. In our opinion, this issue of \$100 million of revenue bonds is necessary to meet obligations under current commitments and contracts for construction projects which may not be deferred at this time without risking service reliability.

Sincerely yours,

  
Julius Brietling  
Consulting Engineer

## FUEL SUPPLY

### NATURAL GAS

Under a 20-year contract ending April 1, 1982, the CPS purchases natural gas both for resale and for fuel use for its electric generating stations from Coastal States Gas Producing Company (Coastal States) and its subsidiary Lo-Vaca Gathering Company (Lo-Vaca). The Coastal States/Lo-Vaca contract was believed adequate to provide all of the CPS's gas needs for the 20-year period ending in 1982 at fixed prices. Curtailments of natural gas deliveries which were experienced beginning in November, 1972, were initially attributed to operational failures. Subsequently it was revealed that the supplier did not have sufficient gas to fulfill its contract commitments to its various customers.

Major Coastal States/Lo-Vaca customers, including CPS, the City of Austin and the Lower Colorado River Authority have taken the lead in pursuing remedial action before the Railroad Commission of Texas, the State's regulatory authority, and in the Courts. (See Texas Railroad Commission Action and Pending Proceedings, pp. 37 - 40, and Material Litigation, page 41). On July 17, 1973, the 200th Judicial Court of Travis County, Texas ordered the reorganization of Lo-Vaca and appointed a supervisor-manager. Other significant actions, which are discussed in greater detail in the following section include:

The Railroad Commission has issued curtailment priorities to insure fair distribution of available gas by Lo-Vaca.

On September 27, 1973, the Railroad Commission granted Lo-Vaca an interim rate increase based upon its weighted average cost of gas plus 5 cents transportation per MCF. An additional requirement was that Coastal States is to provide up to \$2,500,000 a month for gas gathering and treatment facilities and for advance payments for purchase of any new gas. (For subsequent Orders of the Railroad Commission which may affect the cost of gas see Texas Railroad Commission Action and Pending Proceedings pp. 37 - 40).

Since the Court's appointment of a supervisor-manager, major curtailments of natural gas deliveries from the Lo-Vaca system have declined both in number and magnitude as new supplies have been added. The increased price of these new supplies has been passed onto Lo-Vaca's customers through the interim rate. From the contract price of 23.75 cents per MCF, the cost of Lo-Vaca gas has escalated to a high of \$2.32 per MCF in March, 1979. The average cost of gas to CPS for the 12 months ending March 31, 1979 was approximately \$2.21 per MCF, and the average daily gas usage was about 170,000 MCF. It is anticipated that natural gas prices will continue to increase in the future under the interim rate formula.

Since 1974 Lo-Vaca has been able to supply CPS its required gas deliveries except for several minor curtailments. This was a vast improvement over the period from November, 1972 to August, 1974 during which time numerous curtailments occurred. On these occasions of curtailment CPS burned fuel oil and gas purchased from other sources. CPS is presently receiving gas deliveries for its full needs. CPS cannot predict whether or not there will be future gas curtailments or their length, frequency or severity if they are experienced.

The Natural Gas Policy Act of 1978 regulates "first sales" of gas from producer to pipeline, and, for gas sold to Lo-Vaca under existing intrastate contracts for resale to San Antonio, sets a ceiling equal to the "contract" price as of the date of the Act's passage (November 8, 1978) plus an annual inflation factor and an escalation factor. Uncertainty relating to the nature of final federal regulations under the act and the number of variables affecting gas prices make it difficult to assess accurately the act's effect on San Antonio's future cost of gas.

#### Texas Railroad Commission Action and Pending Proceedings

The Railroad Commission of Texas (the "Commission") has general regulatory authority over gas pipeline companies, including certain matters relating to rates and the apportionment of gas when in short supply, when and to the extent required in the public interest. On March 1, 1973 Lo-Vaca, joined by Coastal States, filed an Application with the Commission seeking a review and revision of Lo-Vaca's contracts and rates with its gas customers. Hearings in this proceeding commenced on May 1, 1973, and were concluded in October, 1973.

On September 27, 1973, the Commission entered an Interlocutory Order providing for an interim rate for natural gas to be paid to Lo-Vaca pending final decision by the Commission in these proceedings. Under this Interlocutory Order, as amended, customers of Lo-Vaca, including the CPS, pay for gas delivered to them during any month at a rate equal to Lo-Vaca's weighted average adjusted cost of gas for the month plus 5 cents per MCF. The stated purpose of this Order was to enable Lo-Vaca to contract and pay for additional higher-priced gas and to this end the Order required Coastal States to contribute up to \$2,500,000 per month to Lo-Vaca as needed for pipeline and gathering facilities, treating plants and advance payments for purchase of new gas.

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In a Final Order in the Lo-Vaca rate proceedings, issued on April 12, 1976, the Commission recognized that "Coastal States Gas Producing Co. and its affiliates have exercised, in the opinion of the Commission, unsound and unreasonable business judgment in jeopardizing its ability to serve those that had in good faith contracted to receive their public utility services," and concluded that Coastal and Lo-Vaca had not conclusively demonstrated their lack of ability to perform the Lo-Vaca sales contracts nor met the judicial standards which would permit the Commission to order modification of their gas sale contracts.

On July 10, 1976, the Commission entered an Order rescinding its Final Order of April 12, 1976, and granted rehearing for the limited purpose, among other things, of reconsidering its finding that Coastal/Lo-Vaca had not met the judicial standards which would permit the imposition of permanent rates in excess of gas sales contract prices. The Commission continued in effect its Interlocutory Order of September 27, 1973, as amended, as well as the limitations on new sales and "banking" arrangements, and required Lo-Vaca to file updated evidence regarding rate-base, revenue and expenses. Commission hearings as to the issues of the judicial standards applicable to revised contractual rates, "banking" or buy-sell agreements and other rate-related matters commenced as scheduled by the Commission in July, 1977. After cross-examination of Coastal/Lo-Vaca witnesses, San Antonio and other Coastal/Lc-Vaca customers presented rebuttal evidence. The hearings were completed in October, 1977, and San Antonio filed briefs urging that Coastal/Lo-Vaca had not met the applicable judicial tests which would permit revision of its contractual rates and that Coastal States Gas Corporation, the parent corporation of Coastal and Lo-Vaca, should be held responsible as a successor to the obligations and liabilities of its subsidiaries.

On December 12, 1977, the Commission, with one member dissenting, entered a Final Order on Rehearing denying in all things the application of Lo-Vaca Gathering Company to review and revise its existing contracts, finding that Coastal/Lo-Vaca has exercised "unsound and unreasonable business judgment in alienating gas reserves, thereby jeopardizing their ability to serve those that had in good faith contracted to receive their public utility service". The Commission also ordered that customers on the Coastal/Lo-Vaca System are entitled to a refund of the difference between their respective contract prices and amounts paid under the Commission's interim rate, as amended, since September 27, 1973, until the date of the Order. An equitable disposition of the refunds to the ultimate natural gas consumers is to be made by each Lo-Vaca contractual customer. The order provides that this refund obligation extends to Coastal States Gas Corporation as well as Coastal States Gas Producing Co. and Lo-Vaca jointly and severally, in light of the fact that the two parent corporations have "managed and controlled Lo-Vaca in such a manner that the separate corporate structures have been disregarded". All three corporations were likewise held jointly and severally obligated for the continuation and fulfillment of the Coastal/Lo-Vaca Sales Contracts with existing customers, and all natural gas under the control of Coastal Producing and Lo-Vaca constituting a present supply for existing natural gas customers was held dedicated to the continuation of public utility services. As in its prior Order, the Commission prohibited the sale by Coastal/Lo-Vaca of gas to new customers or the increase of volumes under existing contracts without Commission approval, and expressed its intention not to interfere with or otherwise impair private contractual rights between any of the parties or any claims for damages arising from them. The Order provides that, should it be enjoined by a Court of competent jurisdiction during the pendency of judicial appeal, the Interlocutory Order of September 27, 1973, as amended, will be the effective order during such pendency, as well as during the period of time necessary for disposition of motions for rehearing. Coastal/Lo-Vaca have appealed the Order, which appeal has been abated pending further proceedings before the Commission on rehearing.

In motions filed by San Antonio and other customers of Coastal/Lo-Vaca, the Commission was advised that a settlement of the controversies between Coastal/Lo-Vaca and most of its customers had been reached and was requested to grant rehearing of the Final Order of December 12, 1977, in order to hold a hearing on such settlement.

On January 24, 1977, a Summary of Settlement and Reorganization Plan, jointly evolved by representatives of certain customers of Coastal and Lo-Vaca including CPS and representatives of Coastal, was filed with the Commission. By resolutions of February 28 and March 3, 1977, CPS and City Council of San Antonio formally approved the Plan and authorized preparation and execution of final documentation. If the Settlement is implemented, the above proceedings as well as other litigation and claims of like nature by customers of Coastal/Lo-Vaca would be dismissed and released in consideration of the terms of settlement which would become a part of an agreed court decree of settlement.

The final Agreement of Parties and Settlement Plan, dated as of December 26, 1977 (The "Plan") has now been executed by approximately 80% of Coastal/Lo-Vaca customers, based on 1975 purchased volumes, and by the Coastal companies and Oscar S. Wyatt, Jr. The Plan provides that the Texas gas pipeline utility properties and associated debt of Coastal/Lo-Vaca would be spun off into a New Company, with the nonutility assets and associated debt retained by Coastal States Gas Corporation. The Plan provides that San Antonio will pay the New Company, Commission approved rates for future deliveries of natural gas, agreed to be cost-of-gas plus 10¢ per MCF for one year and cost-of-gas plus 15¢ per MCF thereafter subject to review and revision by the Commission. A settlement Trust (the "Trust"), for the benefit of settling customers, would receive a number of shares of the common stock of Coastal States Gas Corporation having a book value of approximately \$20.8 million, preferred stock in the New Company having \$115 million liquidation value, 13.4% of the



common stock in the New Company and a one year note from New Company for \$8 million plus interest. All stock held by the Trustee would be sold within seven years, subject to restrictions for orderly distribution with no undue adverse market effect. The settling customers' beneficial interest in the proceeds of the Trust would be in proportion to their 1975 purchases of gas from Coastal/Lo-Vaca. On this basis, San Antonio's interest would be approximately 17%.

In addition, Coastal States Gas Corporation would undertake a gas search program, for the benefit of the New Company and settling customers, requiring a minimum expenditure by Coastal of \$160 million over the next fifteen years to develop new gas reserves to be committed to the New Company at discounts ranging initially from prices of \$1.50 per MCF to 85% of market in the fifth year. Additional discounts are provided for after recoupment by Coastal of its costs. At the end of 15 years, Coastal must have dedicated 300 billion cubic feet of reserves under the program, of which 225 billion cubic feet must be at the discounted prices, or incur a penalty which would result in either a cash payment to the Trust or continued exploration and drilling.

On March 10, 1978, the Commission issued an Order granting rehearing of its December 12, 1977, Order for the purpose of considering the Plan as a possible alternative to the December 12 Order, meanwhile maintaining the interim rate in effect. At a hearing held by the Commission on April 3 to April 20, 1978, the Commission heard the testimony and cross-examination of witnesses supporting the Plan and written closing statements were filed in May, 1978. On August 7, 1978, the Commission entered an Order Continuing Proceedings on Rehearing finding that the Plan "is reasonable, fair, equitable, feasible and in the public interest, and should be implemented as such a resolution in the public interest of the matter herein and covered by said Plan pursuant to the terms thereof and this Order." The Commission attached to that Order a form of Final Order, implementing the Settlement Plan and establishing new rates for the purchase of natural gas from the New Company, which would be entered upon satisfaction of certain conditions to the effectiveness of the Plan, including approval by stockholders of Coastal, necessary approvals by the SEC, IRS and DOE, and Commission approval of any changes to the Plan. In addition to some minor changes in the Plan, the Commission reserved for later consideration and decision certain questions not involving San Antonio relating to the flow-through between certain direct and indirect customers of Coastal/Lo-Vaca of increases from present interim natural gas rates resulting from the Plan. These questions were decided by the Commission in favor of flow-through on April 27, 1979, but these orders are not final and appeals may be filed.

The Plan as amended, provides that conditions to its effectiveness must be met by June 30, 1979. While some of the conditions have been satisfied, such as IRS and Coastal stockholder approval, others have not, including approval by all necessary debt holders and other regulatory agencies, and 90% of the customers based upon 1975 purchased volumes. In view of the number of parties involved and the necessary approvals required, including extension of time for satisfying conditions, it is not possible to predict whether or not such Settlement will be implemented, or, if implemented, the exact amount and time of payment of benefits to San Antonio.

If the Settlement Plan is not implemented for any reason, Lo-Vaca has indicated, both in filings before the Commission and in communications to its customers, that under a Final Order requiring sale of natural gas at contract prices or a refund of amounts paid in excess of contract prices, Lo-Vaca would not be able to maintain financial viability and has referred to the "threat of bankruptcy proceeding." If either the Commission proceedings or the litigation now pending against Coastal/Lo-Vaca and related parties result in the initiation of bankruptcy proceedings, San Antonio is advised by counsel that the pipeline properties would probably not be liquidated, but would be continued in operation in the public interest pending arrangement of debt and/or reorganization of the debtors. While the ultimate outcome of such proceedings and their effect on San Antonio cannot be predicted, San Antonio is further advised by counsel that the Bankruptcy Court and the Railroad Commission would have adequate power to maintain and preserve most if not all of the gas supply needed for continuing service, at prices necessary in the public interest to pay for such gas and continued operation.

On June 21, 1973, the Commission issued an Order establishing natural gas curtailment priorities for the delivery of natural gas to Lo-Vaca's customers pending final decision on Lo-Vaca's permanent curtailment plan. Deliveries of natural gas by Lo-Vaca are governed by this Interim Order, which provides that natural gas to be used for the generation of electricity to meet residential, hospital, school, church and other human needs consumption is given a priority second only to direct usage of natural gas for the same purposes. Hearings regarding a permanent curtailment plan for Lo-Vaca concluded on August 29, 1974, but no report has been issued by the Hearing Examiner. The ultimate curtailment priorities among Lo-Vaca's customers as finally established by the Commission cannot now be reasonably predicted.

On March 28, 1975, the Commission ordered that a hearing be held to allow all gas utilities, owners or operators of gas-fired boilers, and any interested party to appear and present evidence on the question of elimination of natural gas as a boiler fuel in Texas. On December 17, 1975, the Commission adopted an Opinion and Order, effective on that date, concluding that any phase-out of natural gas as a boiler fuel in Texas should be done in an orderly manner and with the minimum disruption to the economy. The Final Order of the Commission, as amended on March 3, 1976, ordered that, except for existing sales agreements such as CPS's Gas Purchase Agreement, no gas utility within the jurisdiction of the Commission shall sell or

transport more than 3,000 MCF per day of natural gas to any customer for use as a boiler fuel. The Commission further ordered that gas deliveries to current boiler fuel users who consumed an average of 3,000 MCF per day or more during 1974 or 1975, such as CPS, will be reduced 10% below that user's 1974 or 1975 consumption (whichever is higher) by January 1, 1981, and reduced 25% of that amount by January 1, 1985. The City has anticipated such an eventuality through steps toward conversion to other sources of fuel. On April 30, 1979, the Commission, after notice and hearing, repealed its rule relating to elimination of natural gas as a boiler fuel in Texas, in light of the preemptive provisions of the Power Plant and Industrial Fuel Use Act of 1978. In its Order, the Commission expressed its intent that Texas energy users be allowed to make energy-use decisions based on economic forces and without sacrifices greater than those imposed on energy users outside Texas.

Under the Power Plant and Industrial Fuel Use Act of 1978, natural gas may not be used as a primary energy source in an existing power plant on or after January 1, 1990, unless an exemption has been obtained. CPS would be prohibited, after May 8, 1979, from burning natural gas as a primary energy source in its five gas-fired electric generating stations in amounts exceeding the average yearly proportions used by each facility during the 1974-1976 base period, absent an exemption from the Act's provisions. CPS has applied for such a two-year temporary exemption from the Economic Regulatory Administration.

## Material Litigation

### *Fuel Supply Matters*

If the Settlement Plan discussed in the previous section is implemented, a number of pending suits affecting San Antonio's relations with its gas suppliers, Coastal/Lo-Vaca, will be resolved. The primary litigation which will be disposed of is San Antonio's Bexar County Suit by Counterclaims, filed originally in 1972 and expanded by amendment in 1974 against Lo-Vaca, Coastal Producing and Coastal Corporation as well as against Oscar S. Wyatt, Jr., a director and chief executive of the parent corporation. The Counterclaim, filed subsequent to a 1972 suit for declaratory judgment brought by Lo-Vaca and Coastal States, seeks, among other things a declaration of Coastal/Lo-Vaca's obligation to deliver San Antonio's full contract requirements for natural gas at the contract prices, and damages now in excess of \$350,000,000 attributable to higher fuel costs resulting from Coastal/Lo-Vaca's unjustified breach of the contract, and to capital expenditures resulting from fraudulent misrepresentations made by Wyatt and other corporate officers concerning the supplier's ability to meet San Antonio's future gas needs. The City is advised by its legal counsel that the contentions of Coastal States and Lo-Vaca in their original petition, which seeks to limit their contractual supply obligations, are without merit and that Coastal States and Lo-Vaca, as public utility pipeline companies, have a legal duty in addition to and independent of contract, to provide a full and uninterrupted supply of natural gas to the City both during and after the termination of the present gas supply contract.

Trial of the pleas of privilege of Coastal States Gas Corporation and Oscar S. Wyatt, Jr., to be sued in their home county of Harris County, Texas, began September 27, 1976, and continued until January 25, 1977, when it was recessed subject to implementation of the proposed Plan of Settlement and Reorganization dated January 24, 1977, which is discussed under the previous heading.

Implementation of the Settlement Plan would likewise resolve claims relating to Coastal/Lo-Vaca's liability for failure to deliver natural gas at contract prices and quantities raised in a suit originally brought by United Texas Transmission Co. in a Harris County district court in June, 1973. San Antonio intervened in that suit in February, 1974, and is a customer class defendant to a counterclaim and crossclaim brought by Coastal/Lo-Vaca in August, 1974, seeking a declaratory judgment that they have no liability for such delivery failures. The suit has been inactive since 1975, and the City's legal counsel anticipate that, absent settlement, the liability issue will ultimately be determined in the Bexar County litigation or the Railroad Commission proceedings.

Similarly, the issue of San Antonio's right to deduct, from its monthly natural gas payments to Coastal/Lo-Vaca, the excess costs of fuel oil generation of electricity during periods of natural gas delivery curtailments will be resolved should settlement be implemented. This issue, involving deducted amounts of approximately \$8,000,000, was raised by Lo-Vaca before the Railroad Commission, which has to date taken no action thereon.

### *Other Matters*

On June 22, 1976, a suit styled *Byrd v. City of San Antonio* was filed in the United States District Court for the Western District of Texas, against the members of the City Public Service Board and the members of the San Antonio City Council, all sued in their official capacities, and the City of San Antonio, challenging the constitutionality of the manner in which the members of the City Public Service Board are selected, as provided for in various City trust indentures and ordinances. The plaintiffs, alleged to represent individual classes of citizens and voters, seek a declaratory judgment by a three-judge panel that the

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Board is illegally constituted and that members must relinquish their positions, on grounds that the Board is not accountable to the electorate and, therefore, not a "republican" form of government, as required by Article 4, Section 4 of the U. S. Constitution, that its selection process abridges the right to vote under the 14th Amendment, and that certain changes in the manner of selection of Mayor are violative of the Federal Voting Rights Act of 1965, as amended. The plaintiffs also seek preliminary and permanent injunctive relief restraining the individual defendants from appointing a City Public Service Board and seek permanent relief for either the election of the Board or appointment by the City Council in lieu of the present system. Three members of the City Council of San Antonio, Councilmen Cisneros, Hartman and Rohde, named defendants in the suit in their capacities as city councilmen, petitioned the court to be realigned as plaintiffs and were so realigned. Messrs. Rohde and Hartman are no longer members of the City Council. On January 3, 1977, counsel for the City filed a motion to dismiss the suit on grounds of failure to state a cause of action, and the presiding judge granted that motion, dismissing the plaintiffs' amended complaint and their Motion for Preliminary Injunction. On January 5, 1979, the judge denied the Plaintiffs' Motion for Stay of Judgment Pending Appeal and on the same day Plaintiffs' Motion for Injunction Pending Appeal was likewise denied by members of the Fifth Circuit. The lower court's dismissal of plaintiffs' claim has been affirmed by the United States Court of Appeals for the Fifth Circuit and plaintiffs' application for review by the U.S. Supreme Court is pending.

On August 31, 1976, an amended petition was filed in the suit of *League of United Latin American Citizens (LULAC) v. City of San Antonio - City Public Service Board*, a suit first filed in November, 1974, after denial of an attempted intervention by the Plaintiff organization in *Lo-Vaca, et al. v. San Antonio*, that denial being upheld on appeal. The amended pleading asserts a class action on the part of all CPS ratepayers and adds as defendants all members of the City Council and City Public Service Board as well as all of the counterclaim defendants and the presiding judge in the Lo-Vaca suit. The LULAC suit seeks to establish the right of the asserted class to any recovery obtained in the Lo-Vaca suit and prays for a judgment of one billion dollars. Counsel for the City are of the opinion that the suit is without merit.

#### COAL

In May, 1974, CPS signed a 20-year contract for the purchase of coal from the Sun Oil Company. The contract provided a total of 55,450,000 tons of low-sulfur coal committed to San Antonio from the substantial reserves held by Sun Oil Company in Campbell County, Wyoming. The coal contract price consists of three parts, the mining, capital and reclamation segments. The mining segment is based on the actual mining costs incurred after the mine is in operation and is currently \$3.12 per ton. The capital segment includes profit as well as cost for capital for the mine and is fixed at \$3.50 per ton, which is subject to adjustment either up or down at the request of either party if the then current contract price is significantly out of line with the prevailing market price of sales of comparable coal and the other party does not wish to terminate the contract. The reclamation segment is set at 5 cents per ton which is equivalent to more than \$4,000 per acre and should be adequate to cover reclamation costs. In addition to this reclamation segment, the abandoned mine reclamation fee adds \$0.35 per ton. The black lung tax took effect on April 1, 1978, and amounts to 2 percent of the price of coal at the mine, or about \$0.15 per ton.

In May, 1975, the City initiated proceedings in the Interstate Commerce Commission to establish a tariff for unit train railroad transportation of the coal from Wyoming to San Antonio, a distance of approximately 1,600 miles. On October 13, 1976, the Commission issued an Order establishing the rate for such delivery by Burlington Northern, Inc., Southern Pacific Transportation Co., and others, at \$10.93 per ton. The carriers appealed such Order to the United States Court of Appeals for the Eighth Circuit.

On January 7, 1977, an ex parte rate increase was granted which increased the rate to \$11.37 per ton. On March 29, 1977 the United States Court of Appeals for the Eighth Circuit affirmed the Final Order of the I.C.C. The carriers petitioned the I.C.C. to reopen the case and on October 21, 1977, the Commission reopened Docket No. 36180 for receipt of additional evidence and to consider modification of the Order of October 13, 1976. On November 30, 1977, and June 17, 1978 ex parte increases were granted which increased the rate to \$11.94 per ton and \$12.42 per ton, respectively. On December 12, 1977, the carriers completed their filing with the Commission on the reopened Docket No. 36180 and requested a freight rate of \$18.23 per ton. By an Order served on October 25, 1978, the Commission granted the carriers an increase effective December 1, 1978, raising the rate to \$16.12 per ton. On December 15, 1978 an ex parte increase raised the rate to its current level of \$17.01. Both a petition for reconsideration of the decision and a petition for review by the D.C. Circuit Court of Appeals were filed on behalf of CPS. On June 1, 1979, the City Public Service was notified that as a result of the reconsideration of the October 25, 1978, Order, a rate of \$17.23 per ton was set subject to an ex-parte increase of 5.5%, bringing the rate to \$18.18 per ton. On June 5, 1979, the Commission granted an additional 1.2% increase to the tariff to compensate for the higher cost of diesel fuel. It is expected that these additional costs will be passed through to the consumer by the fuel adjustment clause, subject to approval by the appropriate regulatory bodies. City Public Service will continue to oppose the increase through the requested review by the D.C. Circuit Court of Appeals.

In addition to the railroad tariff, the cost of maintenance of the City-owned rail cars to be used to transport the coal is included in the cost of coal delivered to the plant. This maintenance cost, in conjunction with the costs associated with coal yard

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operations and ash handling, amount to approximately \$0.80 per ton, which adds approximately 4.8¢ per million BTU to the cost of coal.

For the twelve months ending March 31, 1979, CPS has burned 2.2 million tons of coal at an average price of \$19.83 per ton to produce electricity from the J. T. Deely Plant. The CPS coal in stockpile as of March 31, 1979, was 2,034,472 tons, or approximately six month's supply, and has an inventory cost of approximately \$44.0 million. This large inventory and other factors have resulted in CPS taking less coal in 1977 and 1978 than anticipated by the supplier, which has claimed that CPS has not taken quantities required by the contract. While CPS is continuing its efforts to maximize the use of coal for generation of electricity, it will continue to take delivery of no more than required for such needs consistent with its interpretation of the coal supply contract.

#### LIGNITE

As previously indicated, CPS is studying the feasibility of constructing a lignite-fired generating plant jointly with another utility company. Lignite reserves of from about 50 million to 70 million tons would be required to meet the long-term needs of a modern base load unit. CPS acquired in 1945 and presently owns approximately 20 million tons of lignite reserves located in Lee and Bastrop Counties, about 90 miles from San Antonio. A recent lignite acquisition program resulted in the addition of a probable 10 million tons of lignite. Additional lignite reserves in Bastrop, Washington, Lee, and Fayette Counties may be available for apportionment among the customer groups from implementation of Settlement of the Coastal/Lo-Vaca lawsuit. The CPS is now actively engaged in exploration and negotiation for the acquisition of additional lignite reserves in the Lee and Bastrop County area and in other areas of central and south Texas to augment the current holdings. An application has been filed with the Bureau of Land Management in Santa Fe, New Mexico for a permit to mine lignite reserves under Camp Swift Military Reservation located in Bastrop County, Texas near existing known lignite reserves owned by CPS.

#### FUEL OIL

CPS is using fuel oil to supplement natural gas as an input fuel to generate electricity. During 1976, the relative prices for fuel oil and natural gas resulted in it being cheaper for CPS to burn No. 6 residual fuel oil instead of natural gas in certain units which have the capability to use No. 6 fuel. On September 30, 1976, CPS entered into a contract with Tesoro Petroleum Corporation to purchase approximately 6,000 barrels per day of No. 6 oil for a one-year period ending September 30, 1977. The contract was renewed in September, 1977, for an additional one-year period, and a new one-year contract for the purchase of 4,000 - 6,000 barrels per day of No. 6 oil entered into effective October 1, 1978.

The price per barrel under the new Sales Agreement (effective October 1, 1978) is determined by one of the two methods described below which yields the lowest price to CPS: (A) Based on the posted price in Platts Oilgram of Gulf Coast Cargoes for 0.7% sulfur No. 6 fuel oil, the simple average of the high plus low posting, minus five cents, plus the published freight tariff from Corpus Christi to the point of delivery. Or, (B) \$0.23 per MMBTU less than the cost of natural gas from Lo-Vaca Gathering Co. for the period of oil deliveries. The price per barrel is determined by multiplying the MMBTU cost (after subtracting \$0.23) by 6.09. The Agreement further stipulates that either party can request renegotiation or cancel if the price determined under the above formula differs substantially from the market price or for other reasons which substantially affect costs. Tesoro gave such notice to CPS on March 28, 1979, requesting that the price be renegotiated upward. CPS is evaluating the basis for this notice and the requested price. For the twelve month period ending March 31, 1979, 863,585 barrels of No. 6 Fuel Oil have been purchased at an average price of \$11.26 per barrel. This is equivalent to \$1.85 per MMBTU as compared to an average Lo-Vaca gas cost of \$2.12 per MMBTU.

Total fuel oil consumption by CPS for generation amounted to 1,023,839 barrels for the twelve month period ending March 31, 1979. CPS has a usable oil storage capability of 1.4 million barrels. As of March 31, 1979, the oil inventory was 603,553 barrels.

In November, 1974, CPS executed a No. 4 Fuel Oil Sales Agreement (the "Agreement") with a joint venture (the "Seller") composed of Quintana Refinery Co. and Howell Corporation providing for the purchase by CPS of 4,380,000 barrels of No. 4 fuel oil per calendar year through 1981. The Agreement related back to an effective date of May 16, 1974. The initial base price established by the Agreement was \$9.673 per barrel of oil, which was subject to upward or downward adjustment in accordance with the increase or decrease in actual expenses of the seller, including, among others, crude oil costs, gathering and transportation costs, refining costs, labor, taxes and inflation.

The Agreement stated that the \$9.673 per barrel initial base price was determined according to Federal Energy Administration ("FEA") ceiling price regulations and that in the event applicable ceiling prices fall below the Agreement price, seller, at its option, may discontinue deliveries. The Agreement price would increase to any such ceiling price in the event it were greater than the Agreement price. The invoice price of oil delivered under the Agreement in August, 1975 was \$13.79 per barrel. In the event of termination of price regulations, the Agreement provided for a price increase of 11%.

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On June 18, 1975, CPS filed a complaint with the FEA alleging generally that the Agreement was violative of FEA ceiling price and allocation regulations and, in effect, requesting FEA assistance in determining a lawful price and allocation levels. CPS has accepted no oil pursuant to the Agreement since August 31, 1975, after providing the Seller with notice that CPS had been advised by counsel that it could not lawfully pay an Agreement price which was violative of FEA price regulations and that the Agreement was void.

On March 28, 1979, Seller filed suit in Nueces County (Corpus Christi), Texas, asking damages aggregating approximately \$66,000,000 based upon an alleged breach of the Agreement by City Public Service and the failure of City Public Service to pay for oil taken under the Agreement. On the same date, City Public Service filed suit against the Seller in Bexar County (San Antonio), Texas, for undetermined damages based upon payment for oil delivered under the Agreement in excess of F.E.A. price ceilings and for a determination that the Agreement is void. City Public Service and Seller have since reached a settlement of these suits and all claims arising out of the Agreement and City Public Service allegations of overcharges, by the payment by City Public Service to the Seller of approximately \$2,700,000. City Public Service has previously withheld \$6,182,734.81 of amounts invoiced by Seller for oil received by City Public Service as a set-off against amounts claimed by City Public Service as overcharges under F.E.A. price regulations.

### NUCLEAR

On September 8, 1975, Houston Lighting & Power Company (HL&P), as project manager for the South Texas Project, was notified, along with approximately 20 other utilities, by Westinghouse Electric Corporation that it would be unable to provide all of the uranium oxide (yellow cake) which it had intended and contracted to sell to these utilities for enrichment and fabrication into fuel for approximately 23 domestic and 4 foreign nuclear plants, including South Texas Project. Westinghouse claims it is excused from performance of these contracts because of "commercial impracticability" under the Uniform Commercial Code and offered to allocate its available supply to the utilities at the contract prices and engage in a program to acquire additional uranium to be made available at higher prices.

On October 8, 1975, Houston Lighting & Power Company filed suit, individually and on behalf of the other participants in the South Texas Project, in U. S. District Court, Harris County, Texas, demanding performance of its contract with Westinghouse to the fullest extent possible and seeking damages for any nonperformance. Similar suits were filed in other Courts by other utilities, all of which were consolidated in a U. S. District Court for the Eastern District of Virginia. Trial of the liability phase of the case was completed June 3, 1978. In October, 1978, prior to rendition of any decision, Westinghouse reached a settlement, approved by the Court, with HL&P, acting on behalf of the Project participants. Under the terms of the Settlement, Westinghouse is obligated to provide the Project with over 9 million pounds of uranium concentrate, the first 2,377,000 pounds for the initial core of both units to be priced at originally quoted prices of approximately \$13.20 per pound, some \$30 below current market. The remaining concentrate is to be delivered by Westinghouse at production costs, which are expected to be in excess of the original quoted price as adjusted but below current market prices. Westinghouse must also furnish, at no charge or at discount charges, full fabrication services for the initial core and fuel reloads for each unit for 16 years, as well as certain equipment and additional services at discounted prices, additional concentrate subject to development of additional uranium reserves, and a cash payment of \$1 million.

The uranium oxide provided by Westinghouse together with a minimum 5,600,000 pounds provided by another supplier is expected to satisfy the fuel requirements of both units through 1988 and at least 50% of such requirements through 1996.

### FUEL SUPPLY SUMMARY

While the CPS gas supply situation has improved over the preceding year, the outlook for the future remains uncertain.

Public policy regarding the use of remaining gas reserves for boiler fuel makes the future use of gas in electric energy generation uncertain. As previously discussed, CPS will be subject to restrictions on natural gas used for boiler fuel under the Power Plant and Industrial Fuel Use Act except to the extent of any exemptions obtained. The Natural Gas Policy Act, in addition to its pricing provisions, subjects intrastate gas, including gas intended for boiler fuel use, to Presidential emergency purchase authority and emergency allocation authority to assist in meeting interstate natural gas requirements for high priority uses. The future effect of these pieces of federal legislation on the price and availability of the City's supply of natural gas cannot now be predicted.

The CPS has, therefore, completed essential conversion of its existing generating units for oil firing and continues to be actively engaged in negotiations for advantageous purchases of additional supplies of natural gas and fuel oil.

For the long term, CPS plans call for diversification of the electric generating system to emphasize the use of coal, nuclear fuels, or lignite as the fuel for base load capacity. As previously detailed, CPS has a long-term coal contract for the purchase

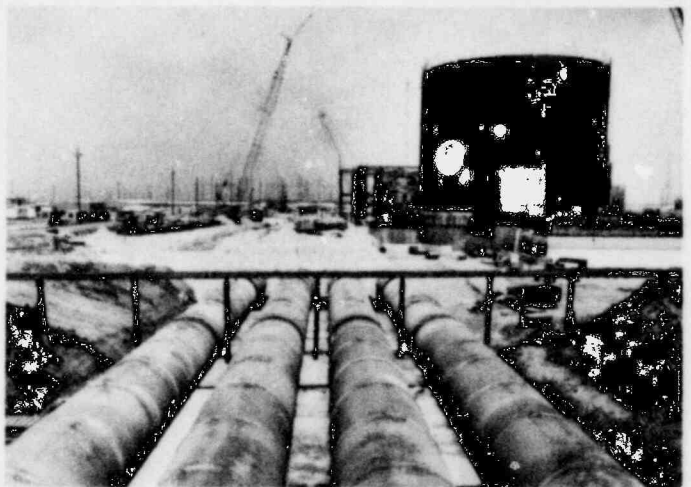
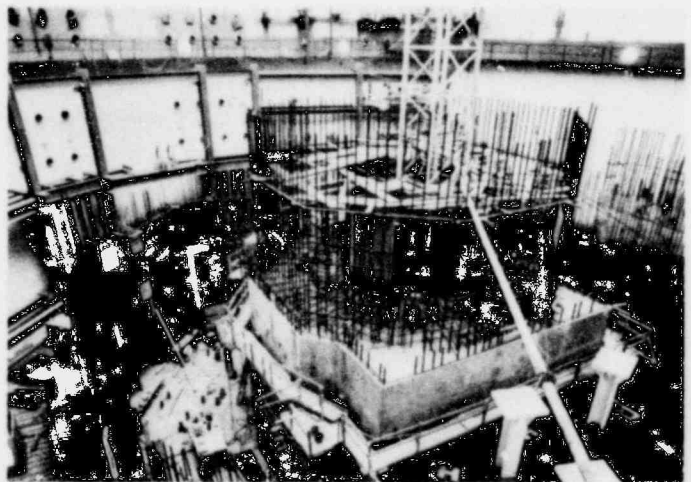
of an adequate fuel supply for the two new coal-fired units. Under the terms of the Westinghouse settlement, along with other contracts entered into, initial requirements of nuclear fuel for the South Texas Project will be adequate and at costs below those used by CPS in confirming the economic feasibility of the City's participation in the Project.

### ENERGY CONSERVATION PROGRAM

CPS for the past several years has been encouraging voluntary conservation on the part of all customers in their use of electricity and natural gas. CPS has publicized methods by which customers can reduce energy consumption through conservation and the elimination of energy waste. The results of the voluntary conservation programs have been reflected in the previously mentioned decline in the growth rate of peak demand. The results of any energy conservation programs will be carefully studied in the development of CPS plant expansion requirements.

CPS is subject to the provisions of the National Energy Conservation Policy Act (NECPA), part of the 1978 federal energy legislation, which establishes certain residential conservation standards and requires nonregulated electric and gas utilities, such as CPS, to file with the Secretary of Energy a plan for implementing the standards which conforms to conservation rules promulgated by the Secretary. Alternatively, if the state's governor determines that nonregulated utilities will be subject to the state's plan for regulated utilities, CPS's compliance under NECPA will be pursuant to the state plan. In either case, NECPA standards will require utilities to inform customers of cost savings, inspect dwellings and inform consumers of the cost of installing conservation measures, and arrange for the installation and its financing. The cost of complying with these and other requirements of NECPA may be significant, but cannot be accurately predicted.

As previously stated, it has not been necessary for CPS to curtail any of its electric service to the public and curtailment of natural gas service by CPS has occurred only in the case of one large customer several years ago.



*Construction of South Texas Nuclear Project in Progress*

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## RATES

In June, 1975, the Texas Legislature passed and the Governor signed the Public Utility Regulatory Act, providing for the creation of a Public Utility Commission for Texas and further providing for the regulation of rates, operations and services of public utilities as defined by the Act. Under the Act, significant original jurisdiction over the rates, services and operations of electric and gas public utilities is vested in the Public Utility Commission and Texas Railroad Commission, respectively. While generally excluding from its coverage municipally-owned utilities, Section 3 (c) (4) of the Act contains language which includes as public utilities municipally-owned gas and electric utilities operated by a board of trustees which was not directly appointed by the City's governing body as of May 1 1975, a classification which includes San Antonio gas and electric systems.

On December 16, 1977, the 53rd District Court of Travis County rendered judgment in *City of San Antonio, et. al. v. Morris* declaring that portion of Section 3 (c) (4) of the Act which classifies certain municipally-owned utilities as "public utilities" unconstitutional as a special and local law prohibited by the Texas Constitution. The Court's judgment awarded San Antonio and one other municipal plaintiff refunds of the gross receipt assessments which the cities had paid under protest to the Public Utility Commission and declared that the plaintiff cities are not properly classified as "public utilities" under the Act but are "municipally-owned utilities" for all purposes under the Act. The Third Court of Civil Appeals decision affirming the judgment of the trial court became final on November 28, 1978. As a municipally-owned utility under the Act, CPS will be subject to appellate but not original rate regulatory jurisdiction by the two Commissions in unincorporated areas in which it serves, will be subject to less stringent certification requirements than public utilities, and will not be liable for the annual gross receipts fee. The San Antonio City Council will continue to exercise general original rate regulatory jurisdiction over the service area, including unincorporated areas served by CPS, as a municipally-owned utility.

Under the Public Utility Regulatory Policies Act of 1978 (PURPA), certain federal standards are established which must be given consideration subject to public notice and hearing by state electric utility regulatory authorities and by nonregulated retail electric utilities such as CPS. A hearing date for the six rate standards including cost of service, declining block rates, time-of-day rates, seasonal rates, interruptible rates and load management techniques, must be set by November 9, 1980, but consideration of the standards may be required earlier in a rate case by an intervenor, and a determination as to whether the standards will be implemented must be made by November 9, 1981. The five retail service standards relating to master metering, automatic adjustment clauses, information to consumers, procedures for termination of electric service and advertising must be considered in a public hearing held within two years from November 9, 1978. Hearings must also be held to consider the implementation of lifeline rates if such rates are not in effect by the end of the two-year period. PURPA requires that the utility's decision regarding whether or not to adopt the standards must be made available in writing to the public. In addition, the utility will be required to fund the reasonable costs of public participation in the hearings, including attorney and witness fees, under either a direct compensation plan or adequately funded public counsel program. Likewise, the utility must report annually to the Secretary of Energy regarding action taken as to the standards. The cost of complying with these provisions of PURPA, though not quantifiable, is likely to be substantial.

Pursuant to Section 133 of PURPA, the Federal Energy Regulatory Commission has promulgated regulations requiring significant reporting by electric utilities, including CPS, of data relating to the costs of providing retail electric service. Because the regulations will require the furnishing of certain data not otherwise available, including marginal cost information and expanded load data studies, some of such data to be provided as early as November 1, 1980, the cost of compliance may be significant.

### RATE INCREASE - AUGUST 30, 1976

The City of San Antonio is obliged under the Trust Indenture and the New Series Bonds Ordinance to establish rates and collect charges in an amount sufficient to pay all electric and gas system operation and maintenance expenses, to service all Old Series and New Series Bonds, and to make all other payments prescribed in the Old Series Bonds Trust Indenture and New Series Bond Ordinance. On August 30, 1976, the City Council approved an electric rate increase which over the next 12 months was estimated to increase revenues by 5.25 percent. At the same time, the cost of fuel contained in both the electric and gas basic rates was increased from the previous low levels to higher, more realistic levels. The cost of fuel in the electric basic rates was increased from approximately 0.259¢ per KWH to 1.86¢ per KWH, whereas, the cost of gas in the gas basic rates was increased from \$0.238 per MCF to \$1.793 per MCF.

In June, 1977, CPS filed with all appropriate regulatory authorities to which it was then subject, including the City Councils of San Antonio and other incorporated communities within its service area and with the two State Commissions having jurisdiction over unincorporated areas, its applications for increases in its gas and electric extension charges and miscellaneous charges and for revisions in its service rules and regulations. The application was approved by the San

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Antonio City Council in July, 1977, and has since then been accepted by all of the small incorporated communities served. The application was approved in all respects except as to certain service rule provisions by the two Commissions, which exercised original jurisdiction prior to the judgment rendered in *San Antonio v. Morris*. The new extension policy and the charges, rules and regulations have been implemented throughout the service area effective April 24, 1978.

### FUTURE RATE INCREASE

The electric rates now in effect are those approved on August 30, 1976. The current gas rates were approved as of June 6, 1974, with the amendment to the gas cost included in the basic rate, effective August 30 1976. The gas adjustment provided for no net increase in gas revenue.

A resolution to request that the City Council approve an increase in both the gas and electric rates by an amount sufficient to increase total annual revenues by 6.2% was passed by the City Public Service Board of Trustees on June 6, 1979. This request, if granted by the City Council, would increase electric revenues by 5.8% and gas revenues by 7.3% annually.

While these rate increases will be requested, there is no assurance as to whether rates will be changed, the amount, or the effective date of any such change.

### ELECTRIC AND GAS RATE SCHEDULES

The electric rates which were placed into effect on August 30, 1976, continue to encourage conservation during peak usage periods by strengthening the ratchet features originally implemented with the rate change which occurred in June, 1974. These features serve to penalize customers who use excessively more electricity during system peak summer months than they do during other months.

The principal electric rate schedules now in effect are as follows:

#### MONTHLY RATE Residential Service

Rate	
<i>Summer Billing</i> (June through September)	
\$2.25	Service Availability Charge
4.3¢	per KWH for all KWH
<i>Nonsummer Billing</i> (October through May)	
\$2.25	Service Availability Charge
4.3¢	per KWH for all KWH up to a total consumption equal to 40% of the average monthly use* of the previous Summer Billing period.
3.4¢	per KWH for all KWH in excess of 40% of the average monthly use* of the previous Summer Billing period.

\*Until a summer average use (at least one complete summer month's billing cycle) has been established, the Nonsummer 4.3¢ block shall include consumption up to 350 KWH. The 3.4¢ block shall include all consumptions above 350 KWH.

#### General Service

Rate	
\$2.25	Service Availability Charge
5.0¢	per KWH for the first 1,200 KWH*
4.1¢	per KWH for the next 3,400 KWH
3.0¢	per KWH for all additional KWH

\*120 KWH are added for each KW of Billing Demand over 5 KW. Billing demand from October through May may not be less than 80% of highest measured demand from June through September. Billing demand from June through September is the highest measured demand.



*Large Lighting and Power*

**Rate**

*Demand Charge*

\$260.00 for the first 100 KW of Billing Demand  
2.20 per KW for all additional KW of Billing Demand

*Energy Charge*

2.90¢ per KWH for the first 70,000 KWH  
2.32¢ per KWH for all additional KWH

\*Billing demand from October through May may not be less than 80% of highest demand from June through September. Billing demand from June through September may not be less than 100 KW.

The principal gas rate schedules are:

*MONTHLY RATE  
General Service*

**Rate**

*Winter Billing (December through March)*

\$1.50 Service Availability Charge  
\$1.52 per 1000 cubic feet for the first 1,000 cubic feet  
\$2.27 per 1000 cubic feet for the next 9,000 cubic feet  
\$2.13 per 1000 cubic feet for the next 30,000 cubic feet  
\$1.97 per 1000 cubic feet for all additional cubic feet

*Nonwinter Billing (April through November)*

\$1.50 Service Availability Charge  
\$1.52 per 1000 cubic feet for the first 1,000 cubic feet  
\$2.27 per 1000 cubic feet for the next 4,000 cubic feet  
\$2.13 per 1000 cubic feet for the next 35,000 cubic feet  
\$1.97 per 1000 cubic feet for all additional cubic feet

*Industrial Class A*

**Rate**

\$14.00 Service Availability Charge  
\$ 1.52 per 1000 cubic feet for the first 10,000 cubic feet  
\$ 2.02 per 1000 cubic feet for the next 90,000 cubic feet  
\$ 1.92 per 1000 cubic feet for the next 100,000 cubic feet  
\$ 1.87 per 1000 cubic feet for all additional cubic feet

*Industrial Class B*

**Rate**

\$14.00 Service Availability Charge  
\$ 1.520 per 1000 cubic feet for the first 10,000 cubic feet  
\$ 1.920 per 1000 cubic feet for the next 110,000 cubic feet  
\$ 1.845 per 1000 cubic feet for all additional cubic feet

*Industrial Class C*

**Rate**

\$200.00 Service Availability Charge  
\$ 1.52 per 1,000 cubic feet for the first 600,000 cubic feet  
\$ 1.84 per 1,000 cubic feet for the next 29,400,000 cubic feet  
\$ 1.82 per 1,000 cubic feet for all additional cubic feet

**FUEL AND GAS COST ADJUSTMENT**

The foregoing rate schedules approved by the San Antonio City Council on August 30, 1976 contain a fuel cost adjustment clause in the electric rates and a gas cost adjustment clause in the gas rates which allows the recovery of fuel and gas costs that vary above or below the costs which are included in the basic rates. Electric basic rates are subject to an adjustment of plus or minus the amount of change in the price of fuel above or below a basic cost of \$0.0186 per KWH sold. The gas basic rates are subject to an adjustment of plus or minus the amount of change in the price of gas sold above or below a basic cost of \$1.793 per MCF sold.

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### ELECTRIC CUSTOMER STATISTICS

Fiscal Years Ended January 31:

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1979*
<b>RESIDENTIAL</b>											
Average Monthly KWH/ Customer	609	631	698	766	724	686	681	663	718	735	733
Average Monthly Bill/ Customer	\$11.56	\$11.94	\$12.98	\$14.14	\$14.42	\$20.62	\$25.86	\$28.42	\$32.50	\$32.53	\$32.57
Average Monthly Revenue/KWH	\$0.0190	\$0.0189	\$0.0186	\$0.0184	\$0.0199	\$0.0301	\$0.0380	\$0.0429	\$0.0452	\$0.0442	\$0.0444
<b>COMMERCIAL AND INDUSTRIAL</b>											
Average Monthly KWH/ Customer	6,372	6,760	7,256	7,515	7,368	7,642	8,339	8,500	8,641	8,675	8,694
Average Monthly Bill/ Customer	\$83.64	\$88.30	\$93.35	\$97.18	\$105.05	\$176.41	\$261.31	\$305.82	\$316.89	\$308.25	\$310.05
Average Monthly Revenue/KWH	\$0.0131	\$0.0131	\$0.0129	\$0.0129	\$0.0143	\$0.0230	\$0.0313	\$0.0360	\$0.0367	\$0.0355	\$0.0357
<b>ALL CUSTOMERS</b>											
Average Monthly KWH/ Customer	1,532	1,588	1,699	1,798	1,718	1,689	1,754	1,750	1,826	1,894	1,888
Average Monthly Bill/ Customer	\$22.07	\$22.92	\$24.46	\$25.99	\$27.13	\$42.19	\$58.03	\$66.12	\$71.34	\$70.98	\$71.14
Average Monthly Revenue/KWH	\$0.0144	\$0.0144	\$0.0144	\$0.0145	\$0.0158	\$0.0249	\$0.0331	\$0.0378	\$0.0391	\$0.0375	\$0.0377

\* 12 months ending March 31, 1979.

#### TYPICAL RESIDENTIAL GAS AND ELECTRIC BILLS OF SIX TEXAS CITIES\*

Usages: 500 Kilowatt hours for Electric, 5,000 Cubic feet for Gas

City	Electric Bill	Gas Bill	Total Bill
Fort Worth	\$18.56	\$11.81	\$30.37
SAN ANTONIO	20.60	14.27	34.87
Austin	18.51	18.74	37.25
Dallas	24.01	13.34	37.35
Houston	23.08	18.13	41.21
Corpus Christi	26.59	17.39	43.98

\* Based upon April, 1979 billings including Fuel and Gas Cost Adjustments.

#### TEN YEAR RECORD OF CITY OF SAN ANTONIO BENEFITS FROM CITY'S ELECTRIC AND GAS UTILITY SYSTEMS

Year Ending 1-31:	Payments To City*	Increase in City's Equity in System	Total Annual Benefits to City
1970	\$ 11,131,102	\$ 23,415,134	\$ 34,546,236
1971	11,683,183	23,754,307	35,437,490
1972	12,700,217	24,729,461	37,429,678
1973	14,085,974	23,678,984	37,764,958
1974	14,993,759	19,520,893	31,514,652
1975	23,387,116	23,385,705	46,772,821
1976	28,447,237	25,575,284	54,022,521
1977	32,199,018	27,811,402	60,000,420
1978	36,996,987	31,491,910	68,488,897
1979	39,557,154	22,943,464	62,500,618
Totals	<u>\$225,171,747</u>	<u>\$246,306,544</u>	<u>\$471,478,291</u>

\* Payments to City annually include cash payments, refund of charges for furnishing City electricity and gas, and construction of street lighting facilities for City.

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### LEGAL OPINION

The City will furnish a transcript of proceedings had incident to the issuance and authorization of the Bonds, including a no-litigation certificate and a certified copy of the unqualified approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, stating that the Bonds are valid and binding obligations of the City. The City will furnish the unqualified approving legal opinion of Messrs. McCall, Parkhurst & Horton, Dallas, Texas, Bond Counsel for the City ("Bond Counsel"), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding special revenue obligations of the City and that the interest on the Bonds is exempt from all present federal income taxes under existing statutes, regulations, rulings and court decisions. The legal opinion will be printed on the Bonds. Messrs. McCall, Parkhurst & Horton were not requested to participate and did not take part in the preparation of the Official Notice of Sale or the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds and the Bond Ordinance in this Official Notice of Sale and the Official Statement to verify that such description conforms to the provisions of the Bond Ordinance. The legal fees to be paid Messrs. McCall, Parkhurst & Horton for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

### FINANCIAL ADVISOR

Russ Securities Corporation, the Municipal Finance Subsidiary of Rotan Mosle Financial Corp., is employed as Financial Advisor to the Board under an agreement providing for a fee based on a percentage of the face amount of each separate issuance of bonds, such fee to be contingent upon the bonds actually being issued, sold and delivered. Although Russ Securities Corporation performed an active role in the drafting of the Official Notice of Sale and Official Statement, it has not independently verified all of the information set forth herein. No person, therefor, is permitted to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to the completeness and accuracy of such information.

### AUTHENTICITY OF INFORMATION

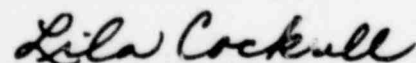
The financial data and other information set forth in this Official Statement has been obtained from CPS and City records and other sources which are believed to be reliable, but it is not guaranteed as to the accuracy or completeness thereof, and its inclusion herein is not to be construed as a representation to that effect. Also, there is no guarantee or representation that any of the assumptions or estimates contained herein will ever be realized. All of the summaries or excerpts of statutes, ordinances, regulatory agency orders, judgments or other documents do not purport to be complete statements and are made subject to all of the provisions of such statutes, ordinances and documents. Reference should be made to such original sources in all respects.

### CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the City Public Service Board of San Antonio will furnish the successful bidder a certificate, executed by a proper officer or officers of the Board acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the Board contained in its Official Statement, as supplemented and amended, on the date of such Official Statement, on the date of sale of the Bonds and the acceptance of the best bid therefor, and on the date of the delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the Board and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in such Official Statement, as supplemented and amended, of or pertaining to entities other than the Board and their activities are concerned, such statements and data have been obtained from sources which the Board believes to be reliable and that the Board has no reason to believe that they are untrue in any material respect.

This Official Statement has been duly approved by the City Council of San Antonio, Texas and by the City Public Service Board of San Antonio.

CITY OF SAN ANTONIO, TEXAS



Mrs. Lila Cockrell  
Mayor, City of San Antonio, and  
Ex officio Member, Board of Trustees

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO



Eloy Centeno  
Chairman, Board of Trustees

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## APPENDIX A

### CITY OF SAN ANTONIO, TEXAS - GENERAL INFORMATION

The City of San Antonio is the County Seat of Bexar County. It is located in south central Texas, 75 miles south of the state capital in Austin, and is on the main transcontinental line of the Southern Pacific Railroad 200 miles west of Houston and 570 miles east of El Paso. Also, it is approximately 140 miles from the Gulf of Mexico at Corpus Christi and 150 miles from the Mexican border cities of Del Rio (Ciudad Acuna), Eagle Pass (Piedras Negras), and Laredo (Nuevo Laredo). The City was founded in the early eighteenth century, and was an important provincial capital of northern Mexico until the Texas Revolution. It was incorporated by the Republic of Texas in 1837 and has largely retained the flavor of its Spanish origins while growing into an important Texas urban center. San Antonio has a Council-Manager form of government.

In 1970, San Antonio with a population of 654,153 was the third city in size in Texas and the fifteenth largest city in the United States. By September 30, 1978, the estimated population of San Antonio has risen to 824,124, placing the City among the ten largest cities in the U.S. according to the latest U.S. Census Bureau reports. The 1978 population of Bexar County was estimated at 924,488. The area of the City has grown from 36 square miles when incorporated in 1837 to 317 square miles. The present population estimate of 824,124 does not include military personnel quartered at the several military installations in the area.

San Antonio is located at an average elevation of 701 feet above sea level and enjoys a modified subtropical climate, normal mean temperatures ranging from 50 degrees in January to 84 degrees in July. The hot summers are tempered by the prevailing Gulf winds from the southeast and the winter climate has made it a recognized resort area enjoying about 50% of the possible winter sunshine. The San Antonio River, an attraction for visitors, winds through the city streets, and the river walk "Paseo del Rio" area is a focal point for a continuing beautification and renovation program. River taxis convey hotel visitors to the major Convention Center and the Tower of the Americas nearby on Hemisfair Plaza, where the 250th anniversary of the founding of the City was celebrated in 1968. Other tourist attractions include the Alamo, which was the church of the Mission San Antonio del Valero; four other 18th century Spanish missions; La Villita, a restoration of the first permanent settlement on the San Antonio River; and the Governor's Palace. Tourism contributes substantially to San Antonio economy. A record of the City's continued importance as a convention center is shown in the following statistics compiled by the San Antonio Convention and Visitors Bureau:

#### San Antonio Convention Statistics

<u>Calendar Year</u>	<u>Conventions</u>	<u>Total Delegates</u>	<u>Estimated Dollar Value</u>
1972	277	159,040	23,856,000
1973	330	160,698	24,104,700
1974	403	180,554	27,060,600
1975	415	195,019	29,247,850
1976	465	185,224	27,783,600
1977	434	164,521	29,613,980
1978	488	189,610	34,129,800
1979*	192	52,836	9,510,480

\* First three months of 1979 ending March 31, 1979.

In addition to being a major tourist attraction, San Antonio is an important military center. At the end of the 1978 fiscal year, the latest date for which statistics are available, San Antonio had approximately 43,489 active duty military personnel and 29,043 active civilian employees at the various local installations which had combined annual payrolls of some \$909,301,103. The area installations include:

1. **FORT SAM HOUSTON.** Finished in 1879, the Quadrangle portion houses the Headquarters of the Fifth Army and the reservation consists of about 1,830 buildings situated on more than 3,026 acres. The Post houses Brooke Army Medical Center, and tenant organizations include the Alamo Area Support Center of the Army and Air Force Exchange Service, an office of the Army Engineer Topographic Production Center, the Fourth Recruiting District, U. S. Army, the Modern Pentathlon Training Center, and other satellite organizations.

2. **U. S. ARMY HEALTH SERVICES COMMAND.** Established, in 1973, this Command was the result of reorganization of the Army. The Brooke Army Medical Center, operating under this Command, consists of a general teaching hospital and the U. S. Army Dental Laboratory. The Academy of Health Sciences is also a part of the Health Services Command and is the only military medical teaching facility of its kind in the U. S. All Army medical centers, hospitals, and major medical activities located in the

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U.S., Canal Zone, Puerto Rico, Guam, Johnson Islands and the Trust Territory of the Pacific Islands are now joined under the Health Services Command. The U. S. Army Institute of Surgical Research, the burn treatment and research center for the military and a branch of the Medical Research and Development Command, Washington, D.C., is also located at this facility.

**3. RANDOLPH AIR FORCE BASE.** Located 15 miles northeast of San Antonio, Randolph AFB is the home of the Air Training Command and the Air Force Recruiting Service, as well as the Twelfth Flying Training Wing. Randolph AFB is also the Air Force Military and Civilian Personnel Center which maintains personnel records and assignments for the entire U. S. Air Force. The first solar heated and cooled facility in the Air Force, the Randolph Base Exchange, began operations in the Fall of 1977.

**4. SAN ANTONIO AIR LOGISTICS CENTER (SA/ALC).** Kelly Air Force Base provides logistical support to Air Force operational commands around the world. Established in 1917 as Kelly Field, the Base has grown to become the largest single industrial complex in the Southwest. It is here that the B52 Stratofortresses and C5A Transports are maintained and modified. The Base is one of five major logistics centers under the Air Force Logistics Command, is the location of the headquarters of the Air Force Security Service, and has as tenants 31 other military organizations.

**5. BROOKS AIR FORCE BASE.** Established as Brooks Field over sixty years ago in the southern portions of San Antonio, the Base is the location of the headquarters of the Aerospace Medical Division of the Air Force Systems Command. This Division operates laboratories, classrooms and treatment facilities, including: the Wilford Hall USAF Medical Center at Lackland AFB, which is the largest Department of Defense single-structure medical center; the School of Aerospace Medicine on Brooks AFB; the 6570th Aerospace Medical Research Laboratory at Wright-Patterson Air Force Base in Ohio; and the Air Force Occupational and Environmental Health Laboratory. Brooks is also headquarters for the Air Force Human Resources Laboratories and the location of the Air Force Medical Service Center which operates under the command of the Surgeon General's office.

**6. AIR FORCE MILITARY TRAINING CENTER AT LACKLAND.** Lackland, an Air Force training base, is 12 miles west of downtown San Antonio and is a major complex of military, technical, and professional schools providing 110,000 to 120,000 personnel annually to the operational and support commands of the Air Force. The Center has a current population of 19,496 military and 6,810 civilian personnel.

San Antonio is an important and expanding medical center. The South Texas Medical Center is located on a 683-acre site in the northwest section of the City, much of the land having been donated to the San Antonio Medical Foundation. The Foundation has in turn contributed some 252.06 acres to various institutions, and at January 1, 1979, a total of 26 facilities were completed or under construction in the Center at a cost of some \$308,244,199. Construction work in progress for new and added facilities amounts to \$29,200,000. The combined annual budget of these approximates \$205 million, and the facilities employ 10,724 persons. Major facilities include the Bexar County Teaching Hospital, the 700-bed Audie L. Murphy Veterans Administration Hospital, and The University of Texas Health Science Center consisting of Medical School, Dental School, School of Allied Health Sciences, Graduate School of Biomedical Sciences, School of Nursing and College of Pharmacy. Other facilities include Southwest Texas Methodist Hospital, Oak Hills Medical Building, a Cerebral Palsy Treatment Center, Villa Rosa Psychiatry and Rehabilitation Center (Psychiatry, Physical Medicine & Rehabilitation), Ecumenical Center for Religion and Health, Cancer Therapy and Research Center, San Antonio Community Hospital, a Community Guidance Center, Lutheran General Hospital, and The Easter Seal Society Rehabilitation Center. Including the new VA Hospital, there are currently 2,376 beds in the six hospitals in the Center. Outside the Center location, San Antonio also has seventeen other hospitals, including thirteen private hospitals with a total of 3,654 beds and two state hospitals with a total of 1,202 beds as well as two Department of Defense hospitals with a total of 1,064 beds. In addition, ground is about to be broken for the new 166 bed Community Hospital of Southwest San Antonio.

In addition to the previously mentioned schools for medical and dental education, other institutions of higher learning within the City include two junior colleges, two colleges and six universities which offer a wide variety of vocational training as well as undergraduate and graduate degree programs for a total student enrollment of more than 48,800. San Antonio's newest university is the University of Texas at San Antonio which opened for graduate level students in 1973 and opened for undergraduate students for the first time with the fall semester, 1975. Located on 600 acres in the northwest sector of the City, the \$61 million campus is now substantially completed. For the current fiscal year beginning September 1, 1978, the new University's total operating budget is \$15.6 million, approximately the same as that for previous year.

Research and development has become an important contributor to San Antonio's growth. The Southwest Research Center is one of the nation's most respected research and development organizations and is located approximately eight miles west of San Antonio. The Center covers a 2,500-acre site and has a staff of over 1,800 individuals composing two not-for-profit, tax-exempt scientific research institutions.

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Southwest Research Institute is an engineering and applied research institution working primarily for industrial clients on a fee basis. It has a staff of approximately 1,650 and an annual budget of over \$60 million. Southwest Foundation for Research and Education is a basic biomedical research institution. It operates on an annual budget of about \$5.5 million and has a staff of approximately 245 people. It conducts research in the areas of Biological Growth and Development, Reproductive Physiology and Biology, Microbiology and Infectious Diseases, and the Environmental Health Sciences.

Major areas of research are in atherosclerosis the major cause of heart attacks and strokes, biochemistry, cancer, infectious diseases and virology, and reproductive biology. Southwest Foundation has been formally designated by the World Health Organization as its one center for research in the study of disease transmissible from nonhuman primates to man.

San Antonio's industry is well diversified, ranging from apparel, pharmaceuticals, asphalt, food products, breweries, cans, boxes, air conditioning, batteries, furniture, cigars, aircraft, road equipment, cement, plastics, and fiberglass products, to aluminum products, iron and steel products, oil well equipment, trunks and luggage, research electronics, truck trailers, and musical instruments. It is, in addition, the home office location of several insurance companies, including the United Services Automobile Association which occupies an impressive \$100 million headquarters complex. The U.S.A.A. employs approximately 4,400 people and is reported to be the 9th largest among the nation's auto insurance companies. Levi-Strauss has recently opened two new plants to manufacture children's clothing and women's clothing. They currently employ about 1,400 people combined and project a figure of 3,000 to 4,000 when the plants are put into full operation. Nine K-Mart department stores have been opened for business and the new Ingram Park Mall, which opened in early 1979, contains two anchor stores and approximately 120 other outlets. The Mall will contain a total of five anchor stores and 145 outlet stores when fully occupied. In addition, a 400-plus-room-hotel, located near the International Airport began operations during the summer of 1978 and a new 255 room hotel was opened in early 1979 in the downtown area. There is presently also under construction a 550 plus-room-hotel scheduled to be opened in late 1979. The latest Texas Employment figures shown San Antonio area unemployment in February, 1979 was 5.8% down from approximately 6.7% the previous February.

Some factors indicating the economic strength of San Antonio are as follows:

#### Growth indices

Year Ending	Telephone Connections	Electric Customers	Gas Customers	Water Customers*
1969	401,573	232,952	199,749	146,089
1970	429,954	239,519	204,327	148,452
1971	458,785	248,739	210,632	151,200
1972	491,100	260,632	219,127	154,513
1973	515,313	267,443	224,084	159,012
1974	538,800	269,500	227,923	161,100
1975	558,203	272,586	230,042	162,627
1976	589,663	279,587	234,337	164,454
1977	622,732	290,904	240,566	167,633
1978	662,892	307,705	249,391	172,185
1979**	672,994	309,380	250,128	172,740

\* City Water Board only.

\*\* As of March 31, 1979.

#### Business Indices

Calendar Year	Bank Clearings	Building Permits	Postal Receipts
1969	\$10,884,022,753	\$ 85,904,537	\$17,798,558
1970	10,014,836,330	103,210,207	18,256,681
1971	11,547,764,451	131,082,000	21,349,000
1972	13,312,759,105	223,749,000	23,583,000
1973	16,304,437,765	226,710,152	24,271,968
1974	17,475,520,274	183,520,814	26,407,000
1975	18,249,836,385	158,840,443	29,818,000
1976	20,323,429,838	162,380,313	35,410,000
1977	22,537,211,921	213,651,080	38,753,148
1978	25,745,461,776	238,435,225	45,100,929
1979*	6,703,544,454	89,547,235	11,834,901

\* First three months of 1979 ending March 31, 1979.

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There are 44 banks in metropolitan San Antonio, which had total deposits of \$3,441,246,547 at March 31, 1979, an increase of approximately 58% over the first quarter of 1978. Total loans have increased more than 16% over the same period last year. The ten largest City of San Antonio taxpayers as listed on the tax rolls are shown below:

	Market Value in Dollars Sept. 30, 1978
1. Southwestern Bell Telephone Company	\$202,600,489
2. United Services Automobile Association	81,155,644
3. Frost National Bank	35,117,089
4. National Bank of Commerce	25,898,133
5. H.E. Butt and Company	18,288,422
6. Sears, Roebuck & Co.	17,881,400
7. IBM	15,073,200
8. Alamo National Bank	14,628,378
9. Joske's of Texas	13,120,933
10. Ray Ellison Property	12,955,689

**SUMMARY FINANCIAL STATEMENT**  
(Relating to General Obligation Bonds)

The following brief financial statement of the City of San Antonio, Texas as of March 31, 1979, is submitted for information purposes:

1978 Estimated Actual Value of Taxable Property		\$5,747,527,622
1978 Assessed Valuations (45% of Actual)		\$2,586,387,430
General Obligation Bond Debt		\$ 122,873,000
Less: Self-Supporting Debt	\$13,039,119	
Applicable Interest & Sinking Fund	<u>7,811,340</u>	<u>20,850,459</u>
<b>NET GENERAL OBLIGATION DEBT</b>		<b>\$ 102,022,541</b>

The above statement does not include the following special obligations (Revenue Bonds) which are payable solely from revenues of City-owned utility systems and other municipal enterprises:

	<u>As of March 31, 1979</u>	
	<u>Revenue Bonds Outstanding</u>	<u>Reserve Fund Balances</u>
Electric and Gas Systems Revenue Bonds	\$697,975,000	\$32,458,970
Water Revenue Bonds	51,145,000	4,334,425
Sewer Revenue Bonds	24,375,000	1,982,500
Airport Revenue Bonds	6,307,000	623,185

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**COMPARATIVE RECORD OF MUNICIPAL SALES TAX COLLECTIONS**  
 (10 Largest Texas Cities Based upon 1970 Census)

	Sales Taxes - Net				
	1979*	1978	1977	1976	1975
Beaumont	\$ 1,625,676	\$ 5,833,417	\$ 5,203,997	\$ 4,313,428	\$ 3,544,584
Amarillo	1,713,336	6,474,596	6,072,153	5,019,925	4,483,750
Lubbock	2,080,208	7,894,896	7,201,597	5,614,266	4,848,696
Corpus Christi	2,391,158	9,000,730	7,781,217	6,347,307	5,557,860
Austin	3,907,023	14,916,835	13,009,879	9,184,380	8,185,869
El Paso	3,023,569	11,738,879	10,345,787	9,034,726	8,100,664
Fort Worth	4,672,385	18,841,540	15,875,359	12,351,647	11,116,944
San Antonio	6,548,535	25,503,388	22,877,320	18,966,511	16,579,604
Dallas	13,988,492	52,152,250	46,498,780	35,364,489	31,899,559
Houston	24,429,635	92,457,067	76,423,020	62,599,850	55,377,459

\* Collections as of March 31, 1979.



**APPENDIX B**  
**FINANCIAL STATEMENTS**  
**WITH**  
**ACCOUNTANTS' REPORT THEREON**  
**THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO**  
**JANUARY 31, 1979 AND 1978**

**PEAT, MARWICK, MITCHELL & Co.**

CERTIFIED PUBLIC ACCOUNTANTS  
NATIONAL BANK OF COMMERCE BUILDING  
SAN ANTONIO, TEXAS 78205

Board of Trustees  
The City Public Service Board of San Antonio:

We have examined the balance sheets of The City Public Service Board of San Antonio as of January 31, 1979 and 1978, and the related statements of operations and application of earnings, changes in equity accounts and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of The City Public Service Board of San Antonio at January 31, 1979 and 1978, and the results of its operations and application of earnings and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Peat, Marwick, Mitchell & Co.*

February 28, 1979

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THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Balance Sheets

January 31, 1979 and 1978

(Dollars in Thousands)

<u>Assets</u>	<u>1979</u>	<u>1978</u>
Utility plant, at cost:		
Electric	\$ 825,033	706,914
Gas	122,902	119,373
General	16,579	16,280
Construction work in progress (note 6)	300,719	258,142
Total utility plant	1,265,233	1,100,709
Less accumulated depreciation	209,127	182,599
Net utility plant	1,056,106	918,110
Restricted cash (substantially temporary cash investments and U. S. Government obligations stated at cost which approximates market) (note 3):		
Bond Reserve - Old Series Bonds	17,107	16,590
Bond Reserve - New Series Bonds	14,095	7,524
Improvements and Contingencies Fund	22,581	7,906
Total restricted cash	53,783	32,020
Current assets:		
Cash, including temporary cash investments	19,297	9,164
Accounts receivable, net of \$300 allowance for doubtful accounts	26,777	22,025
Inventories:		
Materials and supplies	13,884	13,282
Fuel stock	46,939	45,022
Prepayments	657	607
Total current assets	107,554	90,100
Deferred charges:		
Unamortized debt expense	973	774
Other	2,531	2,661
Total deferred charges	3,504	3,435
	\$ <u>1,220,947</u>	<u>1,043,665</u>

See accompanying notes to financial statements.

THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Balance Sheets

January 31, 1979 and 1978

(Dollars in Thousands)

<u>Liabilities and Equity</u>	<u>1979</u>	<u>1978</u>
Long-term debt, excluding current maturities (note 3) - Revenue Improvement Bonds:		
Old Series - 3.1% - 7% due serially to 1997	\$ 170,570	171,225
New Series - 5% - 8% due serially to 2003	<u>439,175</u>	<u>200,000</u>
Total long-term debt	<u>609,745</u>	<u>474,225</u>
Equity:		
Appropriated retained earnings (note 3):		
Bond Reserve - Old Series Bonds	17,107	16,590
Bond Reserve - New Series Bonds	14,095	7,524
Improvements and Contingencies Fund	<u>22,581</u>	<u>7,906</u>
Total	53,783	32,020
Reinvested earnings	<u>465,440</u>	<u>464,260</u>
Total equity	<u>519,223</u>	<u>496,280</u>
Current liabilities:		
Current maturities of long-term debt	13,230	10,065
Accounts payable and accrued expenses	51,332	37,891
Customer service deposits	<u>2,703</u>	<u>2,761</u>
Total current liabilities	<u>67,265</u>	<u>50,717</u>
Deferred credits:		
Customer advances for construction	2,135	1,686
Other	<u>404</u>	<u>389</u>
Total deferred credits	<u>2,539</u>	<u>2,075</u>
Contributions in aid of construction	22,175	20,368
	<u>                    </u>	<u>                    </u>
	\$ <u>1,220,947</u>	<u>1,043,665</u>

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THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO  
 Statements of Operations and Application of Earnings

Years ended January 31, 1979 and 1978

(Dollars in Thousands)

	<u>1979</u>	<u>1978</u>
<b>Revenue:</b>		
Electric	\$ 257,676	246,625
Gas	78,306	67,788
Interest	<u>7,275</u>	<u>5,275</u>
Gross revenue	<u>343,257</u>	<u>319,688</u>
<b>Expenses:</b>		
Gas, electricity and fuel	190,533	179,801
Other operating and general	28,863	27,350
Maintenance	12,223	9,966
Depreciation	27,503	20,889
Interest and debt expense	34,428	26,982
Allowance for interest charged to construction	(12,867)	(13,511)
Payments to the City of San Antonio (note 4):		
In lieu of taxes	4,901	4,703
Refund of electric and gas services	8,323	8,126
Additional payments, net of transfers for street lighting facilities	<u>26,407</u>	<u>23,890</u>
Total expenses	<u>320,314</u>	<u>288,196</u>
Earnings before application	<u>\$ 22,943</u>	<u>31,492</u>
<b>APPLICATION OF EARNINGS</b>		
Earnings before application	22,943	31,492
<b>Add:</b>		
Depreciation	27,503	20,889
Interest requirements on New Series Bonds (payable from Improvements and Contingencies Fund)	<u>24,141</u>	<u>16,429</u>
Available for application	<u>\$ 74,587</u>	<u>68,810</u>
To operating funds for working capital (fuel stock in 1978)	3,000	22,000
To pay long-term debt requirements -		
Old Series Bonds:		
Principal payments	6,390	6,120
Bond reserve	517	151
To Reinvested Earnings -		
Net loss on sale of utility plant assets	-	(87)
To Improvements and Contingencies Fund:		
Minimum requirement (12-1/2% of gross revenue)	42,907	39,961
Balance of available revenue	<u>21,773</u>	<u>665</u>
Amount applied	<u>\$ 74,587</u>	<u>68,810</u>

See accompanying notes to financial statements.

THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Statements of Changes in Equity Accounts

Years ended January 31, 1979 and 1978

(Dollars in Thousands)

	<u>1979</u>	<u>1978</u>
Bond Reserve - Old Series Bonds:		
Balance at beginning of year	\$ 16,590	16,439
Additions - from application of earnings	517	151
Balance at end of year	<u>\$ 17,107</u>	<u>16,590</u>
Bond Reserve - New Series Bonds:		
Balance at beginning of year	7,524	2,778
Additions - from Improvements and Contingencies Fund:		
Interest earned on Bond Reserve investments	768	312
Reserve requirements	5,803	4,434
Balance at end of year	<u>\$ 14,095</u>	<u>7,524</u>
Improvements and Contingencies Fund:		
Balance at beginning of year	7,906	14,619
Additions - from application of earnings:		
Minimum requirement (12-1/2% of gross revenue)	42,907	39,961
Balance of available revenue	21,773	665
	72,586	55,245
Deductions:		
New Series Bonds:		
Interest earned and reserve requirements	(6,571)	(4,746)
Payment of bond interest	(24,141)	(16,429)
Payment of bond principal	(4,925)	(2,700)
Expenditures for construction	(14,368)	(13,864)
To purchase fuel stock inventory	-	(9,600)
Balance at end of year	<u>\$ 22,581</u>	<u>7,906</u>
Reinvested Earnings:		
Balance at beginning of year	464,260	430,952
Additions:		
From Improvements and Contingencies Fund:		
For construction	14,368	13,864
To purchase fuel stock inventory	-	9,600
From application of earnings:		
To operating funds for working capital (fuel stock in 1978)	3,000	22,000
Old Series Bonds principal payments	6,390	6,120
From Improvements and Contingencies Fund -		
New Series Bonds principal payments	4,925	2,700
Net loss on sale of utility plan assets	-	(87)
	492,943	485,149
Less depreciation	<u>(27,503)</u>	<u>(20,889)</u>
Balance at end of year	<u>\$ 465,440</u>	<u>464,260</u>

See accompanying notes to financial statements.

THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Statements of Changes in Financial Position

Years ended January 31, 1979 and 1978

(Dollars in Thousands)

	<u>1979</u>	<u>1978</u>
Sources of working capital:		
From operations:		
Earnings before application	\$ 22,943	31,492
Charges to earnings not using working capital - depreciation	<u>27,503</u>	<u>20,889</u>
Working capital provided from operations	50,446	52,381
Contributions in aid of construction	3,004	2,432
Proceeds of revenue bonds	150,000	135,000
Increase in deferred credits	15	-
Decrease in restricted cash	<u>-</u>	<u>1,816</u>
	<u>203,465</u>	<u>191,629</u>
Applications of working capital:		
Acquisition of utility plant	166,247	149,197
Retirement of bonds	11,315	8,820
Increase in current maturities of long-term debt	3,165	1,245
Increase in restricted cash	21,763	-
Increase in deferred charges	69	373
Decrease in deferred credits	<u>-</u>	<u>1,084</u>
	<u>202,559</u>	<u>160,719</u>
Increase in working capital	906	30,910
Working capital at beginning of year	<u>39,383</u>	<u>8,473</u>
Working capital at end of year	<u>\$ 40,289</u>	<u>39,383</u>
Increase (decrease) in components of working capital:		
Cash	10,133	(1,731)
Accounts receivable	4,752	(4,266)
Inventories	2,519	30,681
Prepayments	50	(19)
Current maturities of long-term debt	(3,165)	(1,245)
Accounts payable and accrued expenses	(13,441)	7,744
Customer service deposits	<u>58</u>	<u>(254)</u>
Increase in working capital	<u>\$ 906</u>	<u>30,910</u>

See accompanying notes to financial statements.

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THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Notes to Financial Statements

January 31, 1979 and 1978

(1) Summary of Significant Accounting Policies

(a) Basis of Accounting

The City Public Service Board employs the accrual method of accounting based upon the Uniform System of Accounts for Gas and Electric Utilities issued by the National Association of Regulatory Utility Commissioners. Revenue is recognized at the time the customer is billed.

(b) Utility Plant

Utility plant is stated at cost. An allowance for funds used during construction is included in the cost of utility plant and was computed at rates ranging from 5.4% to 6.0% in 1979 and 5.7% to 5.9% in 1978. Retirements of utility plant, together with removal cost less salvage, are charged to accumulated depreciation. Costs of repairs and minor replacements are charged to expense as incurred.

(c) Depreciation and Amortization

Depreciation of utility plant is provided on the straight-line basis over the estimated useful lives of the related asset group. Contributions in aid of construction are amortized over a period equal to the life of the related contributed assets.

(d) Inventories

Inventories are stated at the lower of average cost or market.

(2) Pension Plans

The Board has a pension plan covering substantially all employees. Insurance is purchased for each employee in amounts designed to yield a cash value at retirement sufficient to provide annuities equal to prescribed benefits. The City Public Service Board pays approximately 75% of the cost of the plan and the employee pays the balance. The total pension expense amounted to \$2,719,000 for 1979 and \$2,716,000 for 1978.

(3) Revenue Bond Indenture Requirements

The Trust Indenture executed by the City of San Antonio in conjunction with the issuance of the revenue bonds dated February 1, 1951, through August 1, 1974, "Old Series Bonds," contains, among others, the following provisions:

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## THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

## Notes to Financial Statements

- (1) All of the assets of the gas and electric systems, together with the net revenues of the systems, are pledged with the Harris Trust and Savings Bank of Chicago, Illinois, as Corporate Trustee, to secure the payment of the "Old Series Bonds".
- (2) Gross revenues of the gas and electric systems shall be applied to: (a) expenses of operating and maintaining the systems; (b) debt service and reserve requirements on the "Old Series Bonds"; (c) payment of an "in lieu of tax" amount to the City of San Antonio; (d) an amount equal to 12-1/2% of gross revenues to the Improvements and Contingencies Fund; (e) additional benefits and payments to the City of San Antonio to bring total city benefits and payments to 14% of gross revenues; (f) additional payments to the Improvements and Contingencies Fund until such fund equals 20% of the value of fixed capital assets; and (g) balance to surplus fund.
- (3) The following funds are established: (a) General Fund; (b) Improvements and Contingencies Fund; (c) Bond Construction Fund (containing the proceeds of revenue bonds); (d) Principal and Interest current requirements (containing the monthly payments of annual debt requirements); and (e) Bond Reserve Fund (containing an amount equal to the fiscal year's principal and interest requirements). These funds may be invested with authorized depository banks or in U. S. Government securities.

Beginning the year ended January 31, 1976, New Series Electric and Gas Systems Revenue Improvement Bonds ("New Series Bonds") were issued. These bonds are junior and subordinate to the "Old Series Bonds". The bond ordinances authorizing these issues provide that no further bonds or obligations will be authorized or issued under the terms of the Trust Indenture for "Old Series Bonds" and that at such time as the Trust Indenture becomes inoperative the Trust Estate will revert to the City. While any of the "Old Series Bonds" are outstanding, the "New Series Bonds" are payable solely from the net revenues of the systems deposited and available for deposit (1) in the Improvements and Contingencies Fund and (2) certain payments to the City of San Antonio. At such time as the Trust Indenture covering the "Old Series Bonds" becomes inoperative revenues will be applied as follows: (a) for maintenance and operations expenses of the systems; (b) for payment of the "New Series Bonds"; (c) for the payment of any bonds inferior in lien to the "New Series Bonds" which may be issued; (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in a Repair and Replacement Fund; (e) for cash payments and benefits to the City of San Antonio not to exceed 14% of the gross revenues of the systems; and (f) any remaining revenues to the Repair and Replacement Fund. The funds created by the "New Series Bonds" ordinance are similar to those set forth under the "Old Series Bonds" Trust Indenture.

(Continued)



## THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

## Notes to Financial Statements

At January 31, 1979, \$75,000,000 of "New Series Bonds" had been authorized but had not been issued.

(4) Payments to the City

The Trust Indenture provides for benefits and services totaling 14% of The City Public Service Board's gross revenue to be provided to the City of San Antonio. Currently the total benefits and services to the City of San Antonio are less than 14% of gross revenue as a result of the voluntary action of the City in reducing such benefits due on increased fuel and gas costs. The reduction of City benefits has been passed on to utility consumers, and accordingly, there is no effect on financial operations.

(5) Significant Litigation

A gas purchase agreement dated June 14, 1961, with Alamo Gas Supply Company, which was subsequently acquired by Coastal States Gas Producing Company and its wholly-owned subsidiary, Lo-Vaca Gathering Company, provides for supply of the full natural gas requirements of the City of San Antonio gas and electric systems through April 1, 1982. Beginning in November, 1972, significant interruptions in deliveries of natural gas were experienced, resulting in additional costs being incurred by The City Public Service Board as the result of having to purchase fuel oil and gas from others as a substitute for gas not supplied. The added costs have been passed on to The City Public Service Board customers as authorized by the existing rate ordinance of the City of San Antonio, and a part of these costs, which represents the cost of fuel oil in excess of the equivalent cost of gas, has been withheld from payment to the supplier. The supplier's responsibility for these additional fuel costs is disputed and is in the process of being resolved through litigation or settlement along with claims for additional damages resulting from the failure of the supplier to meet contractual and legal obligations. Amounts which may be recovered through such litigation or settlement will be returned to the utility's ratepayers.

(6) Purchase and Construction Commitments

Purchase and construction commitments amounted to \$12,800,000 at January 31, 1979. In addition to the above, The City Public Service Board has commitments under an agreement with Houston Lighting & Power Company, Central Power and Light Company and the City of Austin for joint construction of a nuclear power plant. The City Public Service Board share of the remaining cost of the plant is estimated to be approximately \$343,000,000 for construction over the next four to five years, exclusive of initial fuel requirements and interest during construction.

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## APPENDIX C

### CPSB INTERIM FINANCIAL STATEMENTS

#### CITY PUBLIC SERVICE BOARD OF SAN ANTONIO Statement of Revenue and Application of Revenue (Unaudited) (Thousands of Dollars)

	Period Ending April 30, 1979	
	Three Months	Twelve Months
<b>THE REVENUE FROM OPERATIONS WAS:</b>		
Electric Sales	\$ 52,414	\$260,512
Gas Sales	27,227	77,720
Interest and Other	<u>2,864</u>	<u>8,841</u>
<b>TOTAL REVENUE</b>	<u><u>82,505</u></u>	<u><u>347,073</u></u>
<b>THE REVENUE WAS APPLIED AS FOLLOWS:</b>		
FOR OPERATING AND MAINTAINING THE SYSTEM:		
Fuel and Gas purchased	44,257	192,881
Other operating and general expenses	8,303	30,090
Maintenance	<u>3,436</u>	<u>13,003</u>
	55,996	235,974
FOR OPERATIONS:		
	-0-	3,000
FOR DEBT REQUIREMENTS:		
Interest and debt expense	10,257	36,938
Retirement of bonds	3,583	12,154
Additions to bond reserve fund	2,019	7,540
Allowance for funds used during construction	<u>(3,994)</u>	<u>(13,669)</u>
	11,865	42,963
FOR PAYMENTS AND SERVICES TO THE CITY OF SAN ANTONIO		
	8,637	40,172
FOR ADDITIONS TO UTILITY PLANT:		
(Exclusive of street light facilities for City of San Antonio)		
Total expenditures	39,207	167,832
Additions to Improvements and Contingency Fund	<u>6,007</u>	<u>17,516</u>
	45,214	185,348
Less Funds from Other sources (including Bond Construction Fund, Customer Contributions, etc.)	<u>39,207</u>	<u>160,384</u>
Total Revenues for Additions to Plant	<u>6,007</u>	<u>24,964</u>
<b>TOTAL REVENUE APPLIED</b>	<u><u>\$ 82,505</u></u>	<u><u>\$347,073</u></u>

( ) Represents decrease

**CITY PUBLIC SERVICE BOARD OF SAN ANTONIO**  
**Comparative Balance Sheets at April 30**  
**(Unaudited)**  
**(Thousands of Dollars)**

	<u>1979</u>	<u>1978</u>
<b>Assets</b>		
Utility Plant	\$1,304,175	\$1,138,580
Less allowances for depreciation	<u>216,463</u>	<u>188,020</u>
	1,087,712	950,560
Restricted Cash and Securities:		
Bond Reserve Fund	33,222	25,681
Bond Fund Current Requirements	14,179	11,086
Construction Funds	<u>65,242</u>	<u>54,814</u>
	112,643	91,581
Current Assets:		
Cash, including temporary investments	3,089	1,317
Accounts receivable	19,416	19,014
Materials and supplies	14,080	13,001
Fuel Oil	6,936	7,993
Coal	43,469	42,707
Prepayments and other	<u>3,741</u>	<u>2,918</u>
	90,731	86,950
Unamortized Debt Expense	<u>1,066</u>	<u>877</u>
	<u>\$1,292,152</u>	<u>\$1,129,968</u>

<b>Liabilities</b>		
Long-term Debt		
Old Series	\$ 177,225	\$ 183,615
New Series	<u>520,750</u>	<u>375,675</u>
	697,975	559,290
Less current maturities	<u>14,330</u>	<u>11,315</u>
	683,645	547,975
Earnings Reinvested in Plant	533,712	512,466
Current Liabilities:		
Current maturities of long-term debt	14,330	11,315
Accounts payable	31,981	24,017
Customers' service deposits	<u>2,737</u>	<u>2,734</u>
	49,048	38,066
Deferred Credits and Reserves	2,917	10,511
Contributions in Aid of Construction	<u>22,830</u>	<u>20,950</u>
	<u>\$1,292,152</u>	<u>\$1,129,968</u>

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## APPENDIX D

### TEXT OF CERTAIN INDENTURE PROVISIONS

The provisions of the Old Series Bond Trust Indenture, except as pertain to the issuance of parity bonds, will continue to remain in full force and effect, and will also govern insofar as the New Series Bonds are concerned as long as any of the Old Series Bonds remain outstanding.

The Trust Indenture as amended includes among other Articles and Sections thereof the following:

#### ARTICLE II SPECIAL COVENANTS

SECTION 1. The City is duly authorized under the laws of the State of Texas to create and issue the bonds and to execute and deliver this Indenture and to mortgage and pledge the property conveyed and mortgaged hereunder and to pledge the revenues pledged hereunder, and all necessary action on the part of the City and its Board of Commissioners for the creation and issue of the bonds and the execution and delivery of this Indenture has been duly and effectively taken, and the bonds in the hands of the holders thereof are and will be valid and enforceable obligations of the City in accordance with their terms.

\* \* \*

SECTION 5. The City will not, except as specifically permitted by the provisions of this Indenture, create or voluntarily permit to be created any debt, lien or charge which would be on a parity with or prior to the lien of this Indenture on the trust estate or any part thereof or on the income to be derived from the trust estate and from the operation of the City's complete electric light and power system and gas distribution system or any part thereof; and will not do or omit to do or suffer to be done or omitted to be done any matter or thing whatsoever whereby the lien of this Indenture or the priority of such lien or the bonds at any time hereby secured might or could be lost or impaired; and that it will pay or cause to be paid or will make adequate provision for satisfaction and discharge of all lawful claims and demands for labor, materials, supplies or other objects which if unpaid might by law be given precedence to or an equality with this Indenture as a lien or charge upon the trust estate or any part thereof or the income and profits thereof; provided that nothing in this section shall require the City to pay, discharge or make provision for any such lien, charge, claim or demand so long as the validity thereof shall be by it in good faith contested, unless thereby, in the opinion of the Corporate Trustee, the trust estate or some material part thereof will be lost, forfeited or materially endangered.

The provisions of this section are subject to the exception that the Board of Trustees may borrow from time to time on a purely temporary basis, such sums as would ordinarily be borrowed by private companies engaged in similar business in connection with current operations, and expected to be paid and retired from current revenues received during the fiscal year in which such sums are borrowed.

\* \* \*

SECTION 8. The City, acting through the Board of Trustees, will maintain, preserve and keep the trust estate in a state of good repair, working order and condition and will not dispose of the trust estate in whole or in part except in the manner and upon the terms provided in Article VII hereof.

SECTION 9. The City, acting through the Board of Trustees, will duly and punctually keep, observe and perform each and every term, covenant and condition on its part to be kept, observed and performed, contained in this Indenture, and will punctually perform all duties with reference to the trust estate required by the Constitution and laws of the State of Texas, including particularly the making and collecting of such reasonable and sufficient rates and charges for electricity, gas and services supplied by its electric light and power plants and system and gas distribution system, to the City and to all other consumers, adjusting such rates and charges from time to time in such manner as will render the same reasonable but at the same time fully sufficient to meet all the requirements of this Indenture, it being expressly hereby covenanted and agreed that such rates and charges will be so fixed that the revenues derived therefrom will be sufficient at all times to pay for all operating, maintenance, depreciation and replacement costs and interest

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charges and principal maturities, and to maintain the Bond Reserve Account and the various funds as provided in this Indenture, and to fully carry out all of the agreements contained in this Indenture and any supplemental Indenture hereto.

SECTION 10. To the extent the City may legally so covenant, the City agrees that it will not grant a franchise for the operation of any competing electric system or gas system in the City of San Antonio until all bonds issued hereunder shall have been retired.

#### ARTICLE III ACCOUNTS AND RECORDS

SECTION 1. The City, acting through the Board of Trustees, shall keep full and proper books of record and account, in which full, true and proper entries will be made of all dealings, business and affairs of the City which in any way affect or pertain to the operation of the trust estate and the City's electric light and power plants and system and gas distribution system, and will furnish to the Corporate Trustee and to such bondholders as may request such statement, at least once every six months and at such other times as the Trustee may reasonably request, statements in reasonable detail showing the earnings and expenses of the City's electric light and power plants and system and gas distribution system, including the trust estate and the application of funds in the General Account hereinafter established, for the preceding six months' period. Said Board will also furnish to the Trustee from time to time such other data as to the plants, properties and equipment comprising a part of the trust estate as the Corporate Trustee shall reasonably request.

SECTION 2. As soon after the close of each fiscal year as may reasonably be done, said Board of Trustees will furnish to the Corporate Trustee and to all bondholders who may so request full audits and reports covering the operations of the Systems for the preceding fiscal year, and showing the earnings and expenses of the properties and the disposition made of all revenues for said fiscal year, the amounts available for the purposes set forth in Article V hereof, and, in such detail as the Corporate Trustee may request, the assets, liabilities and financial condition of the Systems at the close of such operating year. The Board of Trustees at the same time shall furnish to said Trustee an estimate of earnings and expenses for the ensuing year in sufficient detail to indicate the probable total net income from operations and amounts available for the several funds and accounts established herein. If any such audit discloses any discrepancies or misapplication of funds, the Board of Trustees shall be charged with the duty of rectifying such misapplications as far as possible and of remedying any deficiencies in payments hereunder from the first funds available for such purpose.

SECTION 3. The Board of Trustees will, out of revenues of the trust estate, upon written request of the governing body of the City or either of the Indenture Trustees, permit the governing body of the City and the Indenture Trustees, or either of them, at all reasonable times, by their agents, engineers, accountants and attorneys, to examine and inspect the plants, property, books of account, records, reports and other data relating to the trust estate and to take copies and extracts therefrom, and will afford a reasonable opportunity to make any such examination and inspection and will furnish the Indenture Trustees and the governing body of the City any and all such other information as they may reasonably request. The Indenture Trustees shall be under no duty to make any such examination unless requested so to do by the holders of twenty-five per cent in principal amount of the bonds at the time outstanding and unless such holders shall have offered the said Trustees security and indemnity satisfactory to it against any costs, expenses and liabilities which might be incurred thereby.

SECTION 4. The Board of Trustees shall, so far as practicable and to the extent consistent with the provisions of this Trust Indenture, keep its books and records in the manner prescribed in the Uniform System of Accounts for Electric Utilities adopted by the National Association of Railroad and Utilities commissioners on November 10, 1936, and in the Uniform System of Accounts for Gas Utilities adopted by said Association on November 10, 1936.

#### ARTICLE IV INSURANCE

SECTION 1. The City covenants and agrees that at all times it will insure and keep insured through the Board of Trustees all properties subject to the lien hereof which are of a character usually insured by private corporations and cities operating like properties, such insurance to be written in good and responsible insurance companies, against risks customarily insured against by private corporations and cities engaged in similar business activities, and in the same manner and to the same extent, all loss therefrom (except any single loss which does not exceed \$25,000) being payable to the Corporate Trustee by the customary mortgagee or trustee clauses to be attached to or inserted in the policies. The Board of Trustees shall furnish to the Corporate Trustee a list of such policies, showing the character of the insurance, the property and risk covered, the name of the insurance company, and other pertinent details, and shall keep said Trustee fully informed of

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any change in or addition to such list. Upon the written request of said Trustee such policies will be deposited with it. Said Trustee, subject to the provisions of Article IX hereof, shall be under no obligation or duty to obtain any such schedule and shall have no duty or responsibility with respect to the sufficiency or effect of any of such policies of insurance, the renewal thereof, or the responsibility of the insurers, or with respect to any such schedule or the matters shown therein, except to display any such schedule to any holder of bonds desiring to inspect the same.

In case of loss or damage to any of the insured property, the proceeds of any such insurance on any one loss amounting to not more than \$25,000 shall either be promptly applied by the Board of Trustees to the repair or replacement of the property destroyed or damaged, or otherwise to the improvement of the mortgaged property, or if not so applied within two years of the date of receipt thereof by the Board of Trustees, such proceeds shall be deposited and used for the redemption of bonds as an addition to redemption funds provided for in Section 6 of Article V hereof. In any case where the proceeds of any such insurance shall amount to a sum in excess of \$25,000 on account of any one loss, all such moneys shall be promptly deposited with the Corporate Trustee and shall be paid out from time to time to the Board of Trustees upon written request of the Board, signed by its Chairman or Vice Chairman and its Secretary, and accompanied by a certified copy of the resolution of the Board directing such request, and specifying that certain expenditures have been made or incurred in repairing or replacing the property so impaired or destroyed, and the amount thereof, and requesting the payment by said Trustee to the Board of Trustees of an amount not in excess of the amount of such expenditures. If in the judgment of the Board of Trustees and of a licensed engineer selected by the Board of Trustees and approved by the Corporate Trustee, the interests of the City and the bondholders will be best served through the application of all or part of such insurance proceeds to improvements to the mortgaged property which do not constitute the repair or replacement of the property for the destruction or impairment of which the insurance proceeds are so paid, the amount of such proceeds, to the extent permitted by law, may be applied by the Board of Trustees to the making of such improvements, and payment thereof shall be made to the Board of Trustees by the Corporate Trustee and expended in the manner provided in the last preceding sentence hereof. The Corporate Trustee may in its discretion require such additional proof of the matters certified in such resolution as it may consider necessary or desirable. Any insurance proceeds not so paid out by said Trustee within a period of two years from the date of the receipt thereof shall be added to the redemption fund provided for in Section 6 of Article V hereof and used for the redemption of bonds as therein provided.

Any adjustment of any loss under any policy of insurance made by the Board of Trustees may be consented to by the Corporate Trustee without investigation as to the fairness thereof.

#### ARTICLE V APPLICATION OF REVENUES

SECTION 1. During the time any bonds issued under this Indenture remain outstanding, the properties constituting the City's electric generating, transmission and distribution system and gas distribution system (including all of the properties and facilities of every kind constituting the "Trust Estate") shall be operated on the basis of a fiscal year commencing on February 1 of each year and ending on the following January 31st.

SECTION 2. All revenues of every nature received through the operation of the systems shall be deposited as received in a general fund or account to be known as the "City of San Antonio Electric and Gas System General Account," hereinafter referred to as the "General Account". Revenues received for the General Account shall be deposited from time to time as received in such bank or banks as may be selected by the Board of Trustees as the depository or depositories of funds received and administered by the Board of Trustees, such bank or banks being hereinafter collectively referred to as the "Depository". The bank or banks in which such funds are kept on deposit shall at all times be a bank or banks located in the City of San Antonio unless there is no bank in the City of San Antonio qualified and willing to serve as depository, in which case the Depository may be any bank or banks in the State of Texas selected by the Board of Trustees. The Board of Trustees shall advise the Corporate Trustee of the names of . . . bank or banks selected as Depository from time to time. If for any reason, in its sole discretion, the Corporate Trustee shall disapprove the appointment of any bank or banks for such purpose and shall so advise the Board of Trustees, the Board of Trustees shall promptly appoint some other bank or banks which meet with the approval of the Corporate Trustee.

SECTION 3. Funds in the General Account shall be used from day to day and month to month to pay the current expenses of operating, maintaining and repairing the systems, including the cost of insurance, the purchase and carrying of stores, material and supplies, the purchase, manufacture and production of gas and electricity for distribution and resale, the payment of salaries and the payment of all other expenses properly incurred in operating and maintaining the systems and keeping them in good repair and operating condition. The system of accounts referred to in Section 4 of Article III hereof shall govern in determining whether any particular expenditure represents an operating and maintenance expense or a capital expenditure for extensions and additions to the

systems. In the event that at any time hereafter taxes of any nature shall be lawfully imposed on the systems, or any part thereof, or any income or revenues thereof, by the United States of America or any governmental body or taxing subdivision other than the City of San Antonio, and such taxes are paid under the provisions of Section 7, Article II hereof, all such payments shall be made from the General Account as an expense of operation under the provisions of this section. All funds used prior to the date of this Indenture for the carrying of stores, materials and supplies shall be permanently retained in the General Account for such purpose and additional funds shall be added thereto out of revenues from time to time to the extent necessary for carrying such stores, materials and supplies, and there shall be retained in the General Account at the end of each fiscal year funds in such an amount as may be required to meet unpaid accounts and obligations which have accrued or are payable during the year, as necessary operating funds to insure the continued operation of the systems.

SECTION 4. After providing for the cost of operations, maintenance and repairs and extensions provided for by Article 1113 Revised Civil Statutes of Texas as amended, and the retention of necessary operating funds and funds for carrying stores, materials and supplies in accordance with the provisions of Section 3 of this Article V, the next available funds in the General Account shall be used for and the same are hereby pledged to the payment of the principal and interest on bonds issued hereunder and the maintaining of a reserve for such purpose, and the Board of Trustees shall cause to be paid to the Corporate Trustee in due time in each year such amounts as will be fully sufficient to promptly pay all principal of and interest on bonds issued hereunder which will become due on August 1 of such year, and February 1 of the next succeeding fiscal year. The funds in the "San Antonio Electric and Gas Revenue Bonds Reserve Account" held by the Corporate Trustee under the Indenture dated August 1, 1942 shall become and constitute upon the effective date of the Trust Indenture the "San Antonio Electric and Gas Systems Bond Reserve Account" hereinafter referred to as the "Reserve Account") under this Trust Indenture to be used by the Corporate Trustee solely for the payment of principal and interest on bonds secured hereby falling due at any time when there would be a default if funds in the Reserve Account were not used for such purpose. During any period of time when the total amount of funds in said Reserve Account is less than the amount which would be sufficient to pay all principal and interest on bonds theretofore issued hereunder which will become due during the fiscal year immediately succeeding the close of the current year, the Board of Trustees shall pay to the Corporate Trustee an additional amount for addition to said Reserve Account equal to twenty per cent of the total payments otherwise to be made to the Corporate Trustee to meet interest and principal accruing and payable during the fiscal year on all bonds then outstanding and unpaid. Such added payments for said Reserve Account shall cease when said fund has reached the said one fiscal year's requirements as above provided.

The payments required to be made to the Corporate Trustee in this section shall be made as nearly as possible in equal monthly installments in each fiscal year on or before the tenth day of each month, provided that if the tenth day shall fall on a Sunday or holiday the payment may be made on the next succeeding secular day. The "Reserve Account" and the monthly payments to meet next maturing interest coupons and bond maturities shall be kept as separate accounts. The funds necessary to meet maturing interest coupons and bonds shall be forwarded by the Corporate Trustee to the paying agent just prior to each maturity.

SECTION 5. From the next available funds in the General Account after the payments, provisions for payments and additions to funds and accounts to the full extent required in Sections 3 and 4 of this Article V have been made, there shall be paid into the General Fund of the City of San Antonio, for general City use, the sum of \$531,000, as a reimbursement for the loss of taxes which the City would receive were the Systems privately owned, for the fiscal year ending January 31, 1952, and a like payment shall be made in each fiscal year thereafter as hereinafter provided. Said payment of \$531,000 for the first fiscal year is based upon the value of fixed capital assets of the Systems located within the city limits of the City of San Antonio as of January 31, 1951 being \$35,000,000 and the payment to be made in each fiscal year after the first fiscal year shall be in said sum of \$531,000 increased or decreased by the ratio by which the value of fixed capital assets within the city limits of the City of San Antonio is increased or decreased above or below the said \$35,000,000 as at the end of the preceding fiscal year. The term "value of fixed capital assets" as used in this Section 5 and in Section 6 of this Article V shall mean the original cost of physical plant, including real estate and equipment, constituting the electric and gas systems (but excluding all cash funds and accounts) after deducting, at original cost, all actual retirements of property and all accrued depreciation at rates established in conformity with the accounting provisions contained in Article III of this Trust Indenture, and all questions of cost, property retirements and depreciation shall be determined by the accounts and records kept by the Board of Trustees in accordance with said Article III of this Indenture.

To the extent such remaining funds as provided above are sufficient, such payments in lieu of taxes shall be made in equal monthly installments. The obligation to pay such annual sums into the General Fund of the City shall be cumulative and if in any fiscal year the money in the General Account after meeting all requirements of Sections 3 and 4 of this Article V shall be insufficient to pay in full the sums so due for such year, so much thereof as may be available shall be paid and the

deficiency shall be paid from the first available funds in the succeeding fiscal year or years after meeting all prior requirements of Sections 3 and 4 of this Article V.

SECTION 6. That from the next available funds in the General Account after the payments, provisions for payments and additions to funds in full accordance with the provisions of Section 3, 4, 5 of this Article V shall be made there shall be paid into a fund to be known as the "Electric and Gas System Improvements and Contingencies Fund" (hereinafter called the "Improvements and Contingencies Fund") an annual sum equal to not less than twelve and one-half (12-1/2%) per cent of the gross revenues of the systems to be used, as permitted by Article 1113 Revised Civil Statutes of Texas, as amended, for the purposes: (a) extensions, additions and improvements to the Systems (b) to meet contingencies of any kind in connection with the operation, maintenance, improvement, replacement or restoration of property, and (c) the payment of bonds or other obligations for which other funds are not available. To the extent money in the General Account is sufficient for meeting the provisions of Paragraphs 3 to 5, inclusive, of Article V of the Indenture, the transfers or payments into said Fund shall be made in monthly installments. After setting aside and providing for said minimum amount of twelve and one-half (12-1/2%) per cent of gross revenues of the systems to be placed in said Fund as above specified, there shall be paid into the General Fund of City, to the extent available from remaining revenues in the General Account as of the end of each fiscal year: (a) a sum sufficient to reimburse the City for all amounts paid to the Board during the year for gas and electric services of the Systems used by the City for municipal purposes during such fiscal year and to the extent such remaining funds are found to be sufficient, such reimbursements may be made currently in monthly installments; and (b) commencing February 1, 1960, and during the three fiscal years ending January 31, 1961, 1962, and 1963, a sum in cash which, when added to (1) the payment in lieu of taxes for the year as provided in Section 5 of Article V of this Indenture, (2) the amount of said reimbursements for electric and gas services during the year, and (3) the amount expended during the year for additions to the street and traffic lighting system will amount to \$6,508,000 for the year, and commencing with the fiscal year beginning February 1, 1963, and for each fiscal year thereafter, a sum in cash which, when added to the payments, reimbursements and expenditures for the year mentioned in (1) to (3), inclusive, in the next preceding sentence hereof, will total an amount equal to 14% of the gross revenues of the Systems for the current fiscal year. Such fixed total payments for the first three fiscal years and such additional payments to be made thereafter based on gross revenues shall be paid in monthly installments in accordance with estimates made by the Board and shall be adjusted on or before March 15 after the close of each fiscal year.

All funds remaining in the General Account of the Board of Trustees after making such payments and reimbursements, including all allowances for depreciation, shall be placed in the said "Electric and Gas System Improvements and Contingencies Fund" until such fund, after all disbursements and charges for the purposes above specified have been made, amounts to twenty (20%) per cent of the value of fixed capital assets as shown by the audited statement of the Systems. If at the close of any fiscal year any funds falling into said Improvements and Contingencies Fund result in increasing it above twenty (20%) per cent of the value of fixed capital assets as shown by the audited statement as of the end of the fiscal year, such excess shall be retained in a fund to be known as the "Electric and Gas Systems Surplus Fund". The monies in the Surplus Fund shall be used by the Board of Trustees either (a) as an offset to permit the reduction of either electric rates or gas rates or both commencing in the next fiscal year and extending for such time as the funds will permit, or (b) for the redemption of so many of the last maturing bonds then eligible for redemption prior to maturity, as the available funds are sufficient to retire, such bond retirements to be made out of such fund only when funds available for such purpose reach the amount of \$1,000,000 or more. In the event monies in the Surplus Fund are used by the Board of Trustees as an offset to permit the reduction of rates, the Board of Trustees shall in each year transfer all or so much of the Surplus Fund to the General Account of the Board as it may deem necessary, based on the advice of rate engineers for the Board, to offset or aid in offsetting the loss of revenues during the succeeding fiscal year or years due to such rate reductions.

If at the beginning of each fiscal year the total of the funds in the Improvements and Contingencies Fund and in the Bond Construction Fund available for extensions and improvements to the systems, plus the amounts estimated by the Board of Trustees to be available from revenues for such purposes during such fiscal year, is less than the amount budgeted for extensions and improvements during such fiscal year, it shall be the duty of the Board of Trustees to request the City Council to authorize and provide for the sale of additional improvement bonds in the amount necessary with other funds, to meet the cost of budgeted improvements, and it shall be the duty of the City Council to provide for the issuance and sale of such bonds in order that the budgeted extensions and improvements may be made.

SECTION 7. All interest received by the Board of Trustees and the Corporate Trustee upon funds of the system or upon bonds or other securities in which such funds may be invested in accordance with the provisions of this Trust Indenture, except interest received on the Bond Reserve Account, shall be paid annually into the General Account and deal with as a part of the revenues of the system. Interest received on the Bond Reserve Account may, at the discretion of the Board of Trustees, be

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used for payment of bond interest and principal from time to time. All funds in the possession of the Board of Trustees under the Trust Indenture dated August 1, 1942 and not specifically dealt with and allocated by the provisions of this Trust Indenture shall, upon the effective date of this Trust Indenture, become funds to be administered by the Board of Trustees hereunder for the same purposes and uses to which the same have been dedicated under said prior Trust Indenture. All moneys and funds held in any of the accounts and special funds provided for in this Indenture shall be held as trust funds and accounts for the benefit of the holders of the bonds issued hereunder and moneys and funds in all of said accounts and funds shall at all times, to the extent practicable, be adequately secured by or, as to money in the Reserve Account, invested in United States government bonds or other marketable securities eligible as security for the deposit of trust funds under regulations of the Board of Governors of the Federal Reserve System, or by indemnity bonds of surety companies qualified as surety for United States government deposits. All securities and indemnity bonds taken or standing as security for such money or funds shall be subject to the approval of the Board of Trustees. The Board of Trustees shall make a monthly report to the Corporate Trustee specifying the amounts held in each of the funds on deposit in the Depository and listing the securities and indemnity bonds standing as security for such deposits, and the Corporate Trustee may, but need not, require such additions and substitutions to be made in such securities and indemnity bonds as in its opinion is necessary to protect the interest of the holders of the bonds. Moneys and funds at any time held in the Improvements and Contingencies Fund may, at the discretion of the Board of Trustees, be invested in securities which are either direct obligations of the United States of America or direct obligations of any State or municipality in the United States of America which are eligible for the investment of trust funds under the laws of either the State of Texas or the State of New York then in force, or which are direct obligations of Bexar County, Texas, the City of San Antonio, Texas, or the San Antonio Independent School District.

SECTION 8. At the close of each fiscal year all accounts and funds of the Systems shall be balanced and adjusted and such transfers, distribution and adjustments made as will cause all revenues and income for the year to be applied and held in accordance with the provisions of this Article V, and the Board of Trustees shall at the close of each operating year cause an audit of the Board's accounts and operations to be made by or under the supervision of independent certified public accountants selected by the Board of Trustees.

#### ARTICLE VI MANAGEMENT

SECTION 1. Pursuant to the authority contained in Article 1115, Revised Civil Statutes of Texas, 1925, as amended, the complete management and control of the systems during such time as any bonds issued hereunder are outstanding and unpaid shall be vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, to be known as the "City Public Service Board, of San Antonio". Said Board is referred to in this Trust Indenture as the "Board" and the "Board of Trustees". The Mayor of the City of San Antonio shall ex officio be one of the members of the Board of Trustees, and the remaining members of the Board of Trustees shall consist of Walter P. Napier, to serve for a term ending January 31, 1953; Willard E. Simpson, to serve for a term ending January 31, 1955; James H. Calvert, to serve for a term ending January 31, 1957; and John M. Bennett, Jr., to serve for a term ending January 31, 1959; each term of office to commence with the date of this Trust Indenture. All vacancies in membership on the Board, whether occasioned by failure or refusal of any person above named to accept appointment or by expiration of term of office or otherwise, shall be filled by the majority vote of the remaining members of the Board of Trustees. No person who is related within the second degree of consanguinity or affinity to any member of the Board of Trustees or any person who shall have been a member of the Board of Trustees within a period of five years prior to the election shall be eligible for election as a member of the Board. The term of office of each member elected to the Board, after the initial terms of the members named above, shall be five years. A person who has served as a member of the Board either for an initial term as above specified or a single five-year term by virtue of election by the Board of Trustees, shall be eligible to be re-elected for one additional five-year term, and one only. A member who is elected to the Board to serve out an unexpired portion of a retired member's term shall not be considered to have served a "term" unless the unexpired portion of the term so served is three years or more. Permanent removal of residence from Bexar County by any member of the Board shall vacate his office as a member of the Board, and any member of the Board, other than the Mayor of the City, who shall be continuously absent from all meetings held by the Board for a period of four consecutive months shall, unless he shall have been granted leave of absence by the unanimous vote of the remaining members of the Board, be considered to have vacated his office as a member of the Board. Any member of the Board other than the Mayor of the City may, by unanimous vote of the remaining members of the Board, be removed from office, but only for adequate cause.

Except as otherwise specifically provided in this Trust Indenture, the Board of Trustees shall have absolute and complete authority and power with reference to the control, management and operation of the systems and the expenditure and application of the revenues of the systems subject to the provisions contained in this Trust Indenture, all of which shall be binding upon and shall govern

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the Board of Trustees. In connection with the management and operation of the systems and the expenditure and application of the revenues therefrom, the Board of Trustees shall be vested with all of the powers of the City with respect thereto, including all powers necessary or appropriate for the performance of all of the covenants, undertakings and agreements of the City contained in this Trust Indenture, and shall have full power and authority to make rules and regulations governing the furnishing of electric and gas service to customers and for the payment of the same, and for the discontinuance of such services upon failure of customers to pay therefor, and, to the extent authorized by law, shall have full authority with reference to making of extensions, improvements and additions to the systems and the acquiring by purchase or condemnation of properties of every kind in connection therewith.

The Board of Trustees shall elect one of its members as Chairman and one as Vice Chairman of the Board and shall appoint a Secretary and a Treasurer, or a Secretary-Treasurer, who may, but need not be, a member or members of the Board. If a member of the Board of Trustees is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the Board whose duties in the operation of the systems require performance of similar duties may be appointed as Secretary or Treasurer, or Secretary-Treasurer. The Board of Trustees may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the systems with the same freedom and in the same manner ordinarily employed by the Board of Directors of private corporations operating properties of a similar nature.

The Board of Trustees shall appoint and employ all officers and employees which it may deem desirable, including a General Manager of the system and an attorney or attorneys. No officer or employee of the Board of Trustees may be employed who shall be related within the second degree of consanguinity or affinity to any member of the Board of Trustees.

The Board of Trustees shall obtain and keep continually in force an employees' fidelity and indemnity bond of the so-called "blanket" type, written by a solvent and recognized indemnity company and covering losses to the amount of not less than One Hundred Thousand Dollars (\$100,000).

The members of the Board of Trustees, other than the Mayor of the City, shall receive annual compensation in the amount of Two Thousand (\$2,000.00) Dollars, except that the Chairman of the Board shall receive annual compensation in the amount of Two Thousand Five Hundred (\$2,500.00) Dollars.

The members of the Board of Trustees shall not be personally liable, either individually or collectively, for any act or omission not willfully fraudulent or in bad faith.

#### ARTICLE VII POSSESSION AND RELEASE OF PROPERTY

SECTION 1. While not in default in the payment of principal of or interest on any of the bonds secured hereby, or in respect of any of the covenants, agreements or conditions in this Indenture contained, the City, through the Board of Trustees, shall be permitted and suffered to possess, use and enjoy the trust estate and all property and appurtenances, franchises and rights conveyed by this Indenture (except money or property, if any, expressly required to be deposited with the Corporate Trustee) and to receive and use the revenues, rents, issues, income, produce and profits thereof with power in the ordinary course of business freely and without let or hindrance on the part of the Indenture Trustees or of the holders of the bonds, to use and consume supplies; to alter, repair, dismantle and change the position of any of its buildings and structures, plants, mains, pipe lines, poles, wires, conduits or other property whatsoever (provided that no such change shall impair the lien of this Indenture upon any such building, structure, plant, main, pipe line, pole, wire, conduit, or other property); to replace and renew any of its equipment, machinery or other property; and to acquire any and all rights, easements and contracts in connection therewith and release any rights, easements and contracts which are abandoned.

SECTION 2. The City from time to time, through the Board of Trustees, while in possession of the trust estate shall be suffered and permitted without any release from or action by the Indenture Trustees or either of them, to sell, exchange or otherwise dispose of, free from lien of this Indenture, (1) any of its equipment, machinery, fixtures, apparatus, appliances, tools, implements, or other chattels at any time subject to the lien hereof which may have become worn out or un-serviceable, disused, undesirable or unnecessary for use in the conduct of its business, replacing the same by, or substituting for the same, other property of equal value to the City, which shall forthwith become, without further action, subject to the lien of this Indenture, and (2) any materials, merchandise equipment and supplies in the ordinary course and conduct of its business; provided, however, that upon the sale or other disposition of such property to the value of \$10,000 or more in any one calendar month, the Board of Trustees shall cause to be filed with the Corporate Trustee a certificate describing such property, stating that such property has become worn out, un-serviceable, undesirable or unnecessary for use in the conduct of its properties and that such disposition thereof will not impair the operating integrity of the properties, and stating also the consideration received from such sale or other disposition thereof and the use made or to be

made of such consideration.

SECTION 3. So long as the City is not in default hereunder the City may sell or otherwise dispose of any real property and improvements thereon mortgaged or covered by this Trust Indenture and the Corporate Trustee shall release the lien and encumbrance of this Trust Indenture upon such property, but only upon the receipt by the Corporate Trustee of a certificate signed by a majority of the members of the Board of Trustees and by an independent licensed engineer stating in substance: (1) that the proposed sale price of the property to be released represents the then fair value of the property to be sold; (2) that the City is not, to the knowledge of the signers of the certificate, in default in the performance of any of the terms or covenants of this Trust Indenture, or any indenture supplemental thereto, or any of the bonds secured thereby; and (3) that the release of the property will not, in the opinion of the signers, be prejudicial to the interest of the bondholders and that the property to be released is not, or will not at the date of delivery or surrender of possession thereof be necessary or useful in the proper and economical operation of the systems.

The money received from the sale of such released property shall be held and used by the Board to the extent permitted by law for the purchase of additional property deemed by the Board necessary or advantageous to the system, and unless such money is used in such purchase of property within two years of the time received, the same shall be used for the redemption prior to maturity of as many of the bonds as may be redeemed with such money in the manner and as a part of the redemption fund provided for in Section 6, Article V of this Trust Indenture. All additional property purchased or acquired under the provisions of this section shall immediately upon such purchase or acquisition become subject to the lien of this Indenture.

#### ARTICLE VIII ISSUE OF ADDITIONAL BONDS

(This section has not been reproduced since it is no longer applicable)

#### ARTICLE IX DEFAULTS AND REMEDIES

SECTION 1. For the purpose of this Indenture and any indenture supplemental hereto the following events are hereby defined as and are declared to be "events of default":

(a) Default in the due and punctual payment of any interest on any bond or bonds and the continuance thereof for a period of ninety (90) days after written notice thereof by the Corporate Trustee to each member of the governing body of the City of San Antonio and to each member of the Board of Trustees, stating that payment has been demanded and default made.

(b) Default in the due and punctual payment of the principal of any of the bonds at maturity thereof and the continuance thereof for a period of ninety (90) days after written notice thereof by the Corporate Trustee to each member of the governing body of the City of San Antonio and to each member of the Board of Trustees, stating that payment has been demanded and default made.

(c) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the City to be kept, observed and performed contained in this Indenture or any indenture supplemental hereto, or in the bonds, and continuation of such default for a period of ninety (90) days after written notice thereof by the Corporate Trustee to each member of the governing body of the City of San Antonio and to each member of the Board of Trustees.

(d) The institution of bankruptcy proceedings, either voluntary or involuntary, under any State or Federal statute, whereby the City's duty to carry out all of the covenants and agreements in this Indenture or any supplemental indenture might be in anywise affected.

Any notice herein provided to be given to a member of the governing body or the City Clerk, or to a member of or the Secretary of the Board of Trustees shall be deemed sufficiently given if sent by registered mail with postage prepaid to the person to be notified, addressed to him at the post office in the City of San Antonio. The Corporate Trustee may give any such notice in its discretion and shall give such notice if requested so to do by the holders of not less than twenty per cent (20%) in principal amount of the bonds at the time outstanding.

Wherever the term "bonds" is used in this article and elsewhere in this Trust Indenture, unless the context clearly indicates otherwise, the same shall be taken to refer to any bonds issued under this Indenture or any indenture supplemental thereto.

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SECTION 2. Upon the happening of any event of default as defined in Section 1 of this article, the Corporate Trustee shall, but only upon the written request of the holders of not less than sixty per cent (60%) in principal amount of the bonds then outstanding hereunder, and upon being indemnified to its satisfaction, by notice in writing to the Secretary of the Board of Trustees and to the City Clerk, to be sent as provided in Section 1 hereof, declare the principal of all bonds then outstanding hereunder to be due and payable immediately, and upon any such declaration the said principal shall become and be due and payable immediately, anything in this Indenture or in the said bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if at any time after the principal of said bonds shall have been declared due and payable and before any sale of the trust estate shall have been made, all arrears of interest upon all such bonds, with interest upon all past due installments of interest at the rate borne by the bonds, and all past due principal of the bonds, together with the reasonable charges and expenses of the Indenture Trustees, their agents, attorneys and counsel, shall be paid by the City, and after all other defaults which may have occurred shall have been remedied or cured to the satisfaction of the Trustee, then and in every such case, the holders of sixty per cent (60%) in principal amount of the bonds then outstanding may, by notice in writing given to the Corporate Trustee, and to the City Clerk and the Secretary of the Board of Trustees in the manner provided in Section 1 of this article, waive such default and its consequences, and rescind such declaration, but no such waiver or rescission shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

SECTION 3. Upon the happening of any event of default as defined in Section 1 of this article, the Indenture Trustees or either of them, personally or by their attorneys or agents, may to the extent permitted by law enter into and upon and take possession of all the trust estate and each and every part thereof and exclude the City and the Board of Trustees, or its agents, servants and employees, wholly therefrom, and have, hold, use, operate, manage and control the same, and each and every part thereof, and in the name of the City or otherwise, as they shall deem best, conduct the business thereof and exercise the franchises pertaining thereto and all the rights and powers of the City, and use all of the then existing property, materials, current supplies, stores, and other assets for that purpose, and at the expense of the trust estate from time to time maintain, restore, insure and keep insured the properties, plants, equipment and apparatus provided or required for use in connection with such business, and likewise from time to time, at the expense of the trust estate, make all such necessary or proper repairs, renewals and replacements and all such useful alterations, additions, betterments and improvements as to them may seem judicious, and collect and receive all rates, earnings, income rents, issues, profits and revenues of the same and of every part thereof, and after deducting therefrom the expenses of operation and all expenses incurred hereunder and all other proper outlays herein authorized, and all payments which may be made as just and reasonable compensation for their own services, and for the services of their attorneys, agents, and assistants, and the rest and residue of the moneys received by the Trustees, or either of them, shall be applied as follows:

(a) In case the principal of none of the bonds shall have become due, to the payment of the interest in default, in order of the maturity of the installments of such interest, with interest on the overdue installments thereof at the same rates, respectively, as were borne by the bonds on which such interest shall be in default, such payments to be made ratably to the parties entitled thereto without discrimination or preference.

(b) In case the principal of any of the bonds shall have become due by declaration or otherwise, first to the payment of the interest in default, in the order of the maturity of the installment thereof at the same rates, respectively, as were borne by the bonds on which such interest shall be in default, and next to the payment of the principal of all bonds then due, such payments to be made ratably to the parties entitled thereto without discrimination or preference.

In case all of such payments, and payment of whatever may be payable for any other purpose required by any provision of this Indenture, shall have been made in full and no suit to foreclose or enforce this Indenture shall have been begun or sale made as hereinafter provided, and upon compliance with all other provisions of this Indenture as to which the City shall be in default, the Indenture Trustees, after making such provision as to them may seem advisable for the payment of the next maturing installment of interest to fall due upon the bonds, shall restore the possession of the trust estate (other than any cash at the time required to be held by the Corporate Trustee hereunder) to the Board of Trustees.

SECTION 4. Upon the happening of any event of default as defined in Section 1 of this Article, if the principal of all of the bonds outstanding hereunder shall have been properly declared due and payable as provided in Section 2 of this Article, and whether or not the remedies authorized by Section 3 of this Article shall have been pursued in whole or in part, the Indenture Trustees, or either of them, may cause this Indenture to be foreclosed and the trust estate to be sold, and may proceed to protect and enforce the rights of the Indenture Trustees and the bondholders hereunder in such manner as counsel for said Trustees shall advise, whether for the specific performance of any covenant, condition, agreement or undertaking herein contained, or in aid of the execu-

tion of any power herein granted, or for the enforcement of such other appropriate legal or equitable remedies as may in the opinion of such counsel be more effectual to protect and enforce the rights aforesaid. The Indenture Trustees shall take any such action or actions if requested so to do by the holders of at least sixty per cent (60%) in principal amount of the bonds then outstanding hereunder.

SECTION 5. Upon the happening of any event of default as defined in Section 1 of this Article, and if the principal of all of the outstanding bonds shall have been declared due and payable as provided in Section 2 of this Article, then and in every such case, and whether or not the remedies authorized by Section 3 of this Article shall have been pursued in whole or in part, the Indenture Trustees, or either of them, shall, but only upon the written request of the holders of not less than sixty per cent (60%) in principal amount of the bonds then outstanding hereunder, with or without entry, sell to the highest bidder the trust estate and all right, title, interest, claim and demand thereto and the right of redemption thereof, at any such place or places, and at such time or times and upon such notice and terms as the Trustee acting may fix and specify and as may be required by law. In case of such sale of any of the property subject to this Indenture, notice of such sale shall first be given by publication in at least one daily newspaper published in the city in which the sale is to be made at least once a week for four successive weeks next preceding such sale, and by like publication in at least one daily newspaper published in the City of New York, New York, and by the giving of any other notices which may be required by law, and upon such sale the Trustees may make and deliver to the purchaser or purchasers a good and sufficient deed or deeds for the same, which sale shall be a perpetual bar both at law and in equity against the City and all persons and corporations lawfully claiming or to claim by, through or under it. No purchaser at any such sale shall be bound to see to the application of the purchase money or to inquire as to the authorization, necessity, expediency or regularity of any such sale. Nevertheless, the City, if so requested by the acting Trustee, shall ratify and confirm any sale or sales by executing and delivering to the acting Trustee or to such purchaser or purchasers all such instruments as may be necessary or in the judgment of the acting Trustee proper for the purposes which may be designated in such request.

Such notice of sale shall state that the City has granted to the purchaser of the mortgaged property a franchise for the operation thereof for a period of twenty years dating from such purchase.

SECTION 6. In the event of any sale, whether made under the power of sale hereby granted and conferred or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, the whole of the trust estate shall be sold in one lot and as an entirety, unless such sale as an entirety is impossible or impracticable by reason of some statute or otherwise.

SECTION 7. The acting Trustees may from time to time adjourn any sale to be made by them hereunder by announcement at the time and place of such adjourned sale, and without further notice or publication except as otherwise required by law may make such sale at the time and place to which the same may be so adjourned.

SECTION 8. In case an event of default as defined in Section 1 of this Article occurs, and if all of the bonds outstanding hereunder shall have been declared due and payable as provided in Section 2 hereof, and in case a bill in equity shall be filed or any other judicial proceeding commenced to enforce any right of the Indenture Trustees or of the bondholders under this Indenture or otherwise, then as a matter of right, the acting Trustee shall be entitled to the appointment of a receiver of the trust estate and of the earnings, income or revenues, rents, issues and profits thereof with such powers as the court making such appointment may confer.

SECTION 9. In case the Indenture Trustees, or either of them, shall have proceeded to enforce any rights under this Indenture by foreclosure, sale, or otherwise, and such proceedings shall have been discontinued or superseded, or shall have been determined adversely to said Trustee or Trustees, then and in every such case the City and the Indenture Trustees shall be restored to their former respective positions and rights hereunder in respect of the trust estate, and all rights, remedies and powers of the Indenture Trustees and the bondholders shall continue as though no such proceedings had been taken.

SECTION 10. In case of any such sale of the trust estate, any bondholder or bondholders or committee of bondholders or either Trustee, may bid for and purchase such property and upon compliance with the terms of sale may hold, retain possession and dispose of such property as the absolute right of the purchaser or purchasers without further accountability and shall be entitled, for the purposes of making settlement or payment for the property purchased, to use and apply any bonds hereby secured and any interest thereon due and unpaid, whether or not such interest be evidenced by coupons, by presenting such bonds and coupons in order that there may be credited thereon the sum apportionable and applicable thereto out of the net proceeds of such sale, and thereupon such purchaser or purchasers shall be credited on account of such purchase price payable by him or them with the sum apportionable and applicable out of such net proceeds to the payment of or as credit on the bonds and coupons so presented.

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SECTION 11. The proceeds of any judicial or other sale of the trust estate, together with any funds at the time held by the Corporate Trustee and not otherwise appropriated, shall be applied as follows:

First: To the payment of the costs, expenses, fees and other charges of such sale and a reasonable compensation to the Indenture Trustees, their agents and attorneys, and to the discharge of all expenses and liabilities incurred and advances or disbursements made by said Trustees hereunder.

Second: Any surplus then remaining to the payment of the whole amount then due or unpaid upon the bonds issued hereunder and then outstanding for principal and interest, with interest on overdue principal and overdue installments or interest at the same rates, respectively, as were borne by the bonds whereof the principal or installments of interest may be overdue, and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid, then to the payment of such principal and interest ratably according to the aggregate amount due on all bonds then outstanding without preference or priority of principal over interest or of interest over principal.

Third: Any surplus then remaining to the City or whomsoever shall be lawfully entitled thereto.

SECTION 12. In case of a sale under any of the foregoing provisions of this Article, whether made under the power of sale herein granted or under or by virtue of judicial proceedings, the principal of all bonds issued hereunder and then outstanding, if not previously due, shall immediately thereupon become due and payable, anything in said bonds or in this Indenture, or any supplemental indenture, to the contrary notwithstanding.

SECTION 13. The remedies herein conferred upon or reserved to the Indenture Trustees or to the holders of bonds hereby secured are not intended to be exclusive of any other remedy, but each remedy herein provided shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, and every power and remedy hereby given to said Trustees or to the holders of bonds issued hereunder may be exercised from time to time as often as may be deemed expedient. No delay or omission of said Trustees or of any holder of bonds issued hereunder to exercise any power or right arising from any default hereunder shall impair any such right or power (unless the exercise of such right or power shall become barred by law) or shall be construed to be a waiver of any such default or to be acquiescence therein.

SECTION 14. Anything in this Indenture contained notwithstanding, the holders of sixty per cent (60%) in principal amount of bonds hereby secured and then outstanding shall have the right by an instrument or instruments in writing delivered to the Indenture Trustees to direct and control said Trustees as to the method of taking any and all proceedings for any sale of any or all of the trust estate or for the foreclosure of this Indenture, or any supplemental indenture, or for the appointment of a receiver and may at any time cause any proceedings authorized by the terms hereof to be so taken or to be discontinued or delayed; provided, however, that such holders shall not be entitled to cause said Trustees to take any proceedings which in their opinion, or the opinion of the one acting, would be unjustly prejudicial to non-assenting bondholders.

SECTION 15. No holder of any bond or coupon issued hereunder shall have any right as such holder to institute any suit, action or proceeding for the foreclosure of this Indenture or for the execution of any Trust hereunder or for the appointment of a receiver, or for any other remedy hereunder, all right of action hereunder being vested exclusively in the Indenture Trustees, unless and until such holder shall have previously given to said Trustees written notice of default hereunder and of the continuance thereof, and also unless the holders of the requisite principal amount of the bonds then outstanding shall have made written request upon said Trustees and shall have afforded a reasonable opportunity to institute such action, suit or proceeding in the name of one or both of them, and unless said Trustees shall have been offered reasonable indemnity satisfactory to them against the costs, expenses and liabilities to be incurred therein or thereby, and said Trustee for thirty (30) days after receipt of such notification, request or offer of indemnity shall have failed to institute any such action, suit or proceeding, it being understood and intended that no one or more holders of the bonds shall have the right in any manner whatever by his or their action to affect, disturb or prejudice the lien of this Indenture, or any supplement hereto, or to enforce any right thereunder except in the manner herein provided and for the equal benefit of all holders of such outstanding bonds.

SECTION 16. In any suit or action by or against the Indenture Trustees, or either of them, arising under this Indenture or on all or any of the bonds or coupons issued hereunder, said Trustee or Trustees shall not be required to produce such bonds or coupons, but shall be entitled in all things to maintain or defend any such suit or action without their production.

SECTION 17. If any covenant, agreement, waiver or part thereof in this Article or elsewhere in this Indenture, or in any supplemental indenture, contained be forbidden by any pertinent law, or under any pertinent law be effective to render this Indenture invalid or unenforceable, or to impair the lien thereof, then each such covenant, agreement, waiver or part thereof shall itself be and is here-

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by declared to be wholly ineffective and this Indenture and supplements thereto shall be construed as if the same were not included herein.

ARTICLE XI  
FRANCHISE

In the event that any sale of the trust estate shall be made under any of the provisions of this Indenture for the enforcement of the lien of this Indenture, and any supplements thereto, the City hereby grants to the purchaser or purchasers at such sale a franchise to operate the property so purchased for a term of twenty years dating from such purchase, subject to all laws regulating same then in force. The properties so purchased, in the event they are operated by the purchaser pursuant to such franchise, shall be operated, conducted and maintained in such manner as to be a benefit to the City of San Antonio and its inhabitants, and such purchaser shall be pledged to render efficient public service.

ARTICLE XII  
MODIFICATION OF THIS INDENTURE

SECTION 1. The holders of seventy-five per cent (75%) in principal amount of bonds at any time outstanding (not including in any case any bonds which may then be held or owned by or for the account of the City) shall have the right from time to time to consent to and approve the execution by the City and the Indenture Trustees of such Indenture or Indentures supplemental hereto as shall be deemed necessary or desirable by the City for the purpose of modifying or amending any of the terms or provisions contained in this Indenture or in any Indenture or Indentures supplemental thereto or contained in the ordinance authorizing bonds secured by this Indenture; provided, however, that nothing herein contained shall permit or be construed as permitting the modification or amendment of the terms and conditions contained in this Indenture or any supplemental Indenture or any ordinance or bonds so as to:

- (a) Make any change in the maturity of the bonds issued hereunder.
- (b) Reduce the rate of interest borne by any bonds.
- (c) Reduce the amount of the principal or premium, if any, payable on bonds.
- (d) Modify the terms of payment of principal or of interest or premium upon bonds or any of them or impose any conditions with respect to such payment.
- (e) Affect the rights of the holders of less than all bonds then outstanding.

If at any time the City shall request the Indenture Trustees to enter into such Supplemental Indenture, said Trustee, unless they shall deem that such proposed supplemental Indenture shall contain provisions which affect their rights or obligations and to which they are unwilling to assent, shall at the expense of the Board of Trustees, cause notice of the proposed execution of such supplemental Indenture to be published in a financial newspaper or journal published in the City of New York, New York, and in a newspaper of general circulation published in the City of San Antonio, once during each calendar week for at least four successive calendar weeks, and on or before the date of the first publication of such notice, the Corporate Trustee shall also mail a copy thereof to each registered owner of bonds at his address appearing on said Trustee's registry books, but failure to mail any such notice or any defect therein shall not affect the validity of the proceedings for obtaining consents to the execution and delivery of such supplemental Indenture. Such notice shall briefly set forth the nature of such proposed supplemental Indenture and shall state that a copy thereof is on file at the principal office of said Trustee for inspection by all holders of bonds.

Whenever at any time within one year from the date of the first publication of said notice the City shall deliver to the Corporate Trustee an instrument or instruments executed by the holders of at least seventy-five per cent (75%) in aggregate principal amount of the bonds then outstanding as in this section defined, which instrument or instruments shall refer to the proposed supplemental Indenture described in said notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof on file with the Corporate Trustee, thereupon, but not otherwise, the Indenture Trustees shall execute the said supplemental Indenture in substantially the said form without liability or responsibility to any holder of any bond, whether or not such holder shall have consented thereto.

If the holders of at least seventy-five per cent (75%) in aggregate principal amount of the bonds outstanding as in this section defined at the time of execution of any such supplemental Indenture, or the predecessors in title of such holders shall have consented to and approved the execution thereof as herein provided, no holder of any bond, whether or not such holder shall have consented to or shall have revoked any consent as in this section provided, shall have any right or interest to object to the execution of such supplemental Indenture or to object to any of the terms or pro-

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visions therein contained, or to the operation thereof, or to enjoin or restrain the Indenture Trustees or the City from executing the same or from taking any action pursuant to the provisions thereof.

SECTION 2. Upon the execution of any supplemental Indenture pursuant to the provisions of this section, this Indenture and any supplements thereto and the ordinances authorizing the bonds then outstanding shall be and be deemed to be modified and amended in accordance with such supplemental Indenture, and the respective rights, duties and obligations of the City, the Trustees and all the holders of outstanding bonds shall thereafter be determined, exercised and enforced, subject in all respects to such modifications and amendments.

Any consent given by the holder of a bond pursuant to the provisions of this section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Article, and shall be conclusive and binding upon all future holders of the same bond during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing notice with the Trustees in form satisfactory to them of such revocation of consent, but such revocation shall not be effective if the holders of seventy-five per cent (75%) aggregate principal amount of the bonds outstanding as in this section defined have, prior to the attempted revocation, consented to and approved the supplemental Indenture referred to in such revocation. For the purposes of this Article, ownership of bonds shall be established in the manner provided in Section 1 of Article XIII of this Indenture.

Any supplemental Indenture executed in accordance with the provisions of this Article shall thereafter form a part of this Indenture and all the terms and conditions in any such supplemental Indenture as to any provision authorized to be contained therein shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

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## APPENDIX E

### CPSB RESOLUTION APPROVING NEW SERIES BONDS ORDINANCE

A RESOLUTION OF THE CITY PUBLIC SERVICE BOARD  
OF SAN ANTONIO, TEXAS, RELATING TO THE ISSUANCE  
AND SALE OF \$100,000,000 CITY OF SAN ANTONIO  
TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE  
IMPROVEMENT BONDS, NEW SERIES 1979-A

WHEREAS, pursuant to the authority contained in Article 1115, V.A.T.C.S., a Trust Indenture, dated February 1, 1951, and various Supplemental Indentures thereto (collectively called the "Indenture") providing security for the payment of outstanding revenue bonds known as "Old Series Bonds" and ordinances passed by the City Council of the City of San Antonio, Texas, on October 9, 1975, February 2, 1976, June 24, 1976, January 6, 1977, July 15, 1977, February 23, 1978, August 3, 1978 and January 11, 1979 (collectively called the "Ordinances"), authorizing the issuance of outstanding revenue bonds known as "New Series Bonds", the complete management and control of the electric and gas systems (the "Systems") of the City of San Antonio, Texas, is vested in a Board of Trustees known as the City Public Service Board of San Antonio, Texas (the "Board"), during the period of time any of the aforementioned "Old Series Bonds" and "New Series Bonds" are outstanding and unpaid; and

WHEREAS, in the performance of its duties and responsibilities pertaining to the management and operation of the Systems, the Board has determined that \$100,000,000 in revenue bonds should now be issued by the City to provide funds to meet the costs of improvements and extensions to the Systems currently under construction and estimated costs of planned improvements and extensions to said Systems, such amount of bonds being based upon (i) the difference between the estimated costs of such extensions and improvements and the total amount of funds available and estimated to be available to meet said estimated costs, and (ii) the current rate of expenditure of funds for such capital improvement project costs; and

WHEREAS, by virtue of the authority and power vested in the Board with reference to the expenditure and application of the revenues of the Systems and to comply with the terms and conditions prescribed in the Ordinances for the issuance of additional bonds on a parity with the heretofore issued "New Series Bonds," it is proper for the Board to formally request the City Council of San Antonio to authorize and sell such bonds, consent to the issuance of the same, approve the ordinance authorizing such bonds and agree to comply with all the terms and provisions of such ordinance with relation to the operation of the Systems, and the handling of the proceeds of such bonds.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO, TEXAS:

1. That the City Council of the City of San Antonio, Texas, is hereby formally requested to authorize and sell \$100,000,000 in principal amount of revenue bonds payable from the same source, secured in the same manner and on a parity with the heretofore issued "New Series Bonds"; and the Board by the adoption of this resolution does hereby evidence its consent to the issuance and sale of such bonds and the payment thereof from the net revenues of the Systems and its approval of the ordinance authorizing the issuance of the \$100,000,000 "City of San Antonio, Texas, Electric and Gas Systems Revenue Improvement Bonds, New Series 1979-A, dated August 1, 1979, a copy of which ordinance is attached to this resolution; and the Board hereby agrees to comply with all of the terms and provisions of said ordinance with relation to the administration and operation of the Systems and the disposition of the revenues therefrom; and

2. That the Board recognizes that the ordinance authorizing the New Series 1979-A Bonds contains a covenant of the City of San Antonio to the effect that the City will make no use of the proceeds of the New Series 1979-A Bonds directly or indirectly that would cause such bonds to be arbitrage bonds within the meaning of Section 103 (c) of the Internal Revenue Code of 1954, as amended, and realizing that in accordance with the terms of the ordinance the proceeds of such bonds will be entirely within the control and disposition of the Board, therefore specifically adopts the covenants made by the City Council in the ordinance authorizing such bonds concerning the use of the proceeds of such bonds to the effect that such bonds will not become arbitrage bonds, and hereby covenants with the purchasers of the New Series 1979-A Bonds that it will make no use of the proceeds of such bonds at any time throughout the term of such issue of bonds which, if such use had been reasonably expected on the date of delivery of the bonds to and payment for the Bonds by the purchasers, would have caused the Bonds to be arbitrage bonds within the meaning of Section 103 (c) of the Internal Revenue Code of 1954, as amended, or any regulations or rulings pertaining thereto; and by this covenant the Board is obligated to comply with the requirements of the aforesaid Section 103 (c) and all applicable and pertinent Department of Treasury regulations relating to arbitrage bonds.

PASSED AND APPROVED by an affirmative vote of the Board of Trustees of the City Public Service Board of San Antonio, Texas, this the 21st day of May, 1979.

ATTEST:

/s/ ELOY CENTENO  
Chairman, City Public Service Board

/s/ HOWARD FREEMAN  
Secretary, City Public Service Board

1516 111

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1516 112

**OFFICIAL BID FORM**

July 12, 1979

Honorable Mayor and City Council  
 City of San Antonio, Texas  
 San Antonio, Texas

Mrs. Cockrell and Council Members:

Reference is made to your Official Notice of Sale dated May 31, 1979, and accompanying Official Statement relative to \$100,000,000 City of San Antonio, Texas, Electric and Gas Systems Revenue Improvement Bonds, New Series 1979-A which Notice and Official Statement are made a part hereof.

For your legally issued bonds, as described in said Official Notice of Sale and Official Statement, we will pay you par and accrued interest from August 1, 1979 to the date of delivery to you, plus a cash premium of \$\_\_\_\_\_ for bonds maturing and bearing interest as follows:

1516 113

Principal Amount	Maturity (Feb. 1)	Rate	Principal Amount	Maturity (Feb. 1)	Rate
\$ 1,200,000	1981	_____%	\$ 2,750,000	1993	_____%
1,300,000	1982	_____%	2,925,000	1994	_____%
1,400,000	1983	_____%	3,125,000	1995	_____%
1,500,000	1984	_____%	3,325,000	1996	_____%
1,625,000	1985	_____%	3,550,000	1997	_____%
1,750,000	1986	_____%	3,775,000	1998	_____%
1,875,000	1987	_____%	4,025,000	1999	_____%
2,025,000	1988	_____%	4,275,000	2000	_____%
2,150,000	1989	_____%	4,575,000	2001	_____%
2,300,000	1990	_____%	4,850,000	2002	_____%
2,450,000	1991	_____%	20,000,000	2003	_____%
2,575,000	1992	_____%	20,675,000	2004	_____%

For information purposes only, and not as a part of this bid, we have calculated the Effective Interest Rate as follows:

Gross Interest Cost	\$ _____
Less: Premium	_____
<b>NET INTEREST COST</b>	<b>\$ _____</b>
<b>EFFECTIVE INTEREST RATE</b>	<b>_____ %</b>

Cashier's Check of the \_\_\_\_\_ Bank, \_\_\_\_\_ in the amount of \$2,000,000 (is attached hereto) (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms set forth in the "Official Notice of Sale".

Respectfully submitted,

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

By: \_\_\_\_\_  
 Authorized Representative

**\$100,000,000**  
**CITY OF SAN ANTONIO, TEXAS**  
**ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS,**  
**NEW SERIES 1979-A**

**BOND YEARS**

<u>Number of Years</u>	<u>Maturity (2-1)</u>	<u>Amount</u>	<u>Accumulated Bond Years From 8-1-79</u>
1.5	1981	\$ 1,200,000	1,800.00
2.5	1982	1,300,000	5,050.00
3.5	1983	1,400,000	9,950.00
4.5	1984	1,500,000	16,700.00
5.5	1985	1,625,000	25,637.50
6.5	1986	1,750,000	37,012.50
7.5	1987	1,875,000	51,075.00
8.5	1988	2,025,000	68,287.50
9.5	1989	2,150,000	88,712.50
10.5	1990	2,300,000	112,862.50
11.5	1991	2,450,000	141,037.50
12.5	1992	2,575,000	173,225.00
13.5	1993	2,750,000	210,350.00
14.5	1994	2,925,000	252,762.50
15.5	1995	3,125,000	301,200.00
16.5	1996	3,325,000	356,062.50
17.5	1997	3,550,000	418,187.50
18.5	1998	3,775,000	488,025.00
19.5	1999	4,025,000	566,512.50
20.5	2000	4,275,000	654,150.00
21.5	2001	4,575,000	752,512.50
22.5	2002	4,850,000	861,637.50
23.5	2003	20,000,000	1,331,637.50
24.5	2004	20,675,000	1,838,175.00

Average Life of issue—18.381 years

\* \* \* \* \*

Return of Good Faith Deposit is hereby acknowledged.

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1516 114



# austin texas



POOR ORIGINAL

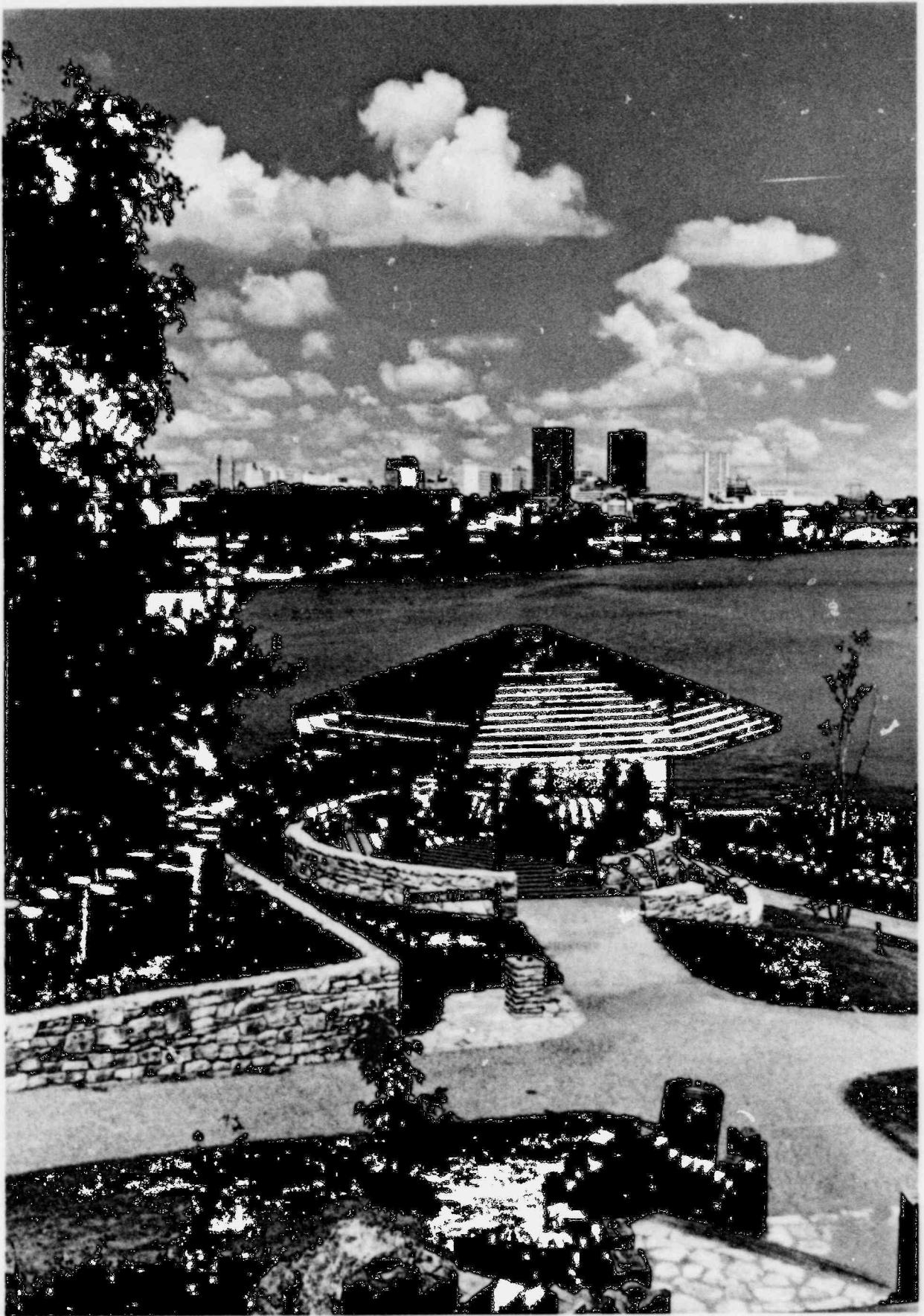
\$60,000,000

Utility System  
Revenue Bonds, Series 6

SALE DATE

September 13, 1979, at 10:30 AM, CDT

1516 115



**POOR ORIGINAL** Looking Across Town Lake  
Austin Skyline in the Background

1516 1:6

**OFFICIAL BID FORM**

Honorable Mayor and City Council

September 13, 1979

**City of Austin  
Austin, Texas**

Gentlemen:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated August 16, 1979, of \$60,000,000 CITY OF AUSTIN, TEXAS UTILITY SYSTEM REVENUE BONDS, SERIES 6, both of which constitute a part hereof.

For your legally issued Bonds, as described in said Notice of Sale and Bidding Instructions and Official Statement, we will pay you par and accrued interest from date of issue to date of delivery to us, plus a cash premium of \$\_\_\_\_\_ for Bonds maturing and bearing interest as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Interest Rate</u>
10-1-1983	_____ %	10-1-1991	_____ %	10-1-1999	_____ %
10-1-1984	_____ %	10-1-1992	_____ %	10-1-2000	_____ %
10-1-1985	_____ %	10-1-1993	_____ %	10-1-2001	_____ %
10-1-1986	_____ %	10-1-1994	_____ %	10-1-2002	_____ %
10-1-1987	_____ %	10-1-1995	_____ %	10-1-2003	_____ %
10-1-1988	_____ %	10-1-1996	_____ %	10-1-2004	_____ %
10-1-1989	_____ %	10-1-1997	_____ %	10-1-2005	_____ %
10-1-1990	_____ %	10-1-1998	_____ %	10-1-2006	_____ %

Our calculation (which is not a part of this bid) of the interest cost from the above is:

Total Interest Cost .....	\$ _____
Less Premium .....	_____
<b>NET INTEREST COST .....</b>	<b>\$ _____</b>
<b>EFFECTIVE INTEREST RATE .....</b>	<b>_____ %</b>

\_\_\_\_\_ Check of the \_\_\_\_\_ Bank, \_\_\_\_\_, in the amount of \$1,200,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms as set forth in the Official Statement and Notice of Sale and Bidding Instructions.

We agree to accept delivery of and make payment for the Bonds at Citibank, N.A., New York, New York, on September 25, 1979, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions.

Respectfully submitted,

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

By \_\_\_\_\_  
Authorized Representative

**ACCEPTANCE CLAUSE**

The above and foregoing bid is hereby in all things accepted by the City of Austin, Texas, this the 13th day of September, 1979.

\_\_\_\_\_  
Mayor, City of Austin, Texas

ATTEST:

\_\_\_\_\_  
City Clerk, City of Austin, Texas

Approved:

\_\_\_\_\_  
City Attorney, City of Austin, Texas

\*\*\*\*\*

Return of Good Faith Deposit is hereby acknowledged: \_\_\_\_\_

By \_\_\_\_\_ 1516 117

OFFICIAL BID FORM

Honorable Mayor and City Council

September 13, 1979

City of Austin
Austin, Texas

Gentlemen:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated August 16, 1979, of \$60,000,000 CITY OF AUSTIN, TEXAS UTILITY SYSTEM REVENUE BONDS, SERIES 6, both of which constitute a part hereof.

For your legally issued Bonds, as described in said Notice of Sale and Bidding Instructions and Official Statement, we will pay you par and accrued interest from date of issue to date of delivery to us, plus a cash premium of \$\_\_\_\_\_ for Bonds maturing and bearing interest as follows:

Table with 6 columns: Maturity, Interest Rate, Maturity, Interest Rate, Maturity, Interest Rate. Rows list bond maturities from 10-1-1983 to 10-1-1990 and 10-1-1991 to 10-1-2006.

Our calculation (which is not a part of this bid) of the interest cost from the above is:

Total Interest Cost \$\_\_\_\_\_
Less Premium \_\_\_\_\_
NET INTEREST COST \$\_\_\_\_\_
EFFECTIVE INTEREST RATE \_\_\_\_\_%

Check of the \_\_\_\_\_ Bank, \_\_\_\_\_, in the amount of \$1,200,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms as set forth in the Official Statement and Notice of Sale and Bidding Instructions.

We agree to accept delivery of and make payment for the Bonds at Citibank, N.A., New York, New York, on September 25, 1979, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions.

Respectfully submitted,

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ By \_\_\_\_\_

Authorized Representative

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Austin, Texas, this the 13th day of September, 1979.

Mayor, City of Austin, Texas

ATTEST:

\_\_\_\_\_  
City Clerk, City of Austin, Texas

Approved:

\_\_\_\_\_  
City Attorney, City of Austin, Texas

\*\*\*\*\*

Return of Good Faith Deposit is hereby acknowledged: \_\_\_\_\_

By \_\_\_\_\_

1516 118



**NOTICE OF SALE  
AND  
BIDDING INSTRUCTIONS  
ON**

**\$60,000,000**

**City of Austin, Texas**

(Travis and Williamson Counties)

Utility System Revenue Bonds, Series 6

Selling Thursday, September 13, 1979, at 10:30 AM, CDT

**THE SALE**

**Bonds Offered for Sale at Competitive Bidding...** The City of Austin, Texas (the "City"), is offering for sale its \$60,000,000 Utility System Revenue Bonds, Series 6 (the "Bonds").

**Address of Bids...** Sealed bids, plainly marked "Bid for Bonds", should be addressed and delivered to "Mayor and City Council, City of Austin, Texas", prior to 10:30 AM, CDT, on the date of the bid opening. All bids must be submitted on the Official Bid Form, without alteration or interlineation.

**Place and Time of Bid Opening...** The City Council will open and publicly read the bids for the purchase of the Bonds in the Council Chambers, City Hall Annex, at 10:30 AM, CDT, Thursday, September 13, 1979.

**Award of the Bonds...** The City Council will take action to award the Bonds (or reject all bids) promptly after the opening of bids, and adopt an Ordinance authorizing the Bonds (the "Ordinance") and pass a Resolution adopting the Official Statement.

**THE BONDS**

**Description...** The Bonds will be dated September 1, 1979, and interest coupons will be due on April 1, 1980, and each October 1 and April 1 thereafter until the earlier of maturity or redemption. The Bonds and interest coupons attached thereto will be payable at The American National Bank of Austin, Austin, Texas, or, at the option of the holder, at Citibank, N.A., New York, New York. The Bonds will mature serially on October 1 in each year as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
1983	\$ 100,000	1991	\$ 840,000	1999	\$2,170,000
1984	100,000	1992	960,000	2000	2,375,000
1985	175,000	1993	1,120,000	2001	2,720,000
1986	250,000	1994	1,250,000	2002	6,800,000
1987	375,000	1995	1,535,000	2003	8,000,000
1988	475,000	1996	1,625,000	2004	8,000,000
1989	585,000	1997	1,850,000	2005	8,000,000
1990	695,000	1998	2,000,000	2006	8,000,000

\*The City reserves the right, at its option, to redeem the Bonds maturing 10-1-1990 through 10-1-2006, both inclusive, in whole or any part thereof, on 10-1-1989, or any interest payment date thereafter, at the respective redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued interest to the date fixed for redemption.

<u>Period During Which Redeemed (Both Dates Inclusive)</u>	<u>Redemption Price</u>
October 1, 1989 — September 30, 1990	103 %
October 1, 1990 — September 30, 1991	102½
October 1, 1991 — September 30, 1992	102
October 1, 1992 — September 30, 1993	101½
October 1, 1993 — September 30, 1994	101
October 1, 1994 — and thereafter	100

**Security for Payment . . .** These bonds (the "Bonds"), authorized at elections, will constitute special obligations of the City of Austin, payable as to both principal and interest and equally secured by a first lien on and pledge of the net revenues of the City's combined Electric Light and Power, Waterworks and Sewer System and are in all things on a parity with all outstanding and unpaid previously issued parity bonds (as herein defined). The City, however, expressly reserves the right to issue additional bonds or incur contractual obligations payable from such net revenues in all things on a parity with the Bonds and previously issued parity bonds, provided, however, that any and all such further bonds or contractual obligations may be so issued or incurred only in accordance with and subject to the covenants, conditions, limitations and restrictions relating thereto which are set forth and contained in the Ordinance authorizing this series of bonds and to which said Ordinance reference is hereby made for more complete and full particulars.

### CONDITIONS OF THE SALE

**Type of Bids and Interest Rates . . .** The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than their par value plus accrued interest to the date of delivery of the Bonds. Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and must not exceed 10%. The highest coupon rate bid may not exceed the lowest coupon rate bid by more than 1% in coupon rate. No limitation is imposed upon bidders as to the number of rates or coupon changes which may be used. All Bonds of one maturity must bear one and the same rate. No bids involving supplemental coupons will be considered. Each bidder shall state in his bid the total interest cost in dollars and the net effective interest rate determined thereby, which shall be considered informative only and not as a part of the bid.

**Basis for Award . . .** For the purpose of awarding the sale of the Bonds, the interest cost of each bid will be computed by determining, at the rate or rates specified therein, the total dollar cost of all interest on the Bonds from the date thereof to their respective maturities, using the table of Bond Years herein, and deducting therefrom the premium bid, if any. Subject to the City's right to reject any or all bids and to waive any irregularities except time of filing, the Bonds will be awarded to the bidder (the "Purchaser") whose bid based on the above computation produces the lowest net effective interest cost to the City.

**Good Faith Deposit . . .** A Good Faith Deposit, payable to the "City of Austin, Texas", in the amount of \$1,200,000, is required. Such Good Faith Deposit shall be in the form of a Cashier's Check, or its equivalent, which is to be retained uncashed by the City pending the Purchaser's compliance with the terms of his bid and the Notice of Sale and Bidding Instructions. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the City prior to the opening of the bids, and shall be accompanied by instructions from the bank on which drawn which authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. The Good Faith Deposit of the Purchaser will be applied on the purchase price on the date of delivery of the Bonds. No interest will be allowed on the Good Faith Deposit. In the event the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with his bid, then said check shall be cashed and accepted by the City as full and complete liquidated damages. The checks accompanying bids other than the winning bid will be returned immediately after the bids are opened, and an award of the Bonds has been made.

### DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

**Printed Bonds . . .** The City will furnish printed bonds which will be executed by the facsimile signatures of the Mayor and Clerk of the City, and by the manual signature of the Comptroller of Public Accounts of the State of Texas. The Bonds will be in coupon form without privilege of registration as to principal or interest.

**CUSIP Numbers . . .** It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and the terms of the Official Bid Form. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the City; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the Purchaser.

**Delivery . . .** The Bonds will be tendered for delivery to the Purchaser at Citibank, N.A., New York, New York, at the expense of the City. Payment for the Bonds must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given five business days' notice of the time fixed for delivery of the Bonds. It is anticipated that delivery can be made on or about September 25, 1979, and it is understood and agreed that the Purchaser will accept delivery and make payment for the Bonds on September 25, 1979, or thereafter on the date the Bonds are tendered for delivery, up to and including October 9, 1979. If for any reason the City is unable to make delivery on or before October 9, 1979, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend his offer for an additional thirty days. If the Purchaser does not elect to extend his offer within five days thereafter, then his Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the City's reasonable control.

**Conditions to Delivery . . .** The obligation of the Purchaser to take up and pay for the Bonds is subject to the Purchaser's receipt of (a) the legal opinion of Messrs. Dumas, Huguenin, Boothman and Morrow, Bond Counsel for the City ("Bond Counsel"), (b) the no-litigation certificate, and (c) the certification as to the Official Statement, all as further described in the Official Statement.

**Legal Opinions . . .** The Bonds are offered when, as and if issued, subject to the unqualified legal opinion of the Attorney General of the State of Texas, and Messrs. Dumas, Huguenin, Boothman and Morrow (see Legal Opinions in Official Statement); the opinion of said firm will be printed on the Bonds.

**Certification of Official Statement . . .** At the time of payment for and delivery of the Bonds, the City will execute and deliver to the Purchaser a certificate in the form set forth in the Official Statement.

**Change in Tax Exempt Status . . .** At any time before the Bonds are tendered for delivery, the Purchaser may withdraw his bid if the interest received by private holders from bonds of the same type and character shall be declared to be taxable income under present Federal income tax laws, either by ruling of the Internal Revenue Service or by a decision of any Federal court, or shall be declared taxable or be required to be taken into account in computing any Federal income taxes, by the terms of any Federal income tax law enacted subsequent to the date of this Notice of Sale and Bidding Instructions.

## GENERAL

**Blue Sky Laws . . .** By submission of his bid, the Purchaser represents that the sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Bonds in accordance with the securities law of the states in which the Bonds are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Bonds or obtaining an exemption from registration in any state where such action is necessary.

**Not an Offer to Sell . . .** This Notice of Sale does not alone constitute an offer to sell the Bonds, but is merely notice of the sale of the Bonds. The offer to sell the Bonds is being made by means of

the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Bonds.

**Issuance of Additional Bonds . . .** The City anticipates issuing approximately \$60,000,000 Utility System Revenue Bonds in March, 1980.

**Ratings . . .** The outstanding Utility System Revenue Bonds of the City are rated "Aa" by Moody's Investors Service, Inc. and "A+" by Standard & Poor's Corporation. Applications for contract ratings on this issue have been made to both Moody's and Standard & Poor's. The results of their determinations will be provided as soon as possible.

**The Official Statement . . .** The City will furnish to the Purchaser, without cost, 50 copies of the Official Statement (and 50 copies of any addenda, supplement or amendment thereto), complete except as to interest rates and other terms relating to the reoffering of the Bonds. Arrangements have been made with the printer of the Official Statement, Bowne of Dallas, Dallas, Texas, phone number 214-651-1001, to hold the type intact until after the date of the sale of the Bonds. The Purchaser may order at his own expense any number of the Official Statements from the printer, and may also arrange, at his total expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Bonds. The City assumes no responsibility or obligation for the distribution or delivery of any of these copies to any one other than the Purchaser.

**Additional Copies of Notice, Bid Form and Statement . . .** A limited number of additional copies of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, as available over and above the normal mailing, may be obtained at the offices of First Southwest Company, Investment Bankers, 900 Mercantile Bank Building, Dallas, Texas 75201, Financial Advisors to the City.

The City reserves the right to reject any and all bids and to waive irregularities, except time of filing.

The Official Statement will be approved as to form and content and the use thereof in the offering of the Bonds will be authorized, ratified and approved by the City Council on the date of sale, and the Purchaser will be furnished, at the time of payment for and delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials.

DAN DAVIDSON  
*City Manager*

ATTEST:

GRACE MONROE  
*City Clerk*

August 16, 1979

**BOND YEARS**

<u>Year</u>	<u>Amount</u>	<u>Bond Years</u>	<u>Accumulated Bond Years</u>	<u>Year</u>
1983	\$ 100,000.	408.333	408.333	1983
1984	100,000.	508.333	916.666	1984
1985	175,000.	1,064.582	1,981.248	1985
1986	250,000.	1,770.832	3,752.080	1986
1987	375,000.	3,031.248	6,783.328	1987
1988	475,000.	4,314.581	11,097.909	1988
1989	585,000.	5,898.748	16,996.657	1989
1990	695,000.	7,702.914	24,699.571	1990
1991	840,000.	10,149.997	34,849.568	1991
1992	960,000.	12,559.996	47,409.564	1992
1993	1,120,000.	15,773.329	63,182.893	1993
1994	1,250,000.	18,854.162	82,037.055	1994
1995	1,535,000.	24,687.911	106,724.966	1995
1996	1,625,000.	27,760.411	134,485.377	1996
1997	1,850,000.	33,454.160	167,939.537	1997
1998	2,000,000.	38,166.660	206,106.197	1998
1999	2,170,000.	43,580.826	249,687.023	1999
2000	2,375,000.	50,072.908	299,759.931	2000
2001	2,720,000.	60,066.657	359,826.588	2001
2002	6,800,000.	156,966.644	516,793.232	2002
2003	8,000,000.	192,666.640	709,459.872	2003
2004	8,000,000.	200,666.640	910,126.512	2004
2005	8,000,000.	208,666.640	1,118,793.152	2005
2006	8,000,000.	216,666.640	1,335,459.792	2006
Average Maturity				22.258 Years

1516 123

This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman, or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of these Bonds, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

**OFFICIAL STATEMENT**

Dated August 16, 1979

INTEREST EXEMPT, IN THE OPINION OF BOND COUNSEL, FROM PRESENT FEDERAL INCOME TAXES UNDER EXISTING STATUTES, REGULATIONS, RULINGS AND COURT DECISIONS

**\$60,000,000**

**City of Austin, Texas**

(Travis and Williamson Counties)

**Utility System Revenue Bonds, Series 6**

Dated: September 1, 1979

Denomination: \$5,000

Principal and semi-annual interest (April 1 and October 1) payable at  
 The American National Bank of Austin, Austin, Texas,  
 or, at the option of the holder, at  
 Citibank, N.A., New York, New York.  
 First interest coupon due April 1, 1980.  
 Coupon bearer bonds, not registrable.

**MATURITY SCHEDULE**

<u>Amount</u>	<u>Maturity</u>	<u>Rate</u>	<u>Yield</u>	<u>Amount</u>	<u>Maturity</u>	<u>Rate</u>	<u>Yield</u>
\$ 100,000	10-1-1983			\$1,535,000	10-1-1995*		
100,000	10-1-1984			1,625,000	10-1-1996*		
175,000	10-1-1985			1,850,000	10-1-1997*		
250,000	10-1-1986			2,000,000	10-1-1998*		
375,000	10-1-1987			2,170,000	10-1-1999*		
475,000	10-1-1988			2,375,000	10-1-2000*		
585,000	10-1-1989			2,720,000	10-1-2001*		
695,000	10-1-1990*			6,800,000	10-1-2002*		
840,000	10-1-1991*			8,000,000	10-1-2003*		
960,000	10-1-1992*			8,000,000	10-1-2004*		
1,120,000	10-1-1993*			8,000,000	10-1-2005*		
1,250,000	10-1-1994*			8,000,000	10-1-2006*		

\* The City reserves the right, at its option, to redeem the Bonds maturing 10-1-1990 through 10-1-2006, both inclusive, in whole or any part thereof, on 10-1-1989, or any interest payment date thereafter, at the respective redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued interest to the date fixed for redemption.

<u>Period During Which Redeemed</u> <u>(Both Dates Inclusive)</u>	<u>Redemption Price</u>
October 1, 1989 — September 30, 1990	103 %
October 1, 1990 — September 30, 1991	102½
October 1, 1991 — September 30, 1992	102
October 1, 1992 — September 30, 1993	101½
October 1, 1993 — September 30, 1994	101
October 1, 1994 — end thereafter	100

**Payment Record:** The City has never defaulted on its Revenue Bonds. There has been no default on General Obligation Bonds since 1900. As a matter of historical interest, the General Obligation debt was refunded at par with a voluntary reduction in interest rate following a disastrous flood in April, 1900, which destroyed the City's dam, water plant and power station. The City was in default prior to this time because it had not appropriated available funds to the payment of interest due January 1, 1900, on Water and Light Bonds.

Legality: Attorney General of the State of Texas, and  
 Messrs. Dumas, Huguenin, Boothman and Morrow, Attorneys, Dallas, Texas.  
 (Opinion Printed on the Bonds; See Legal Opinions.)

Delivery: Anticipated on or about September 25, 1979.

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The cover page hereof, this page, and any addenda, supplement or amendment hereto, are part of the Official Statement.

A copy of the Annual Financial Report for the Fiscal Year Ending September 30, 1978, is available upon request.

## ELECTED OFFICIALS

(All Terms Expire 5-15-81)

Carole Keeton McClellan .....	Mayor
Lee Cooke .....	Councilmember
Richard Goodman .....	Councilmember
Betty Himmelblau .....	Councilmember
Ron Mullen .....	Councilmember
Jimmy Snell .....	Councilmember
John Trevino, Jr. ....	Councilmember

## APPOINTED OFFICIALS

Name	Position and Length of Time in This Position	Length of Employment with City of Austin
Dan Davidson	City Manager            for 7 Years	9 Years
Norman McK. Barker	Finance Administrator    for 7 Years	18 Years
Monty C. Nitcholas	Director of Finance        for 4 Years	4½ Years
Jerry L. Harris	City Attorney              for 2½ Years	9½ Years
Grace Monroe	City Clerk                  for 4½ Years	31 Years
John German	Director of Public Works    for 1½ Years	9 Years
R. L. Hancock	Director of Electric Utility    for 8½ Years	30 Years
Curtis E. Johnson	Director of Water and Wastewater                  for 7½ Years	19½ Years
Jack Klitgaard	Tax Assessor-Collector      for 15½ Years	27 Years

## CONSULTANTS AND ADVISORS

Auditors .....	Peat, Marwick, Mitchell & Co., Austin, Texas
Consulting Engineers .....	Bovay Engineers, Inc. Houston, Texas
Bond Counsel .....	Dumas, Huguenin, Boothman and Morrow Dallas, Texas
Financial Advisors .....	First Southwest Company Dallas, Texas



## SECURITY FOR PAYMENT

These bonds (the "Bonds"), authorized at elections, will constitute special obligations of the City of Austin, payable as to both principal and interest and equally secured by a first lien on and pledge of the net revenues of the City's combined Electric Light and Power, Waterworks and Sewer System and are in all things on a parity with all outstanding and unpaid previously issued parity bonds (as herein defined). The City, however, expressly reserves the right to issue additional bonds or incur contractual obligations payable from such net revenues in all things on a parity with the Bonds and previously issued parity bonds, provided, however, that any and all such further bonds or contractual obligations may be so issued or incurred only in accordance with and subject to the covenants, conditions, limitations and restrictions relating thereto which are set forth and contained in the Ordinance authorizing this series of bonds and to which said Ordinance reference is hereby made for more complete and full particulars.

### CONDENSED OPERATING STATEMENT ELECTRIC LIGHT AND POWER, WATERWORKS AND SEWER SYSTEM (With Fuel Cost Adjustment)

	12 Months Ended	
	9-30-78	6-30-79(a)
<b>INCOME</b>		
Electric Utility .....	\$150,807,742	\$146,780,141
Water Utility .....	19,506,515	19,456,870
Wastewater Utility .....	10,681,443	10,397,847
Miscellaneous Utility .....	6,671,451	10,143,570
Total Income .....	\$187,667,151	\$186,778,428
<b>EXPENSE</b>		
Electric Utility .....	\$ 97,957,545	\$ 92,805,934
Water Utility .....	8,416,491	8,963,227
Wastewater Utility .....	5,397,682	5,590,542
Total Expense .....	\$111,771,718	\$107,359,703
NET INCOME AVAILABLE FOR DEBT SERVICE .....	\$ 75,895,433	\$ 79,418,725
Recoverable Fuel Costs Excluded from Expense(b) .....	\$ 20,685,800	\$ 20,685,800
Electric Customers .....	144,115	149,639
Water Customers .....	99,989	103,456
Sewer Customers .....	87,159	91,928

(a) 6-30-79 figures are not audited.

(b) Recoverable fuel costs reflected in the Utility Fund have been deferred based upon a fuel cost adjustment formula in use from 1973 to March 31, 1978, designed to bill electric utility customers for fuel costs in excess of 18¢ per 1 MM BTU's on a six-month moving average. A new utility rate schedule was implemented on April 1, 1978, to bill, on a monthly basis, the estimated actual fuel cost incurred from that date. The remaining unbilled balance of the recoverable fuel cost of \$20,685,800 will be billed to customers beginning October 1, 1979, to September 30, 1983, in accordance with a rate surcharge ordinance passed by the City Council during 1978.

## COVERAGE FACTORS AND OUTSTANDING BONDS

Maximum principal and interest requirements, 2002, all outstanding Utility System Revenue Bonds and these Series 6 Bonds at an assumed interest rate of 6¼%	\$ 59,183,500
Coverage of maximum requirements by 6-30-79 Net Income	1.34 Times
Maximum principal and interest requirements, 1984, all outstanding Utility System Revenue Bonds and these Series 6 Bonds (first lien) at an assumed interest rate of 6¼%, and outstanding Electric, Waterworks and Sewer System Refunding Revenue Bonds (second lien)	\$ 59,336,415
Coverage of maximum requirements by 6-30-79 Net Income	1.34 Times
Utility System Revenue Bonds outstanding, 8-1-79, and these Bonds	\$430,780,000
Electric, Waterworks and Sewer System Refunding Revenue Bonds outstanding, 8-1-79	\$318,925,000

### FUND BALANCES

(As of 8-1-79)

Utility System Revenue Bonds:	
Interest and Sinking Fund	\$ 12,300,000
Reserve Fund	\$ 9,768,266
Electric, Waterworks and Sewer System Refunding Revenue Bonds:	
Interest and Sinking Fund	\$ 1,910,488
Reserve Fund	\$ 30,000,000

### AUTHORIZED REVENUE BONDS

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
Water Improvements	11-20-76	\$ 32,237,000	\$19,500,000	\$ —0—	\$ 12,737,000
Sewer Improvements	11-20-76	46,920,000	25,920,000	—0—	21,000,000
Electric System					
Fayette(a)	1-20-79	58,625,000	27,000,000	10,000,000	21,625,000
Electric System					
Improvements	1-20-79	23,810,000	13,000,000	3,000,000	7,810,000
Electric System					
Nuclear(b)	4-7-79	215,850,000	—0—	47,000,000	168,850,000
		\$377,442,000	\$85,420,000	\$60,000,000	\$232,022,000

(a) The issuance of these bonds is restricted to Fayette Power Project, transmission lines and coal stockpile therefor.

(b) The issuance of these bonds is restricted to participation in the South Texas Project and fuel in process and progress.

**Anticipated Issuance of Voted Revenue Bonds . . .** The City anticipates issuing approximately \$60,000,000 Bonds in March, 1980. The decisions for issuance of future indebtedness will be decided later.

**OPERATING STATEMENT**  
**ELECTRIC LIGHT AND POWER, WATERWORKS AND SEWER SYSTEM**

REVENUE	Fiscal Year Ended				
	9-30-78	9-30-77	9-30-76	9-30-75	9-30-74
<b>ELECTRIC UTILITY</b>					
Domestic } — Residential	\$ 60,449,943	\$ 55,318,072	\$ 47,773,026	\$ 37,582,777	\$ 28,970,130
Rural					
Commercial — General	82,036,727	64,340,363	58,893,256	46,330,960	27,646,944
City Utility Department	3,328,592	1,764,433	1,221,870	961,510	617,507
Public Street Lighting	1,678,593	865,783	436,303	343,448	198,711
City General Government Departments	1,233,840	1,241,608	637,929	502,106	246,869
Austin Public Schools (a)	—0—	—0—	388,927	305,637	166,602
Rent from Electric Property	101,313	105,495	126,704	99,396	94,028
Customers' Forfeited Discounts and Penalties	1,651,577	2,324,231	1,637,240	1,288,088	1,088,970
Miscellaneous	327,157	269,692	199,422	156,908	139,826
Receivables, Adjustments, Etc. (b)	—0—	(1,274,379)	(1,137,033)	(894,492)	(266,184)
<b>Total Electric Utility</b>	<b>\$150,807,742</b>	<b>\$124,955,298</b>	<b>\$110,177,644</b>	<b>\$ 86,670,338</b>	<b>\$58,903,403</b>
<b>WATER UTILITY</b>					
Urban	\$ 14,146,315	\$ 9,951,870	\$ 10,208,632	\$ 8,251,495	\$ 7,792,216
Rural	2,330,484	1,647,706	1,383,365	1,118,191	731,288
City Utility Departments	335,205	369,059	279,782	226,109	218,852
City General Government Departments	481,958	451,355	313,742	253,582	301,218
Austin Public School (a)	—0—	—0—	37,226	30,110	23,209
Sales to Other Water Utilities	399,936	506,141	356,976	288,548	156,403
Receivables, Adjustments, Etc. (b)	—0—	(127,286)	(129,964)	(105,057)	(38,390)
Water Connections	1,469,362	768,327	411,182	332,390	245,176
Customers' Forfeited Discounts	73,720	—0—	—0—	—0—	—0—
Miscellaneous	269,535	194,793	200,758	162,247	123,274
<b>Total Water Utility</b>	<b>\$ 19,506,515</b>	<b>\$ 13,761,965</b>	<b>\$ 13,061,699</b>	<b>\$ 10,557,615</b>	<b>\$ 9,553,246</b>
<b>SEWER UTILITY (c)</b>					
Urban	\$ 9,198,834	\$ 8,604,308	\$ 7,912,503	\$ 6,014,371	\$ —0—
Rural	70,114	121,810	161,242	122,586	—0—
City Utility Departments	6,607	7,937	8,958	6,816	—0—
City General Government Departments	77,306	82,525	84,669	64,367	—0—
Austin Public Schools (a)	—0—	—0—	17,571	13,364	—0—
Sewer Connections	745,974	515,422	455,045	345,880	162,703
Customers' Forfeited Discounts	36,558	—0—	—0—	—0—	—0—
Rent from Sewer Property	1,232	1,028	1,034	795	540
Miscellaneous	544,818	15,410	64,083	48,721	13,243
Receivables, Adjustments, Etc. (b)	—0—	(87,261)	(91,732)	(69,776)	—0—
<b>Total Sewer Utility</b>	<b>\$ 10,681,443</b>	<b>\$ 9,261,179</b>	<b>\$ 8,613,373</b>	<b>\$ 8,547,124</b>	<b>\$ 176,486(c)</b>
Interest and Other	\$ 6,671,451	\$ 4,225,356	\$ 3,059,234	\$ 2,833,503	\$ 2,613,589
<b>TOTAL REVENUES</b>	<b>\$187,667,151</b>	<b>\$152,203,798</b>	<b>\$134,911,950</b>	<b>\$106,614,585</b>	<b>\$71,246,724</b>

(a) Austin Independent School District pays bills for all months except July and August. The City pays the bills for these months, as the schools and school grounds are used for recreation purposes.

(b) Revenues and expenses for the year ended September 30, 1978 reflect the provision for doubtful collection of accounts receivable in general and administration expenses. These provisions are reflected net in revenues in prior years.

Sewer Utility for fiscal year ended 9-30-74 included under "Water Utility" category.

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**OPERATING STATEMENT**

**ELECTRIC LIGHT AND POWER, WATERWORKS AND SEWER SYSTEM — Continued**

	Fiscal Year Ended				
	9-30-78	9-30-77	9-30-76	9-30-75	9-30-74
<b>EXPENSE</b>					
<b>ELECTRIC UTILITY</b>					
Production .....	\$ 86,300,003	\$64,328,558	\$ 56,837,492	\$ 39,145,578	\$16,642,004
Distribution .....	4,002,672	3,638,065	3,913,033	4,109,274	3,592,352
Transmission .....	195,280	157,583	—0—	—0—	—0—
Customers' Accounting and Collection .....	2,242,677	1,895,218	1,149,935	910,495	878,149
Sales Promotion .....	182,160	156,321	127,672	157,460	140,008
Jobbing and Contract Work .....	67,581	(9,807)	46,202	(76,492)	(35,226)
Administrative and General .....	4,920,652(a)	810,588	692,279	1,074,136	384,067
Engineering .....	46,520	31,367	78,837	—0—	—0—
<b>Total Electric Utility .....</b>	<b>\$ 97,957,545</b>	<b>\$71,007,893</b>	<b>\$ 62,845,450</b>	<b>\$ 45,320,451</b>	<b>\$21,601,354</b>
<b>WATER UTILITY</b>					
Pumping Plant .....	\$ —0—	\$ —0—	\$ —0—	\$ 693,500	\$ 522,332
Purification .....	3,720,089	2,600,077	2,308,781	1,526,940	1,297,085
Distribution .....	3,230,416	3,052,532	2,127,950	1,670,090	1,516,873
Customers' Accounting and Collection .....	862,528	762,848	866,162	703,128	878,149
Jobbing and Contract Work .....	(6,518)	(107,976)	235,393	68,242	(29,463)
Administrative and General .....	609,976(a)	111,771	421,970	619,892	422,727
<b>Total Water Utility .....</b>	<b>\$ 8,416,491</b>	<b>\$ 6,419,252</b>	<b>\$ 5,960,256</b>	<b>\$ 5,281,792</b>	<b>\$ 4,607,703</b>
<b>SEWER UTILITY</b>					
Sewer Lines .....	\$ 1,851,498	\$ 1,590,644	\$ 1,668,137	\$ 1,425,935	\$ 1,246,522
Sewage Treatment Plant .....	2,380,981	1,180,004	1,078,911	990,252	720,660
Jobbing and Contract Work .....	17,176	14,433	(17,915)	1,874	(7,611)
Administrative and General .....	312,409(a)	48,051	260,401	206,424	33,012
Design Engineering .....	85,594	46,965	65,366	(19,322)	77
Customers' Accounting and Collection .....	750,024	663,346	783,786	533,406	—0—
<b>Total Sewer Utility .....</b>	<b>\$ 5,397,682</b>	<b>\$ 3,543,443</b>	<b>\$ 3,838,686</b>	<b>\$ 3,138,569</b>	<b>\$ 1,992,660</b>
<b>TOTAL EXPENSE (b) .....</b>	<b>\$111,771,718</b>	<b>\$80,970,588</b>	<b>\$ 72,644,392</b>	<b>\$ 53,740,812</b>	<b>\$28,201,717</b>
<b>NET REVENUE AVAILABLE FOR DEBT SERVICE .....</b>	<b>\$ 75,895,433(b)</b>	<b>\$71,233,210</b>	<b>\$ 62,267,558</b>	<b>\$ 52,853,773</b>	<b>\$43,045,007</b>
<b>Electric Customers .....</b>	<b>144,115</b>	<b>137,376</b>	<b>124,121</b>	<b>117,901</b>	<b>114,577</b>
<b>Water Customers .....</b>	<b>99,989</b>	<b>98,579</b>	<b>91,654</b>	<b>91,160</b>	<b>85,368</b>
<b>Sewer Customers .....</b>	<b>87,159</b>	<b>85,790</b>	<b>81,850</b>	<b>80,421</b>	

(a) Revenues and expenses for the year ended September 30, 1978 reflect the provision for doubtful collection of accounts receivable in general and administration expenses. These provisions are reflected net in revenues in prior years.

(b) All interest expense is included in this statement except for interest on revenue bonds. In the Annual Financial Report, the interest is shown separately in compliance with AICPA requirements. Depreciation expenses are not included in this schedule. See "Comparative Analysis of Utility Operations".

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## COMPARATIVE ANALYSIS OF UTILITY OPERATIONS

October 1, 1973 to September 30, 1978  
(Thousands Rounded)

	Fiscal Year Ended					5 Year Increase
	9-30-74	9-30-75	9-30-76	(b) 9-30-77	9-30-78	
<b>Dollars</b>						
Revenue .....	\$ 71,247	\$106,615	\$134,912	\$152,210	\$187,667	263%
Operating Expense .....	28,202	53,741	72,644	80,971	111,772	396%
Balance Available for Debt						
Service .....	\$ 43,045	\$ 52,874	\$ 62,268	\$ 71,239	\$ 75,895	176%
Depreciation Expense .....	8,555	8,592	9,804	10,727	13,289	155%
Earnings Before Interest Expense ..	\$ 34,490	\$ 44,282	\$ 52,464	\$ 60,512	\$ 62,606	182%
Interest Incurred on Debt .....	7,581	10,117	15,123	22,248	29,203	385%
Less Interest Capitalized .....	(3,018)	(4,541)	(7,545)	(12,663)	(18,197)	603%
NET INCOME(a) .....	\$ 29,927	\$ 38,706	\$ 44,886	\$ 50,927	\$ 51,600	172%
<b>Percentages</b>						
Revenue .....	100.00%	100.00%	100.00%	100.00%	100.00%	
Operating Expense .....	39.58%	50.41%	53.85%	53.20%	59.56%	
Balance Available for Debt						
Service .....	60.42%	49.59%	46.15%	46.80%	40.44%	
Depreciation Expense .....	12.01%	8.06%	7.26%	7.05%	7.08%	
Earnings Before Interest Expense ..	48.41%	41.53%	38.89%	39.75%	33.36%	
Interest Incurred on Debt .....	10.64%	9.49%	11.21%	14.62%	15.56%	
Less Interest Capitalized .....	(4.23%)	(4.26%)	(5.59%)	(6.75%)	(9.70%)	
NET INCOME .....	42.00%	36.30%	33.27%	31.88%	27.50%	

(a) Years prior to September 30, 1978, have been restated to give effect to interest capitalized on fixed assets.

(b) Year ended September 30, 1977, has been restated to conform to the audited financial statements.

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## DEBT SERVICE REQUIREMENTS

Calendar Year	Outstanding First Lien Bonds			Series 6 First Lien Bonds		
	Principal	Interest	Total	Principal	Interest	Total
1979		\$ 11,507,573	\$ 11,507,573			
1980		22,168,015	22,168,015		\$ 4,062,498	\$ 4,062,498
1981	\$ 2,000,000	22,133,015	24,133,015		3,750,000	3,750,000
1982	2,800,000	21,971,515	24,771,515		3,750,000	3,750,000
1983	3,100,000	21,633,265	24,733,265	\$ 100,000	3,750,000	3,850,000
1984	3,200,000	21,714,265	24,914,265	100,000	3,743,750	3,843,750
1985	3,500,000	21,351,015	24,851,015	175,000	3,737,500	3,912,500
1986	3,700,000	21,115,515	24,815,515	250,000	3,726,563	3,976,563
1987	3,900,000	20,867,515	24,767,515	375,000	3,710,938	4,085,938
1988	4,100,000	20,606,515	24,706,515	475,000	3,687,500	4,162,500
1989	4,500,000	20,326,515	24,826,515	585,000	3,657,813	4,242,813
1990	5,600,000	20,000,515	25,600,515	695,000	3,621,250	4,316,250
1991	6,500,000	19,624,581	26,124,581	840,000	3,577,813	4,417,813
1992	7,700,000	19,211,790	26,911,790	960,000	3,525,313	4,485,313
1993	9,500,000	18,732,715	28,232,715	1,120,000	3,465,313	4,585,313
1994	11,000,000	18,241,340	29,241,340	1,250,000	3,395,313	4,645,313
1995	12,800,000	17,554,090	30,354,090	1,535,000	3,317,188	4,852,188
1996	14,900,000	16,830,540	31,730,540	1,625,000	3,221,250	4,846,250
1997	17,000,000	15,917,790	32,917,790	1,850,000	3,119,688	4,969,688
1998	20,280,000	14,912,490	35,192,490	2,000,000	3,004,063	5,004,063
1999	23,400,000	13,657,050	37,057,050	2,170,000	2,879,063	5,049,063
2000	27,700,000	12,184,350	39,884,350	2,375,000	2,743,438	5,118,438
2001	34,900,000	10,494,625	45,394,625	2,720,000	2,595,000	5,315,000
2002	41,700,000	8,258,500	49,958,500	6,800,000	2,425,000	9,225,000
2003	36,000,000	5,935,500	41,935,500	8,000,000	2,000,000	10,000,000
2004	30,500,000	3,124,500	34,624,500	8,000,000	1,500,000	9,500,000
2005	31,500,000	1,829,250	33,329,250	8,000,000	1,000,000	9,000,000
2006	9,000,000	270,000	9,270,000	8,000,000	500,000	8,500,000
	<u>\$370,780,000</u>	<u>\$443,174,349</u>	<u>\$813,954,349</u>	<u>\$60,000,000</u>	<u>\$83,466,254</u>	<u>\$143,466,254</u>

Note: Interest on the Series 6 First Lien Bonds has been calculated at the rate of 6.25% for purposes of illustration.

Total First Lien Bonds	Refunding Second Lien Bonds			Grand Total Requirements	% of Principal Retired
	Principal	Interest	Total		
\$ 11,507,573				\$ 11,507,573	
26,230,513	\$ 5,210,000	\$ 25,146,250	\$ 30,356,250	56,586,763	
27,883,015	10,050,000	19,680,060	29,730,060	57,613,075	
28,521,515	11,550,000	19,096,680	30,646,680	59,168,195	
28,583,265	12,180,000	18,436,420	30,616,420	59,199,685	
28,758,015	12,820,000	17,758,400	30,578,400	59,336,415	8.42%
28,763,515	13,470,000	16,993,162	30,463,163	59,226,678	
28,792,078	14,285,000	16,148,313	30,433,312	59,225,390	
28,853,453	15,095,000	15,283,485	30,378,485	59,231,938	
28,869,015	16,025,000	14,340,273	30,365,273	59,234,288	
29,069,328	16,865,000	13,302,510	30,167,510	59,236,838	21.40%
29,916,765	17,050,000	12,275,575	29,325,575	59,242,340	
30,542,394	17,480,000	11,215,215	28,695,215	59,237,609	
31,397,103	17,780,000	10,061,040	27,841,040	59,238,143	
32,818,028	17,535,000	8,886,570	26,421,570	59,239,598	
33,886,653	17,620,000	7,727,775	25,347,775	59,234,428	39.09%
35,206,278	17,460,000	6,574,590	24,034,590	59,240,868	
36,576,790	17,240,000	5,420,910	22,660,910	59,237,700	
37,887,478	17,065,000	4,281,915	21,346,915	59,234,393	
40,196,553	15,890,000	3,153,975	19,043,975	59,240,528	
42,106,113	15,000,000	2,136,915	17,136,915	59,243,028	63.13%
45,002,788	13,095,000	1,141,305	14,236,305	59,239,093	
50,709,625	8,160,000	368,280	8,528,280	59,237,905	
59,183,500				59,183,500	
51,935,500				51,935,500	
44,124,500				44,124,500	92.46%
42,329,250				42,329,250	
17,770,000				17,770,000	100.00%
<u>\$957,420,603</u>	<u>\$318,925,000</u>	<u>\$249,429,618</u>	<u>\$568,354,618</u>	<u>\$1,525,775,221</u>	



**VALUE OF THE SYSTEMS**

	Fiscal Year Ended				
	9-30-78	9-30-77	9-30-76	9-30-75	9-30-74
Utility Plant:					
Electric .....	\$599,998,382	\$462,640,065	\$361,285,594	\$261,999,856	\$218,684,151
Water .....	138,108,893	129,024,075	122,729,719	106,244,077	91,193,146
Sewer .....	142,725,264	133,358,585	124,119,619	102,767,375	77,258,418
Equity in Vehicles .....	-0-	-0-	-0-	-0-	3,421,287
<b>Total Value</b> .....	<b>\$880,832,539</b>	<b>\$725,022,725</b>	<b>\$608,134,932</b>	<b>\$471,011,308</b>	<b>\$390,557,002</b>
Reserve for Depreciation:					
Electric .....	\$ 78,865,125	\$ 68,413,047	\$ 61,004,776	\$ 55,679,193	\$ 49,445,210
Water .....	25,303,850	22,369,653	20,578,097	18,478,999	17,092,113
Sewer .....	16,078,155	13,416,770	11,740,697	10,308,016	9,433,935
<b>Total Depreciation</b> .....	<b>120,247,130</b>	<b>\$104,199,470</b>	<b>\$ 83,323,570</b>	<b>\$ 84,466,208</b>	<b>\$ 75,971,258</b>
<b>Value After Depreciation</b> .....	<b>\$760,585,409</b>	<b>\$620,823,255</b>	<b>\$514,811,362</b>	<b>\$386,545,100</b>	<b>\$314,585,744</b>

**CITY'S EQUITY IN UTILITY SYSTEMS**

	Fiscal Year Ended				
	9-30-78	9-30-77	9-30-76	9-30-75	9-30-74
Utility Plant .....	\$880,832,539	\$725,022,725	\$608,134,932	\$471,011,308	\$390,557,002
Plus: Inventories, Materials and Supplies*	28,540	-0-	-0-	-0-	1,108,768
	<u>\$880,861,079</u>	<u>\$725,022,725</u>	<u>\$608,134,932</u>	<u>\$471,011,308</u>	<u>\$391,665,770</u>
Less: Reserve for Depreciation .....	\$120,247,130	\$104,199,470	\$ 83,323,570	\$ 84,466,208	\$ 75,971,258
Revaluation of Properties .....	-0-	2,993,773	3,232,730	3,471,687	3,710,643
Customers' Advances for Construction .....	17,403,931	18,976,429	20,416,207	19,917,361	16,084,582
	<u>\$137,651,061</u>	<u>\$126,169,672</u>	<u>\$116,972,507</u>	<u>\$107,855,256</u>	<u>\$ 95,766,483</u>
<b>Utility Plant, Net</b> .....	<b>\$743,210,018</b>	<b>\$598,853,053</b>	<b>\$491,162,425</b>	<b>\$363,156,052</b>	<b>\$295,899,287</b>
Net Debt:					
Revenue Bonds Outstanding .....	\$553,855,000	\$434,885,000	\$319,345,000	\$247,300,000	\$189,385,000
Less:					
Construction Cash in Bank or U. S. Treasury Bills .....	\$ 46,265,264	\$ 38,792,074	\$ 10,793,878	\$ 22,680,967	\$ 9,903,779
Bond Principal Retirement and Reserve Fund .....	27,435,695	27,893,412	24,446,390	22,047,504	20,592,151
	<u>\$ 73,700,959</u>	<u>\$ 66,685,486</u>	<u>\$ 35,240,268</u>	<u>\$ 44,728,471</u>	<u>\$ 30,495,930</u>
<b>Net Debt</b> .....	<b>\$480,154,041</b>	<b>\$368,199,514</b>	<b>\$284,104,732</b>	<b>\$202,571,529</b>	<b>\$158,889,070</b>
City's Equity in Utility Plant .....	\$263,055,977	\$230,653,539	\$207,057,693	\$160,584,523	\$137,010,217
<b>Percentage of City's Equity</b>	<b>35.39%</b>	<b>38.52%</b>	<b>42.16%</b>	<b>44.22%</b>	<b>46.30%</b>

\* Does not include fuel oil inventories.

Capitalized interest is included in the figures shown above as follows:

Fiscal Year Ended 9-30-74 .....	\$ 3,017,729
Fiscal Year Ended 9-30-75 .....	4,540,664
Fiscal Year Ended 9-30-76 .....	7,544,789
Fiscal Year Ended 9-30-77 .....	12,662,648
Fiscal Year Ended 9-30-78 .....	18,197,408
<b>Total</b> .....	<b>\$45,963,238</b>

## THE ELECTRIC, WATERWORKS AND WASTEWATER SYSTEMS

The City owns and operates a combined utilities system (the "System") which provides the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and sewer service. The City owns all the facilities of the water and sewer systems and owns all existing facilities of the electric system. As described below, the City owns participations with other utility systems in three major facilities of the electric system currently under construction. There follows a description of the System, the service areas, operations and responsibilities, existing facilities and current construction.

### THE ELECTRIC SYSTEM

#### Service Area and Customers

The City's electric utility system (the "Electric System") currently serves an area of 121.3 square miles comprising the corporate limits of the City and an additional 300 square mile area lying beyond the corporate limits. The Electric System's service area has been experiencing growth in population in recent years, mainly in the City and adjoining areas. The City's population in 1978 was estimated to be 331,577. The Electric System had approximately 145,000 customers in 1978, an increase of approximately 5% over the previous year. The Electric System expects continued growth in the number of customers and power demand from both residential and commercial users. Thus, its current construction and diversification program is designed to meet existing and future requirements of its service area.

The Electric System's main sources of revenue are residential and commercial customers within the service area, which together accounted for approximately 95% of revenues in fiscal year 1978. The City has entered into a power sales contract with Houston Lighting & Power Company pursuant to which the City has agreed to supply 500 MW (megawatts) of capacity for calendar years 1980 and 1981, contingent on availability and interchange capability. The City is currently negotiating a four year extension of such contract.

The following table lists the ten largest users of electric power in the System in the fiscal year ended September 30, 1978, which in total represents approximately 9% of KW sales and approximately 7% of sales revenues:

#### MAJOR ELECTRIC ACCOUNTS

Fiscal Year Ending 9-30-78

<u>Account</u>	<u>KW Demand</u>	<u>Revenue</u>
Texas Instruments .....	8,964 KW	\$2,183,187.67
Bergstrom Air Force Base .....	11,936 KW	2,007,347.40
IBM Corporation .....	7,992 KW	1,565,001.24
Motorola, Inc. ....	5,040 KW	1,233,174.63
University of Texas .....	20,000 KW(a)	630,270.64
State Board of Control .....	4,080 KW	795,655.37
Highland Mall .....	3,780 KW	609,137.16
L.B.J. Building - State .....	2,520 KW	560,787.56
Austin State Hospital .....	2,700 KW	534,582.86
Texas Highway Department .....	2,340 KW	460,728.91

(a) Standby contract capacity.

1516 136

## Existing Facilities

*Generating Stations.* The Electric System currently operates three steam generating plants with a total of eleven turbine generators. These power plants are located along the north bank of the Colorado River and along an off-stream impounded pond, east of the downtown area of the City. The existing facilities have a total station generating capacity of 1,400,000 KW (kilowatts) consisting of the following:

- |   |                            |
|---|----------------------------|
| 4 – 20,000 KW Turbine Generators (installed 1951 and 1955)  | – Seaholm Power Plant      |
| 1 – 40,000 KW Turbine Generator (installed 1958)            | – Seaholm Power Plant      |
| 2 – 100,000 KW Turbine Generators (installed 1960 and 1964) | – Holly Street Power Plant |
| 1 – 165,000 KW Turbine Generator (installed 1966)           | – Holly Street Power Plant |
| 1 – 325,000 KW Turbine Generator (installed 1970)           | – Decker Power Station     |
| 1 – 190,000 KW Turbine Generator (installed 1974)           | – Holly Street Power Plant |
| 1 – 400,000 KW Turbine Generator (installed 1977)           | – Decker Power Station     |

*Distribution System.* The Electric System is composed of approximately 7,718 miles of distribution lines and an underground secondary network system serving the business area of the City. This system consists of twenty-four primary feeders with approximately 159,000 Kilovolt Amperes (“KVA”) of network transformers with protectors and a 69 KV (kilovolts) grid consisting of 81.4 miles of line incorporating thirty substations, aggregating 1,161,000 KVA of transformation.

There is currently under construction a 138 KV system which, when complete, will encircle the City. The 138 KV system will connect with the Decker Creek Station and, through the Decker Creek Station, with the electric power system of the Lower Colorado River Authority (“LCRA”). At present, 74.8 miles of the 138 KV system have been completed, serving fourteen substations with a total of 944,000 KVA.

*Interconnections with Other Systems.* The Electric System is interconnected with the LCRA, a hydro-electric and steam system, with whom the City has a power interchange agreement. In addition, the City is a member of the Texas Interconnected System, which is composed of six major investor owned systems, two major municipal systems and two cooperatives. As a participant in the Texas Interconnected System, the City's Electric System is able to buy from and sell to other members of such system. The diversification of the fuel sources of the member systems increases the potential for economic interchanges among the respective systems. The Electric System will be able to sell its power to other members during periods of excess capacity, and purchase from other members during periods of high demand. This arrangement generally provides for the possibility of maximizing the use of the less expensive fuel sources by all members of the interconnected system.

## Major Construction Program

In response to the short supply of natural gas as a fuel source for power plant boilers and the high cost of natural gas, the City developed and is currently implementing a generation plan that will lessen the Electric System's dependence on natural gas as a source of boiler fuel by the construction of power facilities that will make use of coal (the Fayette Power Project), uranium (the South Texas Project). It is expected that these efforts will result in a significant lessening of the System's dependence on natural gas by the early 1980's and will, at that time, enable the Electric System to limit the operation of existing gas fired facilities to “peaking” capability, thereby establishing solid fuel facilities as the “base load” generating mode of the System.

On January 20, 1979 the citizens of Austin approved the borrowing authority of the City in the amount of \$82,400,000 for certain capital improvements in fiscal years 1978-79 and 1979-80. The borrowing authority encompasses the financing of transmission, distribution, substation, street-lighting improvements and completion of the construction program at the Fayette Power Plant Project.

In a January 20, 1979, referendum, the citizens of Austin declined to authorize a reduction in the City's participation in the South Texas Project to a level consistent with then existing borrowing authority (\$161,000,000). A subsequent referendum on April 7, 1979, resulted in citizen approval of a continued 16% participation by the City in the South Texas Project. Additional borrowing authority of \$215,800,000 was also approved for financing of the plant and the purchase of nuclear fuel.

*Fayette Power Project.* The Fayette Power Project is a joint power project (50% per participant) undertaken by LCRA and the City. Pursuant to the participation agreement, LCRA was appointed Project Manager and established a Management Committee composed of two representatives from each participant to direct the development and operation of the project. The project consists of the installation of two 550 MW generation units utilizing western coal as a fuel source.

The location of the Fayette Power Project is approximately 8½ miles east of LaGrange, located between LaGrange and Fayetteville in Fayette County. The land has been acquired, commitments for most of the project equipment have been made, and construction contracts have been awarded. The plant design will utilize a cooling pond for condenser cooling water purposes. A dam has been constructed to impound the cooling water and the adjacent reservoir has been filled. Due to the extended construction period associated with a facility of this magnitude, many of the contracts anticipate escalations in accordance with certain national indices.

Coal deliveries began in January, 1979. Unit No. 1 and common facilities were classified commercial June 16, 1979. Unit No. 2 is identical to Unit No. 1 and the completion of its construction will follow that of Unit 1 by one year. Most of the equipment bids for Unit No. 1 provided options for Unit No. 2, which have already been executed. The land purchase and reservoir development were anticipated under Unit No. 1 thereby reducing the overall costs of Unit No. 2 and making the project economically attractive to the City. The City's portion of plant cost for both units is anticipated to be \$215,500,000, with \$179,033,325 invested in the project as of June 30, 1979.

*South Texas Project.* The South Texas Project is a jointly owned nuclear fueled facility, located in Matagorda County between Bay City and Palacios. The participants in the project are Houston Lighting & Power, Central Power and Light, City Public Service of San Antonio, and the City. The City and City Public Service are municipal entities. Houston Lighting & Power and Central Power and Light are investor owned utilities. The City of Austin entered into the project subsequent to bonding authority approved in November of 1973, and became a participant in the project after basic siting, construction, and equipment decisions were made. Pursuant to the participation contract executed by all participants in the Project, Houston Lighting & Power was designated as the Project Manager and a Management Committee was established which is composed of representatives of each participant. The decision-making authority of the representatives on the Management Committee is in direct relation to the dollar amount of their participation in the construction of Project.

The construction and eventual operation of the South Texas Facility are subject to the extensive regulatory requirements of the Nuclear Regulatory Commission (the "NRC"). A project application, an environmental report and a preliminary safety analysis have been filed with the NRC in accordance with various administrative and statutory requirements.

On December 22, 1975, the NRC, after extensive review of these documents, issued a Construction Permit authorizing construction of the project, and in August 1978, an application for an operating license was filed. However, the NRC's review of the application has been suspended by the NRC's Director of Nuclear Reactor Regulation as a result of NRC staff commitments to investigate the recent incident at the Three Mile Island nuclear plant in Pennsylvania. See "Effect of Recent Developments Pertaining to Nuclear Power."

The project consists of two 1,250 MW generating units. Austin's participation in the project is 16%, which when the project is fully operational will provide approximately 400 MW of generating capability.

The generator for Unit No. 1 has been set, the condensers installed, the low pressure turbines installed and many major pieces of equipment have been set. The river intake structure has been turned over to Houston Lighting & Power and is undergoing final tests and startup. The cooling water reservoir is essentially complete, and will be suitable for filling any time after September, 1979. The nuclear reactor vessel for Unit #1 was set in July and the placement of the four large steam generators will follow shortly. The current project schedule anticipates commercial status of Unit No. 1 for April 1982, and commercial status of Unit No. 2 for April, 1983, unless affected by the matters discussed under "Effects of Recent Developments Pertaining to Nuclear Power." Brown & Root, Inc. is Engineer-Constructor on the project and currently has approximately 4,200 employees at the project site. Due to the long time frame associated with a project of this type, equipment and construction costs are subject to considerable escalation. Currently, the total project cost is estimated to be \$2,007,276,000, based on cost and schedule estimates prepared in 1978. The City's dollar portion of that estimated expenditure is \$321,164,160. The City's expenditure for its portion of the South Texas Project through June 30, 1979, is approximately \$156,814,310. Currently, the total project cost is estimated to be \$2,007,276,000, an increase of \$708,276,000 from the \$1,299,000,000 estimated cost for the project in August, 1977. The estimated cost is predicated on the current completion schedule.

The City of Brownsville, Texas has requested, through Central Power & Light Company, participation in the South Texas Project in the form of an undivided interest in the construction and operation of the two units currently under construction. Subsequent communications with the City of Brownsville will indicate more clearly their desires. Austin cannot identify at this time the probability of Brownsville's entry into the project or the effect, if any, of their entry.

#### Sources of Fuel

*Gas and Oil.* The Electric Utility System has previously experienced varying degrees of curtailment of natural gas. These shortfalls in available gas have been made up by use of on-site fuel oil, and no curtailment to electric customers has been necessary.

As is the case with most electric utilities, the prospect of continued fuel availability is not as stable as desired, however, there has been substantial improvement in the City's fuel posture in the last 24 months. Stand-by fuel oil storage capacity has been expanded to approximately 40,000,000 gallons, and current fuel oil inventory is 11,000,000 gallons. In view of the current and anticipated gas supplies and the market availability of fuel oil, the inventory is deemed to be more than adequate. The current gas supply has improved considerably over 1972, 1973 and 1974 supplies, with estimates by the supplier indicating favorable increases over the next twelve months.

Certain modifications have been completed to improve the firing characteristics of existing boilers when firing in the fuel oil mode. Additional changes are anticipated to further improve the boiler performance under fuel oil firing conditions and an engineering study has been completed relative to the feasibility of converting the larger boilers in the system to full fuel oil firing. No major conversion is anticipated at this time. Fuel oil burning capability was greatly increased with the operational status of Decker 2.

A number of customers of Coastal States Corporation ("Coastal States") and Lo-Vaca Corporation ("Lo-Vaca") have initiated legal action to recover damages from Lo-Vaca resulting from their inability to meet the terms of their long term fixed price natural gas supply contracts. The magnitude of the claims is very high, and considerable effort has been expended to arrive at an acceptable settlement. Lo-Vaca has indicated that in the event a settlement cannot be reached they will initiate some form of bankruptcy proceeding. In the event this occurs it is anticipated that Lo-Vaca will continue to function as a utility and while there might be some transitional disruptions the City will be able to maintain a fuel supply at least as stable as it has been in the recent past.

Major Coastal States and Lo-Vaca customers, and Coastal States Gas Corporation, Coastal States Gas Producing Company and Lo-Vaca, have arrived at a settlement and have submitted the agreement to the Texas Railroad Commission (the "Commission") for consideration. Public hearings before the Commission began April 3, 1978. A final order with modifications to the agreement was issued August 7, 1978. If the modifications are accepted by the settling parties, the order will become final.

In general, the settlement provides for the permanent separation from Coastal States Corporation of certain gas and other properties, and the formation of a new corporation (Valero Corporation) which is to be totally and permanently independent of Coastal States and any of their officers. The settlement includes the following provisions:

1. The board of directors will be broadened to include an Austin businessman not employed or doing business with the City.
2. A customer trust fund will be established to receive: (i) certain Coastal States common stock; (ii) certain Valero Corporation common stock; (iii) certain Valero Corporation preferred stock; and (iv) certain funds accruing from the gas search program.
3. A Gas Search Program will be developed and funded by Coastal States Gas Corporation to dedicate certain new gas at a price discounted below market price, the cash benefits of which are to be distributed to the customers by means of a customer trust fund.
4. Coastal States Gas Corporation will transfer to Valero certain Texas lignite holdings near Austin and the Fayette Power Project. These properties will be available to the City, City Public Service, LCRA, and Central Power and Light, at book value if desired.
5. The existing Lo-Vaca rate (5¢ per 1000 cubic feet) will be maintained throughout the hearings; the rate will be raised to 10¢ per 1000 cubic feet for the next twelve months after settlement.

The final results of the Railroad Commission order cannot be anticipated at this time nor can other actions by various involved regulatory bodies, customers, creditors, rate payers or stockholders, but if concluded in this form it is anticipated that the gas supply availability and the City's overall economic gain will be better than if Lo Vaca were forced into bankruptcy.

*Coal.* In conjunction with the development of the Fayette Power Project with LCRA, a decision was made to utilize low sulphur coal for Units No. 1 and No. 2 on the basis of economics, availability within the time constraints, and the status of sulphur removal technology.

The City has entered into a coal contract with Decker Coal Company for 50,000,000 tons of coal over a twenty-five year term. An additional coal supply contract has been executed with Atlantic Richfield Company for a fifteen year supply in the amount of approximately 27,000,000 tons. Transportation for both supplies will be by unit trains. The Decker mine is in the State of Montana and the Atlantic Richfield mine is in Wyoming.

The State of Montana has imposed an ad valorem tax on coal extracted from that state. The rate of this tax varies between 20% to 30% depending upon the quality of the coal extracted. The City and ten other public and private utility operators and several coal mining entities have instituted an action against the State of Montana in a Montana State Court. The Plaintiffs are seeking to declare the Montana "Coal Severance Tax" unconstitutional based on the contentions that the Act is a discriminatory burden on interstate commerce and an improper attempt at state preemption of federal policy.

The Montana trial court has rendered a decision adverse to the City and the other Plaintiffs. This decision will be appealed to the Montana Supreme Court. There is some probability that this case will eventually reach the Supreme Court of the United States.

Since the imposition of this tax in 1975, Decker Coal Company, the coal company currently responsible for supplying 100% of the coal utilized by the Electric System in power production, has been paying this tax under protest. A portion of the costs of this tax are passed through the City.

The City and LCRA have been actively pursuing access to Texas lignite reserves located on property owned by the federal government at Camp Swift approximately 35 miles from Austin. The area has been core drilled and evaluated. Procurement through the government is extremely difficult but certain legislation simplifying the procedure has been enacted and will help in the potential development of this resource. In addition to this source, certain lignite holdings belonging to Coastal States would be available to the City through the proposed Lo-Vaca settlement, if agree-

ment can be reached. The economics of these holdings have not been evaluated; however, they are located close to the Fayette Project.

**Nuclear.** The award for the nuclear steam system to Westinghouse anticipated in conjunction with their furnishing the nuclear steam system for the South Texas Project, includes a ten year contract to provide nuclear fuel for the facility. In 1973, Westinghouse announced that it would not be able to fulfill its commitments to a number of utilities throughout the United States with respect to nuclear fuel, and claimed that such contracts were no longer valid as a result of their interpretation of the "Uniform Commercial Code". The South Texas Project and a number of other electric utilities in the United States challenged that position in the courts.

Following legal action by several Westinghouse customers in a U.S. District Court in Virginia, a settlement was reached in October, 1978, between the South Texas Project and Westinghouse. Estimates indicate that the settlement will provide for the recovery of at least 76% of the value of the participant's claim against Westinghouse. This is based on the settlement provisions providing to the participants uranium, equipment and services valued in excess of \$300,000,000. The settlement will provide in excess of 8 million pounds of uranium to the project. In addition, a contract for 5 million pounds of uranium has been executed with Chevron Corporation. These supplies of uranium will provide over a 10 year supply for the project.

#### **Effect of Recent Developments Pertaining to Nuclear Power**

The NRC's Director of Nuclear Reactor Regulation has suspended the review of nine pending applications for operating licenses, including the application of the South Texas Project, until January 1980 because of the manpower demands on the NRC staff in connection with the investigation of the recent incident at the Three Mile Island Nuclear Station near Harrisburg, Pennsylvania. The Director has advised the affected utilities that such action was taken subject to future congressional action providing for additional personnel. It cannot now be predicted how much, if any, delay may be experienced or what additional costs, if any, may result from such suspension.

As a result of the incident at the Three Mile Island, which resulted in the release of above-normal levels of radiation to the environment and severe damage to the reactor core, various governmental bodies are studying a broad range of issues relating to the design, construction and operation of nuclear electric generating facilities, particularly those of the design and manufacture used at Three Mile Island. The Nuclear Regulatory Commission has established a task force to conduct a generic review of feedwater transients in nuclear reactors of the design and manufacture used at Three Mile Island. In the United States Congress, legislative proposals have been introduced and hearings are being held concerning aspects of nuclear electric generation. Other agencies of government are conducting, and may be expected to conduct in the future, other reviews relating to nuclear electric generation. The City cannot predict the findings, recommendations and other results of these or any future studies and hearings; whether any recommended legislation will be adopted; or whether governmental regulations affecting nuclear electric generation will be significantly modified. The City cannot predict the effect of any of the foregoing on its Electric Utility System or the South Texas Project.

The Project Manager for the South Texas Project, Houston Lighting & Power Company, has formed a team to a review of the implications of the information learned from the Three Mile Island incident on the design of the nuclear steam system for the South Texas Project. This team is composed of representatives of the manufacturer of the nuclear steam supply system, engineering representatives of the Engineer Constructor and representatives of the Project Manager. In addition, the Project Manager has dispatched a team of technical personnel, composed of permanent plant personnel currently under training, to the Three Mile Island installation to review the damage, to assist the owner and to enhance their training.

The Project Manager has under development an updated appraisal of the STP budget and schedule. The assimilation of detailed data components, which will form the basis of this new appraisal, is nearing completion. While no prediction can be made at this time, such new appraisal may include increased construction cost estimates and result in delayed in-service date for STP Unit #1.

## **Regulatory Matters**

The Railroad Commission of Texas, on January 5, 1973, issued an order requiring every natural gas utility subject to its jurisdiction to file a curtailment program with the Commission by February 12, 1973. Such order set forth certain priorities, similar to those contained within typical Federal Power Commission curtailment orders, for deliveries of natural gas until the Commission could approve the curtailment program of each utility. At various times, public hearings have been conducted to determine priorities for the Lo-Vaca system. By interim order dated June 21, 1973, natural gas to be used for the generation of electricity to meet residential, hospital, school, church and other human needs consumption was given a priority second only to direct usage of natural gas for the same purposes. Such favorable ranking, ahead of commercial and industrial usage, has been continued to date.

The Public Utility Commission of Texas (the "Commission") was created in 1975 by the Texas Legislature to regulate certain electric utility rates, operations, and services within the State. The City has original jurisdiction over the electric rates, operations and services of its own system within its boundaries. The Attorney General of Texas has rendered an opinion that the Commission has no appellate jurisdiction over such rates. The respective original and appellate jurisdictions of the City and the Commission with respect to rates, operations and services of the City's electric system outside of its boundaries is not clear at this time, but the Statute appears to give the Commission no such original jurisdiction, and appellate jurisdiction only with respect to retail sales and not sales between one City and another. The Statute provides that after September 1, 1977, the City may surrender to the Commission jurisdiction over utility rates, operations and services, but it is not clear whether this includes the right to surrender jurisdiction over its own municipal system.

The Texas Public Utility Commission has previously taken testimony relating to a bifurcation in the Texas Interconnected System resulting from Central and Southwest Corporation actions relating to participation in interstate commerce. The Texas Public Utility Commission has directed the reconnection of the Texas Interconnected System as a result of testimony. The system has been restored to its previous physical arrangement. It appears Central and Southwest will pursue its interstate objectives through various other administrative and legal forums.

On February 1, 1979, a U.S. District Court in Dallas ruled that the policies of several Texas utilities against connecting with any other utility that transmits power across state lines are not in violation of federal anti-trust laws. There is no indication whether an appeal of this ruling will be made.

Houston Lighting & Power, acting in its capacity as project manager for the South Texas Project, filed in August, 1978, the application for an Operating License. NRC will conduct an anti-trust hearing in conjunction with the Operating License hearing.

Three of the five Federal Acts comprising the National Energy Act affect electric utilities directly. They are: The National Energy Conservation Policy Act, Power Plant and Industrial Fuel Use Act, and the Public Utilities Regulatory Policy Act. These acts presently are in the administrative rule making stage and their direct impact on the City's Electric Utility System will depend on the final nature of the rules adopted by the various administrative agencies relating to the specific acts. On the basis of current knowledge and interpretation of the acts and proposed rule making, it appears that Austin will be able to comply with the requirements of the various acts and rules and regulations without unusual adverse impact except the additional cost and expense of additional staffing and administrative costs associated with the requirements of the various acts.

## **Rates**

In 1976, the Mayor's Electric Rate Commission, an appointed citizens group, conducted a study of electric rates and made several recommendations for adjustments in the rate structure and the fuel cost adjustment associated with each rate. The City Council employed the firm of Touche Ross &



Company ("Touche Ross") to review the recommended rate structure and the revenue requirements and to comment on the economic impact of the recommendations. Touche Ross reported on December 14, 1976 that it was unable to support the proposed rates of the citizen group or the current rates. The revenue requirements study was completed and an interim rate adjustment was approved by the City Council effective January 1, 1977 to equalize projected revenue for the 1976-77 fiscal year and revenue requirements for the same period.

Touche Ross & Company also recommended a complete cost of service, long term revenue requirement and rate design study for implementation of a new tariff structure by October 1, 1977, and was retained for such purpose. In December, 1977, a final report was presented including the design of a new rate structure. After a public hearing, the City Council adopted the rates to become effective April 1, 1978. A Rate Management Program has been established as recommended by Touche Ross. The budget recommendation, not yet approved by the City Council, calls for revenue from customer sales increase of approximately 8.8% for the 1979-80 fiscal year.

#### **Certain Statistical Information Concerning the Electric System**

There follows statistical information prepared by the Electric System and the City Finance Department regarding demand requirements, electric bills, and a projection of supply capacity as related to generating fuel sources. The data concerning use under the heading "Generation and Use Data" reflects certain adjustments to account for the fact that customer billings are made on a staggered cyclical basis, whereas the data on generation is on an actual fiscal year basis. In addition, the use data has been adjusted to reflect the Electric System's estimates of KWH in the "Loss and Unaccounted For" category.

Generation and Use Data

Fiscal Year Ended

	9-30-75		9-30-77		9-30-76		9-30-75		9-30-74	
	Average Customers	KWH	Average Customers	KWH	Average Customers	KWH	Average Customers	KWH	Average Customers	KWH
Net KWH Generated .....		3,256,824,000		3,074,768,000		2,810,635,000		2,734,280,000		2,639,448,000
KWH Received From LCRA .....		419,047,000		421,363,000		424,953,000		388,021,000		142,341,000
TOTAL KWH TO ACCOUNT FOR .....		3,675,871,000		3,496,131,000		3,235,588,000		3,122,301,000		2,781,789,000
Less: Delivered to LCRA .....		423,238,000		419,883,000		424,416,000		360,463,000		142,341,000
KWH TO SYSTEM .....		3,252,633,000		3,076,248,000		2,811,172,000		2,761,838,000		2,639,448,000
<b>Energy Use (KWH):</b>										
Residential Service .....	131,325	1,155,701,867	123,467	1,091,516,155	108,004	1,001,715,850	103,847	982,074,363	100,370	1,101,860,848
General Service .....	15,829	1,732,051,888	13,905	1,636,270,869	12,576	1,468,301,267	42,093	1,439,511,046	11,573	1,311,759,096
	147,154	2,887,753,755	137,372	2,727,787,024	120,580	2,470,017,117	115,940	2,421,585,409	111,943	2,413,619,938
Public Street Lighting .....	2	23,125,970	2	27,021,901	2	18,400,000	2	18,374,958	2	18,464,869
City Departments .....	333	54,032,815	331	52,480,284	310	28,000,000	302	26,124,470	290	23,110,665
Austin Public Schools .....	—	—	—	—	34	8,300,000	33	8,073,479	32	5,755,521
	335	77,158,785	333	79,502,185	346	54,700,000	337	52,572,907	324	47,331,055
City Utility Departments .....	129	60,036,460	132	57,452,689	120	52,000,000	114	51,679,595	105	58,833,898
<b>TOTAL ENERGY USE</b>										
ULTIMATE CONSUMER .....	147,618	3,024,949,000	137,837	2,864,741,898	121,046	2,576,717,117	116,391	2,525,837,911	112,372	2,519,784,891
Loss and Unaccounted For .....		227,684,000		211,506,102		234,454,883		236,000,089		119,663,109
KWH TO SYSTEM .....		3,252,633,000		3,076,248,000		2,811,172,000		2,761,838,000		2,639,448,000
System Peak KW Demand .....		763,000		774,000		711,000		681,000		660,000

### ANALYSIS OF ELECTRIC BILLS

<u>Fiscal Year Ended</u>	<u>9-30-78</u>	<u>9-30-77</u>	<u>9-30-76</u>	<u>9-30-75</u>	<u>9-30-74</u>
All Customers					
Average Monthly KWH Per Customer .....	1635	1731	1773	1808	1869
Average Monthly Bill Per Customer .....	\$80.55	\$77.31	\$78.78	\$61.69	\$42.89
Average Monthly Revenue Per KWH .....	\$0.04926	\$0.04463	\$0.04441	\$0.03412	\$0.02295
Residential Customers (AE and RS)					
Average Monthly KWH Per Customer .....	733	735	773	788	915
Average Monthly Bill Per Customer .....	\$38.21	\$38.58	\$36.86	\$30.16	\$24.05
Average Monthly Revenue Per KWH .....	\$0.05213	\$0.05238	\$0.04768	\$0.03827	\$0.02628
General Customers					
Average Monthly KWH Per Customer .....	9118	9806	9730	9919	9445
Average Monthly Bill Per Customer .....	\$431.89	\$401.03	\$390.25	\$315.82	\$199.08
Average Monthly Revenue Per KWH .....	\$0.04736	\$0.04089	\$0.04011	\$0.03184	\$0.02108

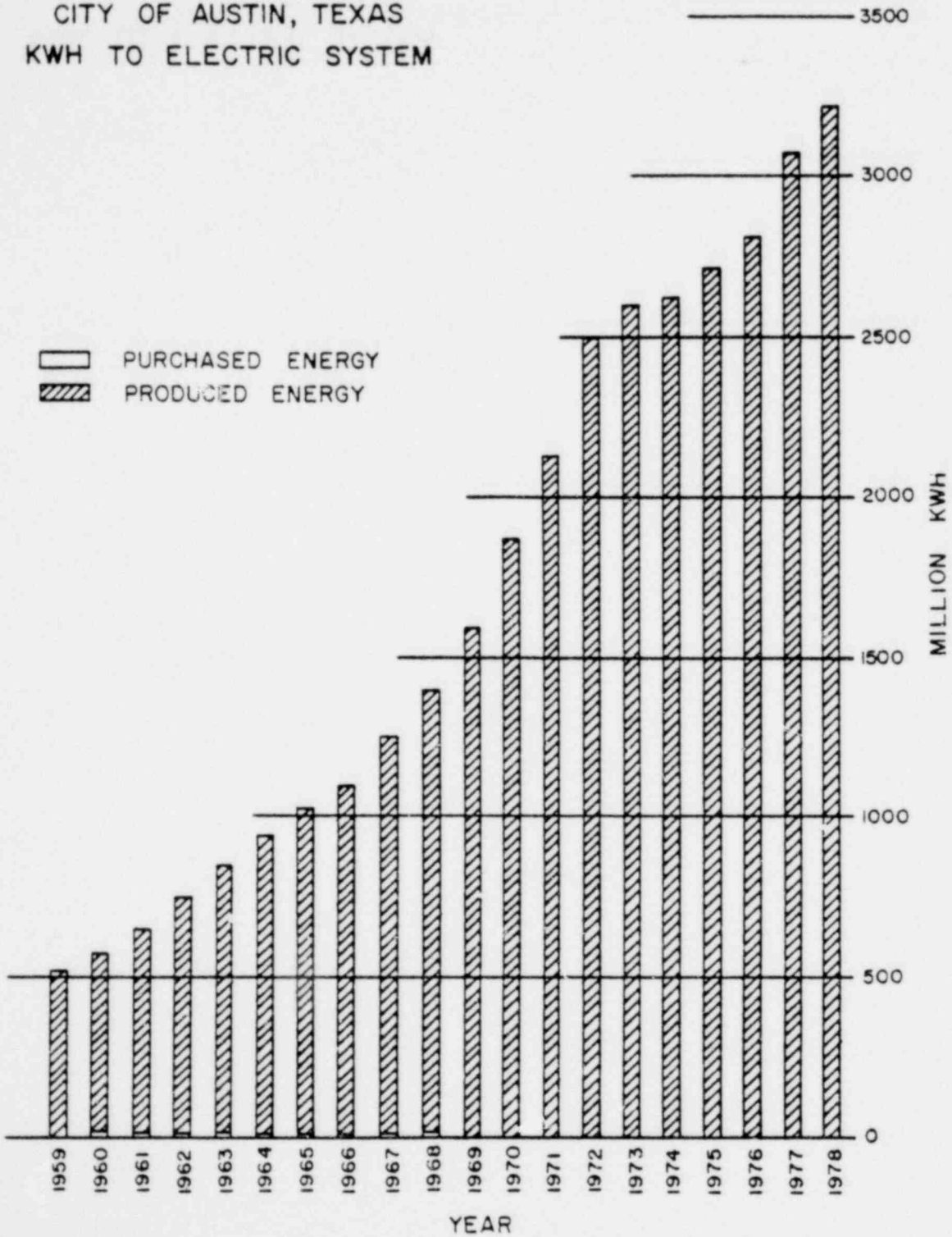
### PROJECTED USE OF FUEL BY SOURCE

The table on page 24 illustrates the projected KWH to the Electric System and the future fuel source distribution and reflects the Electric System's generation plan to lessen dependence on natural gas and diversify fuel sources with the introduction of coal capacity in 1979 and nuclear power from the South Texas Project, scheduled for completion in 1982.

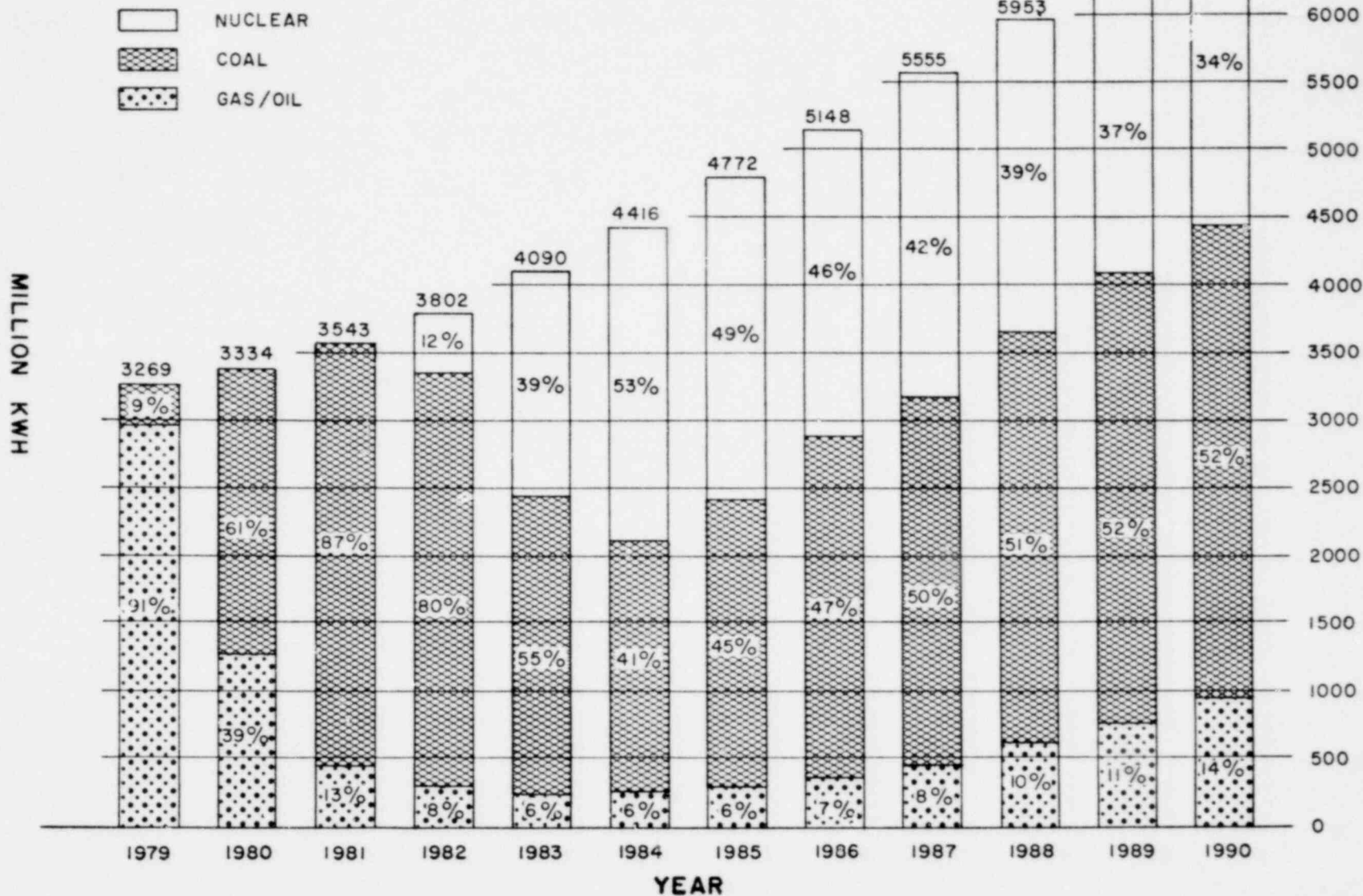
### PROCEEDS

\$47,000,000 Electric System Nuclear Revenue Bonds will be used for progress payments for the South Texas Project. \$10,000,000 Electric System Fayette Revenue Bonds will be used for progress payments on the coal plant, coal stockpile, and transmission from Fayette Plant. \$3,000,000 Electric System Revenue Bonds will be used for ongoing transmission and distribution projects.

CITY OF AUSTIN, TEXAS  
 KWH TO ELECTRIC SYSTEM



CITY OF AUSTIN, TEXAS  
 PROJECTED  
 KWH TO ELECTRIC SYSTEM



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**MONTHLY ELECTRIC UTILITY RATES**

Approved by the Austin City Council on January 19, 1978; effective  
with bills rendered on or after April 1, 1978.

**BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:**

**PART I.** That the monthly rates and charges for sales made and services rendered by any part of the Electric Light and Power Works and System of the City of Austin be, and the same are hereby, established, levied, fixed and prescribed as follows:

**Residential Type Service**

**Multiple Fuels**

*Application:* This rate is applicable to all electric service required by single family residential customers in single-family dwellings, mobile homes, town houses or individually metered apartment units when that electricity provided by the City of Austin is used in conjunction with other forms of energy.

This rate is applicable when a portion of a residence or household unit is used for nonresidential purposes only as defined by subsection 45-16.1(i) of the Austin City Code.

This rate is further applicable to any church, synagogue or other public place which is used for the purpose of conducting group religious worship services. This rate is *not* applicable for service to any dormitory, school, lodge, gymnasium, meeting hall or any other indoor or outdoor facility which is not used by the public for group religious worship services.

Electric service of one standard character will be delivered to one point on customer's premises and measured through one meter.

*Character of Service:* Alternating current, 60 cycles, single phase, (or three phase) service in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

*Rate:*

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge .....	\$3.00	\$3.00
Energy Charge .....	* .72¢ per KWH all KWH	* .72¢ per KWH all KWH
Capacity Charge .....	NONE	2.5¢ per KWH first 500 KWH 1.375¢ per KWH all addi- tional KWH

\* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

**Residential Type Service**

**Single Fuel**

*Application:* This rate is applicable to all electric service required by single family residential customers in single-family dwellings, mobile homes, town houses or individually metered apartment units when that electricity provided by the City of Austin is the only source of energy used on the premises.

This rate is applicable when a portion of a residence or household unit is used for non-residential purposes only as defined by subsection 45-16.1(i) of the Austin City Code.

This rate is further applicable to any church, synagogue or other public place which is used for the purpose of conducting group religious worship services. This rate is *not* applicable for service to any dormitory, school, lodge, gymnasium, meeting hall or any other indoor or outdoor facility which is not used by the public for group religious worship services.

Individually metered apartment units must contain an individual air conditioning system, heating system and water heater which serves only that apartment.

A gas meter, butane tank or other fixed fuel source available to supply the customer's premises would disqualify the residence from this rate until such source is removed.

Use of a portable gas supply for use only with gas grills or gas started fireplaces would not disqualify a customer from this rate.

Electric service of one standard character is delivered to one point of service on the customer's premises and is measured through one meter.

*Character of Service:* Alternating current, 60 cycles, single phase, (or three phase) service in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate . . .

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	\$3.50	\$3.50
Energy Charge	° .66¢ per KWH all KWH	° .66¢ per KWH all KWH
Capacity Charge	NONE	2.5¢ per KWH first 500 KWH 1.275¢ per KWH all additional KWH

° Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

### General Service

#### Multiple Fuels

*Application:* This rate is applicable to all electric service required by any customer to whom no other specific rate applies and when the electricity provided by the City of Austin is used in conjunction with other forms of energy.

Electric service of one standard character will be delivered to one point of service on the customer's premises and is measured through one meter.

*Character of Service:* Alternating current, 60 cycles, single phase or three phase in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

*Rate:* Applicable to a customer whose electric service meets or exceeds 30 kilowatts per month for any two months within the most recent six summer billing months or as determined by the City of Austin. This rate shall be applied for a term of not less than one year (twelve months).

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	°° \$4.50	°° \$4.50
Energy Charge	° 1.2¢ per KWH all KWH	° 1.2¢ per KWH all KWH
Capacity Charge	\$3.22 per KW all KW	\$5.78 per KW first 30 KW \$3.95 per KW all additional KW

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The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

*Rate:* Applicable to a customer whose electric service does not meet or exceed 30 kilowatts per month for any two months within the most recent six summer billing months or as determined by the City of Austin.

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	°°\$4.50	°°\$4.50
Energy Charge	°1.2¢ per KWH all KWH	°1.2¢ per KWH all KWH
Capacity Charge	NONE	2.5¢ per KWH first 1,000 KWH 1.85¢ per KWH all additional KWH

- ° Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.
- °° Plus an additional \$15.00 per month for customers whose KWH billed in any month within the last 12 months exceeded 10,000 KWH.

### General Service

#### Single Fuel

*Application:* This rate is applicable to all electric service required by any customer to whom no other specific rate applies and where the electricity provided by the City of Austin is the only source of energy used on the premises. The primary use of this energy must be for space comfort conditioning.

Electric service of one standard character will be delivered to one point of service on the customer's premises and is measured through one meter.

*Character of Service:* Alternating current, 60 cycles, single phase or three phase in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

*Rate:* Applicable to a customer whose electric service meets or exceeds 30 kilowatts per month for any two months within the most recent six summer billing months or as determined by the City of Austin. This rate shall be applied for a term of not less than one year (twelve months).

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	°°\$6.00	°°\$6.00
Energy Charge	°1.2¢ per KWH all KWH	°1.2¢ per KWH all KWH
Capacity Charge	\$2.08 per KW all KW	\$6.92 per KW first 30 KW \$3.86 per KW all additional KW

The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

*Rate:* Applicable to a customer whose electric service does not meet or exceed 30 kilowatts per month for any two months within the most recent six summer billing months or as determined by the City of Austin.



	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	°°\$6.00	°°\$6.00
Energy Charge	°1.2¢ per KWH all KWH	°1.2¢ per KWH all KWH
Capacity Charge	NONE	2.5¢ per KWH first 1,000 KWH 1.63¢ per KWH all additional KWH

- ° Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.
- °° Plus an additional \$15.00 per month for customers whose KWH billed in any month within the last 12 months exceeded 10,000 KWH.

### Primary Service

#### Multiple Fuels

*Application:* This rate is applicable to all electric service required by any customer who receives service at 12,500 volts or higher and whose electric service does not meet or exceed 3,000 kilowatts for any two months within the previous twelve months.

This customer shall furnish, install, own, maintain and operate all facilities and equipment on the customer's side of the point of delivery.

The electric service provided by the City of Austin is used in conjunction with other forms of energy.

Electric service of one standard character will be delivered to one point on the customer's premises and measured through one meter.

*Character of Service . . .* Alternating current, 60 cycles, three phase 12,500 volts or higher in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

*Rate:*

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	\$121.00	\$121.00
Energy Charge	°1.152¢ per KWH all KWH	°1.152¢ per KWH all KWH
Capacity Charge	\$3.22 per KW all KW	\$5.78 per KW first 30 KW \$3.95 per KW all additional KW

The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

- ° Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

### Primary Service

#### Single Fuel

*Application:* This rate is applicable to all electric service required by any customer who receives service at 12,500 volts or higher and whose electric service does not meet or exceed 3,000 kilowatts for any two months within the previous twelve months.

The electric service provided by the City of Austin must be the only source of energy used on the premises.

This customer shall furnish, install, own, maintain and operate all facilities and equipment on the customer's side of the point of delivery.

Electric service of one standard character will be delivered to one point on the customer's premises and measured through one meter.

*Character of Service:* Alternating current, 60 cycles, three phase, 12,500 volts or higher in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

*Rate:*

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	\$121.00	\$121.00
Energy Charge	*1.152¢ per KWH all KWH	*1.152¢ per KWH all KWH
Capacity Charge	\$2.08 per KW all KW	\$6.92 per KW first 30 KW \$3.86 per KW all additional KW

The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

\* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

**Large Primary Service**

*Application:* This rate is applicable to all electric service required by any customer who receives service at 12,500 volts or higher and whose electric service meets or exceeds 3,000 kilowatts for any two months within the previous twelve months.

The customer shall furnish, install, own, maintain and operate all facilities and equipment on the customer's side of the point of delivery.

This rate shall be applied for a term of not less than one year (twelve months).

Electric service of one standard character will be delivered to one point of service on the customer's premises and is measured through one meter.

*Character of Service:* Alternating current, 60 cycles, three phase 12,500 volts or higher in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

*Rate:*

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	**\$121.00	**\$121.00
Energy Charge	*1.15¢ per KWH all KWH	*1.15¢ per KWH all KWH
Capacity Charge	\$2.50 per KW all KW	\$3.50 per KW first 3,000 KW \$2.40 per KW all additional KW

The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

- ° Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.
- °° Plus an additional \$200.00 per month will be charged for customers whose KWH in any month of the last 12 months exceeded 1,000,000 KWH.

### Water and Wastewater

*Application:* This rate is applicable to all electric service required for the operation of water pumping and sewage disposal systems owned, operated and maintained by the City of Austin.

*Character of Service:* Alternating current, 60 cycles, single phase or three phase, in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

*Rate:*

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	\$25.00 per Meter	\$25.00 per Meter
Energy Charge	° .60¢ per KWH all KWH	° .60¢ per KWH all KWH
Capacity Charge	NONE	2.5¢ per KWH first 1,000 KWH 1.6¢ per KWH all additional KWH

- ° Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

### Street Lighting and Traffic Signals

*Application:* This rate is applicable to all electric service for the illumination and operation of traffic signals on all dedicated public streets, highways and expressways or thoroughfares within the city limits of Austin operated and maintained by the City of Austin.

*Character of Service:* Alternating current, 60 cycles, single phase.

*Rate:*

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	\$128,667.00	\$128,667.00
Energy Charge	° .48¢ per KWH all KWH	° .48¢ per KWH all KWH
Capacity Charge	NONE	.62¢ per KWH all KWH

- ° Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

### Other City

*Application:* This rate is applicable to all electric service required for municipal buildings, parks and other municipally owned and operated establishments within the City of Austin.

*Character of Service:* Alternating current, 60 cycles, single phase or three phase in accordance with Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate:

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	\$10.00 per meter	\$10.00 per meter
Energy Charge	* .60¢ per KWH all KWH	* .60¢ per KWH all KWH
Capacity Charge	NONE	1.16¢ per KWH all KWH

- \* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

#### Nightwatchman

*Application:* Applicable to private outdoor overhead lighting installed, owned, operated, and maintained by the City of Austin.

Rate:

	<u>Billing Months of November through April</u>	<u>Billing Months of May through October</u>
Customer Charge	** \$3.30 per Light	** \$3.30 per Light
Energy Charge	* .48¢ per KWH all KWH	* .48¢ per KWH all KWH
Demand Charge	NONE	.62¢ per KWH all KWH

- \* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.
- \*\* Plus \$1.50 per month, per pole, for all poles.

**PART 2.** The fuel clause adjustment provided for in this ordinance shall be calculated according to the following formula:

#### Fuel Charge

*Application:* Applicable to all City of Austin electric rates for which a fuel charge is prescribed.

*Fuel Charge Formula:* The fuel charge can be expressed by the following formula:

$$\text{Fuel Cost/KWH} = \frac{(F)}{S} + \frac{(E - A)}{S}$$

Where F is the estimated cost of fuels, including refunds and the cost or revenues of purchased or sold power for the calendar month

S is the estimated sales of KWH for the month

E is the actual cost of fuels, including refunds and the cost or revenues of purchased or sold electrical energy for the second preceding calendar month

A is the actual cost recovered in the second preceding calendar month.

The fuel charge formula is intended to recover the actual cost of fuel adjusted for any purchase or sale of electrical energy. The intent is to avoid any over- or under- recovery of costs associated with fuel.

**PART 3.** Bills computed under this ordinance are due when rendered. Each bill shall have set forth thereon a date falling between twenty-seven and twenty-nine days after the date of the bill. Bills paid after the specified date shall have added thereto a penalty equal to five percent (5%) of the bill. Provided, however, this provision shall become effective on all bills rendered after April 1, 1978.

**PART 4.** The rates and charges provided for in this ordinance shall become effective on all bills rendered on or after April 1, 1978.

**PART 5.** Service rendered under this rate ordinance shall be provided pursuant to rules and regulations prescribed by the City of Austin from time to time.

**PART 6.** Any accumulated balance remaining in the Electric Utility Account "RECOVERABLE FUEL COSTS" after the passage of this ordinance shall be recovered from future revenues of the Electric Utility System prior to September 30, 1983, by:

- (1) A surcharge on customer billings from October 1, 1979, to September 30, 1983. The surcharge shall be calculated annually at October of the years 1979, 1980, 1981 and 1982, and shall be calculated by dividing the accumulated balance of recoverable fuel costs by the projected kilowatt hours to be billed over the remaining months ending on September 30, 1983, and/or,
- (2) Applying other net revenues to the recoverable fuel cost balance.

## THE WATERWORKS SYSTEM

### Service Area

The City supplies treated water to residential and commercial customers throughout the corporate limits of the City. In addition, the City supplies treated water to Travis County Water Control and Improvement Districts Numbers 10, 12, and 14. With respect to the City's obligations under these contracts, the City is responsible for meter reading, billing and collection functions and is paid a specific charge per customer per month. Billing is predicated upon the actual cost of services plus 10%. In addition, the City sells water to two Municipal Utility Districts and operates and maintains the water and sewer lines of the Municipal Utility Districts. The water supply contracts between the City and the various water control and improvement districts are of thirty years duration and were entered into between 1952 and 1958.

The City has previously acquired, under the authority of Vernon's Annotated Texas Civil Statutes Article 1182c-1, the Systems and assets of Travis-Williamson Counties Water Control and Improvement District No. 1 and Travis County Water Control and Improvement Districts Nos. 4, 6, 7, 8, 5, 9, 11 and 13. The City has paid off and cancelled the bonded indebtedness of Districts Nos. 1, 4, 6, 7 and 8. The City in acquiring the Systems and assets of Districts Nos. 5, 9, 11 and 13 assumed the outstanding and unpaid bonded indebtedness of said Districts. The consideration for the conveyances made by the Districts to the City is stated in the agreements between the City and the Districts which read in part as follows: "The City of Austin hereby assumes and guarantees the payment of the face value and interest legally required to be paid on all outstanding and unpaid bonded indebtedness of the District upon presentation and surrender when due of all bonds and interest coupons." The principal and interest on these bonds are being paid from surplus revenues of the City's combined Electric, Waterworks and Sewer System.

### Existing Facilities

In 1888, City leaders campaigned successfully for the first Austin Dam across the Colorado River, which was completed early in 1893. Austin has long continued its efforts for an adequate water supply.

In 1934, a \$4,500,000 loan and grant was obtained from the Public Works Administration to complete the Buchanan Dam as a flood control structure. The Lower Colorado River Authority finished the dam which is 150 feet high, 11,200 feet long, and the lake it forms is thirty-two miles long and two miles wide, covering 23,000 surface acres. This Dam is the longest multiple arch dam in the world.

Since that time, a full-scale stairway of lakes has been created by the building of five additional dams, giving the area 150 miles of lakes. The Tom Miller Dam is within the City limits, and forms Lake Austin, which covers 3,000 surface acres; Mansfield Dam, the fifth largest masonry dam in the world, impounding Lake Travis, covers 42,000 acres; Marble Falls Dam creates Lake Marble Falls which spreads over 900 acres; Lake Lyndon B. Johnson, held by Alvin Wirtz Dam, has an area of 6,300 acres; Roy Inks Dam forms Lake Inks with a surface of 900 acres.

The combined storage capacity of the six lakes is around 3,300,000 acre feet of water, or more than a trillion gallons. Approximately 800,000 acre feet of this is reserved for flood control, but the estimated safe water yield of this source, after the normal flow of the river rolls on downstream, is in excess of 600 million gallons a day.

Of the six dams across the Colorado River, two form major impounding reservoirs for the control of flood water, allowing runoff at a controlled rate. U. S. G. S. records at the Austin gauging station show the following runoff:

1958 - 3,152,000 Acre Feet	1968 - 2,511,000 Acre Feet
1959 - 1,181,000 Acre Feet	1969 - 846,900 Acre Feet
1960 - 2,555,000 Acre Feet	1970 - 2,052,000 Acre Feet
1961 - 1,812,000 Acre Feet	1971 - 690,600 Acre Feet

1962 - 1,023,000 Acre Feet  
1963 - 764,200 Acre Feet  
1964 - 529,600 Acre Feet  
1965 - 1,068,000 Acre Feet  
1966 - 1,189,000 Acre Feet  
1967 - 743,000 Acre Feet

1972 - 1,128,000 Acre Feet  
1973 - 896,000 Acre Feet  
1974 - 1,463,000 Acre Feet  
1975 - 1,532,300 Acre Feet  
1976 - 500,400 Acre Feet  
1977 - 958,900 Acre Feet

Using the twenty years shown, 1958-1977, the average runoff would be 1,329,795 acre feet per year. Using the lowest year, 1976, the runoff was 500,400 acre feet, or 163 billion gallons, which is nearly 7 times the amount of water used by the City for the fiscal year ended September 30, 1977. This indicates a reliable source of water supply for the present use and for future growth.

The waterworks system is also comprised of three water treatment plants (Green, Davis and Ullrich) having a combined daily capacity of 102,000,000 gallons and a short-time additional capacity of 51,000,000 gallons per day. The water treatment plants also maintain a ground storage capacity of 29,000,000 gallons and an elevated storage capacity of 51,000,000 gallons at any one time. The Waterworks system includes a water distribution system having 1,795 miles of water mains of varying diameters, several distribution storage tanks, 101,689 meter units, 8,945 fire hydrants and fourteen booster pump stations.

The City receives its water supply from the Colorado River through the three water treatment plants. The Green plant takes water from Town Lake, which is located near the downtown area of the City. The Davis plant and the Ullrich plant both take water further upstream from Lake Austin.

*The Green Plant.* This plant is located east of Shoal Creek near its junction with the Colorado River and is designed for a nominal capacity of 22 mgd and a safe overload capacity of 33 mgd. An intake station on the river contains four traveling water screens and four raw water pumps. The firm pumping capacity (i.e., with one of the largest pumps out of service) is 44.3 mgd. Water is pumped through a forty-two inch line to the chemical feed building, where it is split to two parallel pretreatment units.

The Green plant was constructed in 1924 and expanded in 1935, 1938, and 1949. Many of the facilities have outlived their useful life, and extensive modernization is required to restore this plant to a status comparable to the other two plants. Extensive engineering feasibility studies exploring the most efficient and economical method to effect this modernization are presently underway.

*The Davis Plant.* Located at Mount Bonnell Road and West 35th Street, the Davis Plant is rated at a nominal capacity of 60 mgd and an overload capacity of 90 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clear well storage, and raw water and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963 and 1975.

*The Ullrich Plant.* The Ullrich plant is located on a site south of Red Bud Trail and Forest View Drive. Initial stage construction of the plant, completed in 1969, provides for a nominal capacity of 20 mgd and a safe overload capacity of 30 mgd. Hydraulic capacity is 40 mgd. The sum of \$2,500,000 has been authorized and appropriated for the construction of a new pumping station at this plant.

The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, two upflow-solids contact classifiers, six filters, chlorine disinfection, clear well reservoir, high service pumping station, and sludge handling facilities.

#### Rates

The budget recommendation, not yet approved by the City Council, calls for rate increases of approximately 16% for the 1979-80 fiscal year.

## MAJOR WATER ACCOUNTS

Fiscal Year Ending 9-30-78

<u>Account</u>	<u>Consumption (In Hundreds of Gallons)</u>	<u>Revenue</u>
University of Texas, Main Campus .....	8,060,789	\$443,986.12
Bergstrom Air Force Base .....	3,830,680	200,453.03
Travis County Water Control & Improvement District #10 .....	2,790,030	225,333.48
Motorola, Inc. ....	2,026,419	107,012.89
Travis County Water Control & Improvement District #12 .....	1,235,167	100,515.15
Williamson County Municipal Utility District #1 .....	862,192	34,882.97
Travis State School .....	860,280	49,964.39
Austin State Hospital .....	845,587	48,120.12
City of Rollingwood .....	652,935	53,522.01
State Board of Control .....	628,653	34,882.97

### SANITARY SEWER AND WASTEWATER SYSTEM

#### Service Area

The City's sanitary sewer and wastewater system (the "Wastewater System") services the corporate limits of the City. In addition, the City has entered into contracts to operate and maintain the closed wastewater systems of the Williamson County Municipal Utility District Number One and the Lost Creek Municipal Utility District. The City also supplies treated water to these utility districts.

The Wastewater System currently serves approximately 87,687 customers.

#### Existing Facilities

The Wastewater System is composed of three main sewage treatment plants, one sludge storage area, approximately 1,300 miles of sanitary sewer mains and lines, and fifty-five lift stations with a treatment capacity of approximately 60,500,000 gallons per day. The three treatment units are the Walnut Creek Sewage Plant which began operation in 1977, the Govalle Sewage Treatment Plant constructed in 1936, the Williamson Creek Sewage Treatment Plant constructed in 1964. The Hornsby Bend Sewage Treatment Plant has been serving as a sludge storage pond area since 1956. The Walnut Creek Sewage Treatment Plant has a capacity of treating 27,000,000 gallons of sewage per day in its primary units and 18,000,000 gallons per day in its secondary units. By utilizing flow equalization tanks the secondary system is capable of functioning on a constant capacity basis twenty-four hours per day.

The Govalle Sewage Treatment Plant although initially constructed in 1936 has undergone several expansions and modernizations and now is rated at a daily capacity of 40,000,000 gallons of sewage per day. The plant uses the contact stabilization method of treating waste water. Sludge from this plant is also forwarded to the Hornsby Bend Sludge storage area.

The Williamson Creek Sewage Treatment Plant has a capacity of approximately 4,500,000 gallons per day and operates primarily as an evaporation facility where wastewater is collected into ponds and allowed to evaporate.

After treatment, wastewater is returned to the Colorado River. Sludge from the three treatment plants is piped to several sludge ponds located in the Hornsby Bend area of the City. These sludge



ponds have been in use since 1956 and it is now estimated that their useful lives will not extend beyond four or five additional years. Several feasibility studies are presently underway with respect to what method of sludge disposal will be utilized after the Hornsby Bend storage ponds are no longer usable. The eventual plan chosen by the City will need approval by both the Texas Department of Water Resources and the Federal Environmental Protection Agency.

Stormwater is collected in an entirely separate gravity feed storm sewer system and is completely segregated from the sanitary sewer system. The storm sewer system is operated and maintained by the City's Department of Public Works.

Maintenance and inspection of the City's Wastewater System is accomplished by maintenance personnel employed by the City's Water and Wastewater Department.

The City believes that the structural condition of the Wastewater System is generally sound. Expenditures for operation, maintenance and repairs of the fifty-five lift stations and the 1,300 miles of sewer lines and mains have averaged approximately \$2,500,000 per year during the last five fiscal years.

*Environmental Considerations.* The City is currently in compliance with the Federal Water Pollution Control Act Amendments of 1972 and in addition is in compliance with the rules and regulations of the Texas Department of Water Resources.

#### **Rates**

The budget recommendation, not yet approved by the City Council, calls for rate increases of approximately 16% for the 1979-80 fiscal year.

## ANALYSIS OF WATER AND SEWER BILLS

<u>Fiscal Year Ended</u>	<u>9-30-78(b)</u>	<u>9-30-77(b)</u>	<u>9-30-76(b)</u>	<u>9-30-75(b)</u>	<u>9-30-74</u>
<b>AVERAGE MONTHLY BILL PER CUSTOMER</b>					
Urban .....	\$ 12.54	\$ 12.51	\$ 10.14	\$ 8.87	\$ 8.37
Rural(a) .....	26.45	17.10	13.87	12.13	9.23
City General Government					
Departments .....	106.40	109.66	81.23	71.05	85.67
For Austin Public Schools (July and August only) Playground Use .....	0.00(c)	0.00(c)	182.20	159.36	256.45
City Utility Departments .....	471.97	480.55	338.81	296.34	303.96
Average Monthly Bill –					
Above Consumers .....	\$ 13.53	\$ 13.50	\$ 11.00	\$ 9.62	\$ 8.94
Sales to Other Water Utilities .....	10,916.12	8,650.38	4,643.36	4,061.37	2,606.72
Average Monthly Bill –					
All Consumers .....	<u>\$ 14.80</u>	<u>\$ 13.86</u>	<u>\$ 11.33</u>	<u>\$ 9.91</u>	<u>\$ 9.09</u>
<b>AVERAGE MONTHLY USAGE IN 1,000 GALLONS</b>					
Urban .....	20.68	18.85	17.31	15.14	18.26
Rural(a) .....	16.93	15.81	14.52	12.70	19.35
City General Government					
Departments .....	148.51	166.16	152.53	133.41	186.24
For Austin Public Schools (July and August only) Playground Use .....	0.00(c)	0.00(c)	337.61	295.29	396.43
City Utility Departments .....	690.27	817.68	750.58	656.50	659.98
Average Monthly Usage –					
Above Consumers .....	21.31	19.74	18.12	15.85	19.33
Sales to Other Water Utilities .....	10,117.95	8,061.56	7,359.89	6,463.65	12,497.08
Average Monthly Usage –					
All Consumers .....	<u>21.70</u>	<u>20.35</u>	<u>18.68</u>	<u>16.34</u>	<u>19.51</u>
<b>AVERAGE REVENUE PER 1,000 GALLONS</b>					
Urban .....	\$ 0.583	\$ 0.619	\$ 0.670	\$ 0.586	\$ 0.458
Rural(a) .....	1.272	1.008	1.092	0.955	0.477
City General Government					
Departments .....	0.597	0.562	0.609	0.533	0.460
For Austin Public Schools (July and August only) Playground Use .....	0.00(c)	0.00(c)	0.617	0.540	0.195
City Utility Departments .....	0.569	0.477	0.516	0.451	0.417
Average Revenue –					
Above Consumers .....	\$ 0.529	\$ 0.641	\$ 0.694	\$ 0.607	\$ 0.462
Sales to Other Water Utilities .....	0.899	0.663	0.718	0.628	0.209
Average Revenue – All Consumers .....	<u>\$ 0.568</u>	<u>\$ 0.640</u>	<u>\$ 0.693</u>	<u>\$ 0.606</u>	<u>\$ 0.421</u>

(a) Includes customers in City-owned water districts.

(b) Reflects water billings only.

(c) This category included in urban and rural.

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**INFORMATION CONCERNING WATER SALES**

Fiscal Year Ended	9-30-78		9-30-77		9-30-76		9-30-75		9-30-74	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		24,667,174		23,448,383		20,254,376		19,028,058		21,241,403
Less: Sales to Other										
Water Utilities		485,662		703,451		537,847		517,161		749,825
<b>THOUSAND GALLONS TO SYSTEM</b>		<u>24,181,512</u>		<u>22,744,932</u>		<u>19,716,529</u>		<u>18,510,897</u>		<u>20,491,578</u>
<b>WATER SALES:</b>										
Urban	94,008	22,331,142	86,261	17,426,327	83,115	15,048,037	79,650	14,469,266	77,549	17,000,380
Rural	8,886	1,805,476	9,225	1,444,989	8,137	1,252,594	7,900	1,204,417	6,604	1,534,173
	<u>102,894</u>	<u>24,136,618</u>	<u>95,486</u>	<u>18,871,316</u>	<u>91,252</u>	<u>16,300,631</u>	<u>87,550</u>	<u>15,673,683</u>	<u>84,153</u>	<u>18,534,553</u>
City Departments	392	698,598	343	597,818	320	518,221	311	498,289	293	654,828
Austin Public Schools	—0—	—0—(a)	—0—(a)	—0—(a)	16	58,041	16	55,809	15	118,930
	<u>392</u>	<u>698,598</u>	<u>343</u>	<u>597,818</u>	<u>336</u>	<u>576,262</u>	<u>327</u>	<u>554,098</u>	<u>308</u>	<u>773,758</u>
City Utility Departments	72	596,391	64	421,018	66	364,961	64	350,924	60	305,349
<b>TOTAL SALES TO ULTIMATE CONSUMER</b>	<u>103,358</u>	<u>25,431,607</u>	<u>95,893</u>	<u>19,890,152</u>	<u>91,654</u>	<u>17,241,854</u>	<u>87,941</u>	<u>16,578,705</u>	<u>84,521</u>	<u>19,613,660</u>
Used by Water Department		559,595		2,138,190		1,853,498		149,982		177,761
Loss and Unaccounted For		690,500		716,590		621,177		1,782,210		700,157
<b>THOUSAND GALLONS TO SYSTEM</b>		<u>24,181,512</u>		<u>22,744,932</u>		<u>19,716,529</u>		<u>18,510,897</u>		<u>20,491,578</u>
Maximum Daily Consumption										
Thousand Gallons		143,044		129,032		102,152		95,677		124,665
Average Daily Consumption										
Thousand Gallons		67,446		64,242		55,329		52,132		58,195

(a) This category included in urban and rural.

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**MONTHLY WATER AND SEWER RATES**

Approved by the Austin City Council on January 19, 1978; effective  
with bills rendered on or after April 1, 1978.

**BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:**

**PART 1.** That the monthly rates and charges for sales made or services rendered by the Water System and the Wastewater System of the City of Austin are hereby established, levied, fixed and prescribed as follows:

A. *Water Rates – Application:* These rates are applicable to all sales or service of water within and outside the corporate limits of the City of Austin.

<u>Monthly Water Use</u>	<u>Rate per 1,000 gallons</u>	
	<u>Inside City</u>	<u>Outside City</u>
gallons	\$	\$
First 2,000	Minimum Charge	
Next 28,000	0.74	1.11
Next 970,000	0.61	.91
All over 1,000,000	0.54	.81

B. *Water – Minimum Monthly Charge – Application:* These rates are applicable to all sales or service for the first 2,000 gallons or less monthly.

*Minimum Monthly Charge:* For the first 2,000 gallons or less monthly.

<u>Meter Size</u>	<u>Inside City</u>	<u>Outside City</u>
inches	\$	\$
5/8	2.52	3.78
3/4	2.77	4.16
1	3.65	5.48
1 1/4	4.03	6.05
1 1/2	4.79	7.19
2	7.06	10.59
3	22.68	34.02
4	27.72	41.58
6	42.84	64.26
8 or larger	57.96	86.94

C. *Water – Monthly Standby or Ready-to-Serve Charge – Application:* This charge is applicable to each owner of property which has water service available to his property by virtue of the existence of a meter or other facilities through which the property can be served. This charge shall apply even though the meter may be turned off and even though no water was used during the month. This charge shall not apply if the owner of the property or a water customer on the owner's property is billed under the minimum monthly charge for water service as provided for herein.

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*Monthly Standby or Ready-to-Serve Charge:*

<u>Meter Size</u> inches	<u>Inside City</u> \$	<u>Outside City</u> \$
5/8	2.52	3.78
3/4	2.77	4.16
1	3.65	5.48
1 1/4	4.03	6.05
1 1/2	4.79	7.19
2	7.06	10.59
3	22.68	34.02
4	27.72	41.58
6	42.84	64.26
8 or larger	57.96	86.94

D. *Private Fire Protection Charges – Application:* Charges on an annual basis for private fire protection service based on the size of the service are as follows:

Private Fire Protection Charges:

<u>Size of Service</u> inches	<u>Annual Charge</u>	
	<u>Inside City</u> \$	<u>Outside City</u> \$
4	46.99	71.12
6	104.14	156.12
8	185.42	278.13
10 or over	289.56	434.34

(Sections E and F amended to the following on May 25, 1978)

E. *In-City – Wastewater Service Charges – Application:* These rates are applicable (1) to all customers within the corporate limits of the City of Austin whose premises are connected to the wastewater sewer service of the City of Austin and who have metered water connections, and (2) to all water customers whose premises are not connected to the wastewater sewer service of the City of Austin if wastewater service has been made available to the customer for a period of time exceeding three years.

Monthly Water Use  
gallons

First	2,000	Minimum charge \$2.90 per month
Next	28,000	@ \$0.72 per 1,000 gallons
Next	970,000	@ \$0.51 per 1,000 gallons
All over	1,000,000	@ \$0.36 per 1,000 gallons

F. *In-City – Wastewater Monthly Standby Charge or Ready-to-Serve Charge – Application:* This charge is applicable (1) to each owner of property within the corporate limits of the City of Austin which has a metered water connection and which is connected to the City wastewater sewer service, and (2) to each owner of property within the corporate limits of the City of Austin which has a metered water connection and which is not connected to the wastewater sewer system of the City of Austin if wastewater service has been made available to the property for a period of time exceeding three years. This charge shall apply even though the water meter may be turned off and even though there was no water used during the month. This charge shall not apply to owners of property or wastewater customers using the owner's property who are billed under paragraph E, above.

*Charge:*

\$2.90 per month.

G. *Out of City – Wastewater Service Charges – Application:* These charges are applicable to wastewater service customers outside the corporate limits of the City of Austin which have metered water connections:

<u>Monthly Water Use</u>		
gallons		
First	2,000	Minimum charge \$4.35 per month
Next	28,000	@ \$1.08 per 1,000 gallons
Next	970,000	@ \$0.76 per 1,000 gallons
All over	1,000,000	@ \$0.54 per 1,000 gallons

H. *Out of City – Wastewater Monthly Standby Charge or Ready-to-Serve Charge – Application . . .* This charge shall be applicable to owners of property outside the corporate limits of the City of Austin which is connected to the wastewater system of the City of Austin and which has a metered water connection. This charge shall apply even though the water meter may be turned off and even though there was no water used during the month. This charge shall not apply to owners of property or water customers using the owner's property who are billed under paragraph G, above.

*Charge:*

\$4.35 per month.

I. *Methods of Computation – Application:* Computations outlined herein are applicable to the rates specified in E and G above. Bills will be computed on the basis of average use for December, January and February billing periods, or the current month for March through November bills, whichever is less. Charges based on average use would be billed each month throughout the year, unless water use for that month is less than the computed average. Measured sewage volume, acceptable to the City, may also be used as a basis of determining volume.

Where residential accounts do not have an acceptable history of winter water use, charges for the period March through November shall be billed on the current month's water usage, or a charge based on a water usage of 7,000 gallons per month, whichever is less.

Where accounts other than residential do not have an acceptable history of winter water use, charges for the period March through November shall be based on monthly water use unless sewage volume can be determined.

J. Wastewater service shall be subject to the provisions of the City of Austin Industrial Waste Ordinance and any conflict between this rate ordinance and the Industrial Waste Ordinance shall be resolved in favor of the Industrial Waste Ordinance.

**PART 2.** The rates and charges provided for in this ordinance shall become effective on all bills rendered on or after April 1, 1978.

**PART 3.** Bills computed under this ordinance are due when rendered. Each bill shall have set forth thereon a date falling between twenty-seven and twenty-nine days after the date of the bill. Bills paid after the specified date shall have added thereto a penalty equal to five percent (5%) of the bill. Provided, however, this provision shall become effective on all bills rendered after April 1, 1978.

## REVENUE BOND ORDINANCE PROVISIONS

A synopsis of certain provisions of the bond ordinance authorizing the City of Austin, Texas, Utility System Revenue Bonds, Series 6, is set forth below.

*Definitions.* For all purposes of this ordinance and in particular for clarity with respect to the issuance of the bonds herein authorized and the pledge and appropriation of revenues for the payment of bonds similarly secured, the following definitions are provided:

- (a) The term "bonds" shall mean the first lien revenue bonds authorized by this ordinance.
- (b) The term "previously issued parity bonds" shall mean the outstanding and unpaid first lien revenue bonds known as CITY OF AUSTIN, TEXAS, UTILITY SYSTEM REVENUE BONDS, to wit: SERIES 1, dated April 1, 1977, and originally issued in the total principal amount of \$80,000,000; SERIES 2, dated October 1, 1977, and originally issued in the total principal amount of \$55,000,000; SERIES 3, dated April 1, 1978, and originally issued in the total principal amount of \$78,000,000; SERIES 4, dated October 1, 1978, and originally issued in the total principal amount of \$77,780,000; and SERIES 5, dated March 1, 1979, and originally issued in the total principal amount of \$80,000,000.
- (c) The term "additional bonds" shall mean the additional parity bonds which the City reserves the right to issue under "Additional Bonds or Contractual Obligations" hereof.
- (d) The term "bonds similarly secured" shall mean the bonds, previously issued parity bonds, additional bonds and contractual obligations.
- (e) The term "contractual obligation" shall mean those obligations (1) issued by the City or incurred by the City payable from the net revenues of the system, and (2) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted, and (3) which by the terms of the ordinance authorizing their issuance or the incurring of the contractual obligation provide the payments to be made by the City for the retirement or payment thereof shall be on a parity with and of equal dignity with the payments for other bonds similarly secured and are to be paid from the funds established for the payment and security of the bonds similarly secured.
- (f) The term "fiscal year" shall mean the twelve months' period ending September 30 of each year, provided the fiscal year may hereafter be changed once in any three calendar year period.
- (g) The term "second lien bonds" shall mean the outstanding and unpaid bonds designated "CITY OF AUSTIN, TEXAS, ELECTRIC, WATERWORKS AND SEWER SYSTEM REFUNDING REVENUE BONDS, SERIES 1979," and other obligations or bonds incurred or issued on a parity with the Series 1979 bonds under and pursuant to the provisions of the ordinance authorizing the issuance of said Series 1979 bonds.
- (h) The term "net revenues" shall mean the gross revenues of the System less the expense of operation and maintenance, including all salaries, labor, materials, repairs and extensions necessary to render efficient service, provided, however, that only such expenses for repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any bonds payable from the net revenues of the system, shall be deducted in determining "net revenues."
- (i) The term "System" or "Systems" shall mean the City's combined Electric Light and Power, Waterworks and Sewer System, including all present and future additions, extensions, replacements and improvements thereto; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "System" shall not mean any electric light and power, waterworks or sewer facilities of any kind (including any electric

power generating and transmission facilities) which are declared not to be a part of the System and which are acquired or constructed by the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Bonds secured by and payable from a lien on and pledge of the Net Revenues, as hereinafter defined, on a parity with the Bonds, but which are secured by and payable from any other liens on and pledges of any revenues, sources or payments, including, but not limited to, (i) special contract revenues or payments received from any other legal entity in connection with such facilities and/or (ii) a lien on and pledge of the Net Revenues junior and subordinate in all respects to the lien and pledge in favor of the Bonds; and such revenues, sources or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such "Special Facilities Bonds."

*Pledge of Revenues.* The City covenants and agrees that the entire net revenues of the System are hereby irrevocably pledged for the payment and security of the principal of and interest on the bonds similarly secured as in this ordinance provided.

*Rates and Charges.* For the benefit of the original purchasers as well as the ultimate owners of bonds similarly secured, and in addition to all provisions and covenants in the laws of the State of Texas and in this ordinance, it is expressly stipulated that the City shall, at all times while any of the bonds similarly secured or the second lien bonds are outstanding and unpaid, maintain rates and collect charges for the facilities and services afforded by the System, as required by Article 1113, V.A.T.C.S., which will provide revenues sufficient at all times to:

- (a) Pay for all operation, maintenance, depreciation, replacement and betterment charges of said System;
- (b) Establish and maintain the Utility System Bond Fund and the Utility System Reserve Fund provided and established by this ordinance for the benefit and security of the bonds similarly secured; and
- (c) Pay all other outstanding indebtedness against said System or the revenues therefrom.

*System Fund.* The City covenants that it will continue to deposit, as collected, all revenues of every nature derived from the operation of the System into a separate account known as the Electric, Water and Sewer System Fund (herein called the "System Fund") heretofore established in connection with the issuance of the similarly secured bonds and the second lien bonds, which shall be kept separate and apart from all other funds of the City, and, further, that said System Fund shall be pledged and appropriated to the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable expenses of operation and maintenance of the System as said expenses are defined by statute.

SECOND: To establishing and maintaining the Utility System Bond Fund and then the Utility System Reserve Fund (in that order) hereby created for the payment and security of the bonds similarly secured.

THIRD: For the payment of the principal of and interest on subordinate indebtedness of the System or its revenues or for any other proper City purpose now or hereafter permitted by law.

*Utility System Bond Fund.* The following provisions shall govern the establishment, maintenance and use of the Utility System Bond Fund: The City covenants that from the funds in the System Fund, the City shall pay into the Utility System Bond Fund during each year in which any of the bonds similarly secured are outstanding, an amount equal to one hundred per centum (100%) of the amount required to meet the principal and interest payments falling due on or before the next



maturity date of the said bonds similarly secured, such payments to be made in equal monthly installments. If the revenues of the System in any month, after deductions for operation and maintenance, are then insufficient to make the required payments into the Utility System Bond Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Utility System Bond Fund in the next month. All monies paid into the Utility System Bond Fund shall be deposited in the City's depository bank, and said depository bank shall transfer the amount then to become due to the paying agent. Said money shall be continuously secured as provided by law for securing funds of the City.

*Reserve Fund.* The following provisions shall govern the establishment, maintenance and use of the Reserve Fund: From the funds in the System Fund, after deductions have been made for the payment of necessary and reasonable expenses of operation and maintenance of the System, and the prescribed payments into the Utility System Bond Fund, payments shall be made into a Utility System Reserve Fund heretofore established for use in meeting the requirements of principal of and interest on the bonds similarly secured in the event monies on hand in the Utility System Bond Fund are insufficient for such purpose.

The amount to be accumulated in the Utility System Reserve Fund shall be equal to the average annual requirements (on a calendar year basis) for the payment of the principal of and interest on the bonds similarly secured as determined on the date of the delivery of the last series of bonds which are bonds similarly secured as defined herein.

Immediately following the delivery of a series of bonds or the execution of a contractual obligation, which are defined as bonds similarly secured, the appropriate City officials shall determine the Required Reserve Fund Amount as well as the amount then on hand in the Utility System Reserve Fund and the amount of the difference shall be deposited in the said Reserve Fund in 60 equal payments, the initial payment to be made on or before the 15th day of the month next following the month in which such bonds are delivered or the contractual obligation is incurred.

In the event money in the said Reserve Fund is used for the purpose for which the same was established, or in the event there is not sufficient money to make the monthly payment required in the preceding paragraph, then the amount required to make up the deficiency shall be added to that required to be made in the following month or months until the Required Reserve Fund Amount is on deposit in said Fund.

The depository bank of the City is hereby designated as the custodian of the Utility System Reserve Fund and the deposits above prescribed shall be transmitted to said Fund in said Bank.

*Investment of Certain Funds.* The Utility System Bond Fund may be invested in such securities or in such manner as may be lawful investments for an interest and sinking fund. All money resulting from the investment of said fund shall remain a part of said fund, but may serve to reduce the amount which otherwise would be required to be deposited therein.

The Utility System Reserve Fund may be invested or reinvested from time to time in direct obligations of, or obligations unconditionally guaranteed by, the United States of America, or evidence of indebtedness of any agency or instrumentality of the United States of America, and in certificates of deposit of any bank or trust company, the deposits of which are fully secured by a pledge of securities of any of the kinds hereinabove specified, such obligations or securities to mature in not more than ten years from the date of such investment or not later than the final maturity of the bonds outstanding for which the Reserve Fund is established, whichever is shorter. Any obligations in which money is so invested shall be kept in escrow with the custodian of said Reserve Fund, and shall be promptly sold and the proceeds of sale applied to the making of payment required to be made from said Reserve Fund, whenever such payments are necessary to be made under the provisions of this Section. All money resulting from the investment of said Reserve Fund may be transferred to the System Fund as the same are received.

*Further Covenants.* The City further covenants and agrees by and through this ordinance as follows:

(a) That the bonds similarly secured (including the bonds herein authorized) shall be special obligations of the City, and the holders thereof shall never have the right to demand payment out of any funds raised or to be raised by taxation.

(b) That it has the lawful power to pledge the revenues supporting this issue of bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, and that the bonds similarly secured shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.

(c) That other than for the payment of the bonds similarly secured and the second lien bonds, the net revenues of the System have not been in any manner pledged to the payment of any debt or obligation of the City or the System.

*Additional Bonds or Contractual Obligations.* In addition to the right to issue bonds of inferior lien as authorized by the laws of this State, the City reserves the right to hereafter issue additional bonds or enter contractual obligations payable from the net revenues of the Systems which are on a parity with the bonds similarly secured. The additional bonds, when issued, or contractual obligations shall be payable from and secured by a first lien on and pledge of the net revenues of the Systems in the same manner and to the same extent as are the bonds and the previously issued parity bonds; and the bonds similarly secured and the contractual obligations shall in all respects be of equal dignity. It is provided, however, that the City will not issue any such additional bonds or other parity obligations of any nature unless and until all the following conditions have been met:

(a) The City is not in default as to any covenant, condition or obligation contained in ordinances authorizing bonds similarly secured.

(b) That the laws of the State of Texas effective at the time of the authorization of such additional bonds or the entering of the contractual obligation provide permission for the issuance of such bonds or incurring such contractual obligation.

(c) That the City has secured from a Certified Public Accountant a certificate showing that the net earnings of the Systems' preceding fiscal year or for any 12 consecutive months out of the 15 months immediately preceding the month of the adoption of the ordinance authorizing the proposed additional bonds or the incurring of the contractual obligation are equal to at least 1.25 times the maximum annual principal and interest requirements (on a calendar year basis) of all obligations payable from and secured by a first lien on the net revenues of the System which will be outstanding upon the issuance of such proposed additional bonds or the incurring of the contractual obligation.

As used in this Section, the term "net earnings" shall mean the gross revenues of the System after deducting maintenance and operation expenses, but not deducting depreciation or other expenditures which, under standard accounting practice, should be charged to capital expenditures.

(d) The additional bonds are made to mature or the principal amount of contractual obligations become due on April 1 or October 1 (or both) of each of the years in which they are scheduled to mature.

The bonds similarly secured may be refunded (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all such outstanding revenue bonds or contractual obligations are refunded, the proposed refunding bonds shall be considered as "additional bonds" under the provisions

of this Section and the report required in subdivision (c) shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the bonds being refunded following their cancellation or provision being made for their payment). Contractual obligations, once incurred, may be modified under the same terms in that the report required in subdivision (c) shall give effect to the modifications to be made.

*Maintenance and Operation – Insurance.* That the City shall maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. So long as any bonds similarly secured are outstanding, the City agrees to maintain insurance for the benefit of the holder or holders of bonds similarly secured on the System of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business. Nothing in this ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City from doing so.

*Records – Accounts – Accounting Reports.* That the City hereby covenants and agrees that so long as any bonds similarly secured or any interest thereon, remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of its System separate and apart from all other records and accounts in which complete and correct entries shall be made of all transactions relating to said System, as provided by Article 1113, V.A.T.C.S., and that the holder or holders of any bonds similarly secured or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that following the close of each fiscal year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

- (a) A detailed statement of the income and expenditures of the System for such fiscal year.
- (b) A balance sheet as of the end of such fiscal year.
- (c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this ordinance and his recommendations for any changes or improvements in the operation, records and accounts of the System.
- (d) A list of the insurance policies in force at the end of the fiscal year on the System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy's expiration date.

Expenses incurred in making the audits above referred to are to be regarded as maintenance and operation expenses and paid as such. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, and, upon request, to the original purchaser of a series of bonds similarly secured. The audits herein required shall be made within 60 days following the close of each fiscal year insofar as is possible.

*Excess Revenues.* All revenues in excess of those required to establish and maintain the Utility System Bond Fund and the Utility System Reserve Fund as herein required may be used for any proper City purpose now or hereafter permitted by law.

*Security of Funds.* All funds created by this ordinance shall be secured in the manner and to the fullest extent permitted by law for the security of public funds and the funds created by this ordinance shall be used only for the purposes herein specified.

*Remedy in Event of Default.* That in addition to the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees severally that in the event the City (a) defaults in payments to be made to the Utility System Bond Fund or the Utility System Reserve Fund

as required by this ordinance or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this ordinance, the holder or holders of any of the bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in this ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other remedies and the specification of such remedy shall not be deemed to be exclusive.

*Bonds are Special Obligations.* That the bonds are special obligations of the City payable from the pledged net revenues and the holders thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

*Bonds are Negotiable Instruments.* That each of the bonds herein authorized shall be deemed and construed to be a "Security", and as such a negotiable instrument, within the meaning of Article 8 of the Uniform Commercial Code.

*City Manager-Director of Finance to Have Charge of Records and Bonds.* That the City Manager and the Director of Finance shall be and they are hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas, and shall take and have charge and control of the bonds herein authorized pending their approval by the Attorney General and their registration by the Comptroller of Public Accounts.

*Competition.* That so far as it legally may, the City of Austin covenants and agrees, for the protection and security of the first lien revenue bonds and the similarly secured revenue bonds heretofore and herein authorized, and the holders thereof from time to time, that it will not grant a franchise for the operation of any competing System in the City of Austin until all first lien bonds and bonds similarly secured shall have been retired.

*Ordinance to Constitute Contract.* That the provisions of this ordinance shall constitute a contract between the City of Austin, Texas, and the holder or holders from time to time of the bonds similarly secured and no change, variation or alteration of any kind of the provisions of this ordinance may be made, until all of such bonds shall have been paid as to both principal and interest.

## PROJECTED DEBT SERVICE COVERAGE

There follows a projection prepared by the City staff, reviewed and certified by Bovay Engineers, Inc., of Houston, Texas, with respect to future revenues and expense of the System and amounts available for payment of debt service.

Fiscal Year Ending 9-30	System Revenues			Operation and Maintenance Expense			Net Income Available For Debt Service	Total Principal and Interest Requirements (a) (b)
	Electric	Water and Sewer	Combined Total	Electric	Water and Sewer	Combined Total		
1979	\$ 162,932,000	\$ 33,403,000	\$ 196,335,000	\$ 99,080,000	\$ 15,163,000	\$ 114,243,000	\$ 82,092,000	\$ 11,507,573
1980	194,546,000	37,636,000	232,182,000	115,711,000	17,934,000	133,645,000	98,537,000	56,586,763
1981	201,656,000	41,100,000	242,756,000	116,314,000	18,900,000	135,214,000	107,542,000	57,613,075
1982	212,960,000	45,000,000	257,960,000	120,363,000	20,800,000	141,163,000	116,797,000	59,168,195
1983	206,140,000	47,025,000	253,165,000	110,261,000	21,736,000	131,997,000	121,168,000	59,199,685
1984	202,405,000	49,141,000	251,546,000	104,890,000	22,714,000	127,604,000	123,942,000	59,336,415
1985	213,540,000	51,352,000	264,892,000	117,510,000	23,736,000	141,246,000	123,646,000	59,226,678
1986	237,170,000	53,663,000	290,833,000	140,400,000	24,804,000	165,204,000	125,629,000	59,225,390
1987	263,390,000	56,078,000	319,468,000	165,750,000	25,921,000	191,671,000	127,797,000	59,231,938
1988	291,070,000	58,602,000	349,672,000	192,940,000	27,087,000	220,027,000	129,645,000	59,234,288
1989	325,490,000	61,239,000	386,729,000	226,450,000	28,306,000	254,756,000	131,973,000	59,236,838
1990	364,850,000	63,994,000	428,844,000	265,840,000	29,580,000	295,420,000	133,424,000	59,242,340
1991	415,650,000	66,874,000	482,524,000	313,350,000	30,911,000	344,261,000	138,263,000	59,237,609
1992	483,560,000	69,883,000	553,443,000	365,730,000	32,302,000	398,032,000	155,411,000	59,238,143
1993	567,370,000	73,028,000	640,398,000	423,480,000	33,755,000	457,235,000	183,163,000	59,239,598
1994	601,412,000	76,314,000	677,726,000	448,889,000	35,274,000	484,163,000	193,563,000	59,234,428
1995	637,497,000	79,749,000	717,246,000	475,822,000	36,862,000	512,684,000	204,562,000	59,240,868
1996	675,747,000	83,337,000	759,084,000	504,371,000	38,520,000	542,891,000	216,193,000	59,237,700
1997	716,292,000	87,087,000	803,379,000	534,634,000	40,254,000	574,888,000	228,491,000	59,234,393
1998	759,269,000	71,006,000	850,275,000	566,712,000	42,065,000	608,777,000	241,498,000	59,240,528
1999	804,825,000	95,102,000	899,927,000	600,714,000	43,958,000	644,672,000	255,255,000	59,243,028
2000	853,115,000	99,381,000	952,496,000	636,757,000	45,936,000	682,693,000	269,803,000	59,239,093
2001	904,302,000	103,853,000	1,008,155,000	674,963,000	48,003,000	722,966,000	285,189,000	59,237,905
2002	958,560,000	108,527,000	1,067,087,000	715,461,000	50,164,000	765,625,000	301,462,000	59,183,500
2003	1,016,073,000	113,410,000	1,129,483,000	758,388,000	52,421,000	810,809,000	318,674,000	51,935,500
2004	1,077,038,000	118,514,000	1,195,552,000	803,891,000	54,780,000	858,671,000	336,881,000	44,124,500
2005	1,141,660,000	123,847,000	1,265,507,000	852,125,000	57,245,000	909,370,000	356,107,000	42,329,250
2006	1,210,160,000	129,420,000	1,339,580,000	903,252,000	59,821,000	963,073,000	376,507,000	17,770,000
								\$1,525,775,221

(a) See "Debt Service Requirements" on pages 10 and 11.

(b) Amounts shown include debt service payable on October 1 of the next succeeding fiscal year.

## Assumptions in Projection

1. Electric revenue and expense estimates from 1979 to 1993 are the latest projections available. These projections were made in conjunction with an on-going cost of service and rate study and from a corporate model that contains the following assumptions. An 8.8% increase in revenue from customer sales is anticipated in FY80, contingent on Council approval.
  - a. The long term energy growth rate is estimated to be 6% per year compounded. This forecast was developed from growth trends from the past 6 years.
  - b. The long term customer growth rate is projected at 3.2%.
  - c. Cost projections are based on the addition and availability of three new generation units. Fayette Unit #2 is scheduled for commercial operation in June of 1980, STP Unit #1 in April of 1982, and STP Unit #2 in April of 1983.
  - d. Projections are based on the economic loading of generating units. With the addition of the three units discussed in c., nuclear will be base loaded and will provide approximately 49% of the energy produced in the mid-1980's. Coal will be used for mid-range loading and will provide approximately 45% of the energy in 1985. Gas/oil will be used for peaking and will provide approximately 6% of the energy.
  - e. The total fuel expense for each year is based on the projected energy usage per fuel type and the projected price.
  - f. The electric rate of return on rate base is projected at 5.79% for 1979. 1980 and 1981 are projected at 6.9%. 1982 to 1984 are projected at 6.7%. 1985 to 1993 are projected at 6.8%.
  - g. In fiscals 1980, 1981, and 1982, revenues include revenue from a power contract for 500MW of capacity with Houston Lighting & Power Company. Revenue from this contract accounts for \$6 million in FY80, \$8 million in FY81, and \$2 million in FY82. Although the potential for additional revenue from energy sales exists, no revenue or expense was included for this contingency.
  - h. Between FY80 and FY83, revenue from recoverable fuel expense billings, totalling \$20.6 million, is included. Recoverable fuel costs are deferred fuel expenses resulting from the time lag in fuel cost recovery associated with the old fuel cost adjustment formula. These costs were incurred but never expensed or billed to the customer. In accordance with an ordinance approved by the City Council in 1978, these costs are billed during October 1, 1979 to September 30, 1983. The financial forecast includes these expenses and records revenues associated with these billings.
  - i. Electric capital requirements are based on the Department's 5-year Capital Improvements Program. Beyond FY84, distribution and general plant are escalated from present trends and costs.
  - j. Electric revenues include operating revenues and other non-operating revenue, such as interest income and miscellaneous revenue.
2. From 1994 to 2005, electric estimates are based on a 3.0% growth rate in energy sales with a 3% inflation factor. Revenues and expenses are annually compounded at 6%.
3. Water and Sewer revenue estimates are based on projected system revenue requirements through FY82, based on an existing rate study. The Water and Sewer revenue estimates anticipate a 16% rate increase in FY80, followed by 5.5% increases in FY81 and FY82. These rate increases are contingent on Council approval. Beyond FY82, revenue estimates are compounded annually at 4.5%.
4. Water and Sewer expense estimates are based on expense projections through FY82. Beyond FY82, expense estimates assume a 4.5% increase per year plus extraneous expenses that are not patterned.
5. Electric, Water, and Sewer revenues assume certain rate increases and are calculated at levels sufficient to provide annual transfers to the City's General Fund, transfers to "pay as you go" Capital Improvements for the system, and certain additional debt service requirements.

## OTHER INFORMATION

### REVENUE BOND RETIREMENT FUNDS COMPARATIVE STATEMENTS

Fiscal Year Ended	9-30-74	9-30-75	9-30-76	9-30-77	9-30-78
Beginning Balance .....	\$14,298,080	\$16,229,151	\$18,449,010	\$19,706,389	\$22,940,131
Contributions from					
Utility Fund .....	17,221,042	20,303,134	24,892,221	34,321,374	41,935,282
Total Available Funds ..	<u>\$31,519,122</u>	<u>\$36,532,285</u>	<u>\$43,341,231</u>	<u>\$54,027,763</u>	<u>\$64,875,413</u>
Disbursements:					
Bond Principal .....	\$ 7,600,000	\$ 7,735,000	\$ 8,330,000	\$ 8,700,000	\$ 9,050,000
Bond Interest and					
Commission .....	7,689,971	10,348,275	15,304,842	22,387,632	28,389,718
Total Disbursements .....	<u>\$15,289,971</u>	<u>\$18,083,275</u>	<u>\$23,634,842</u>	<u>\$31,087,632</u>	<u>\$37,439,718</u>
Ending Balance .....	<u>\$16,229,151</u>	<u>\$18,449,010</u>	<u>\$19,706,389</u>	<u>\$22,940,131</u>	<u>\$27,435,695</u>

## ACCOUNTING

All City funds are on an accrual basis with expenditures and revenues accrued as incurred or earned. Utility fuel expense expended but not yet recovered is deferred. Federal grants are accrued to the extent that the expenditures have been made by the City.

## AD VALOREM TAX BONDS

Since 1955, Austin has levied 34¢ per \$100 valuation, except for fiscal years 1975, 1976 and 1977, in which the levy was reduced to 32¢, out of an authorized amount of at least \$1.50 for general obligation debt service. A further reduction to 28¢ was made for 1978-79.

## AUTOMATIC ESCALATORS

Austin does not have automatic escalators in payroll nor in its retirement systems. The retirement systems may grant cost-of-living increases up to 3% for the employees and 2% for the firemen only if recommended by the independent actuary and approved by the retirement board and the City Council.

## DEFICIT FINANCING

Austin is barred by State statute and City Charter from deficit budgetary accounting.

## RETIREMENT SYSTEMS

Austin operates its own two retirement systems, which are actuarially sound. An actuarial report (A. S. Hansen, Inc.) and an independent audit (various) are performed annually. As a requirement of the City Charter, contributions by the employees equal contributions by the City to the retirement systems. Normal retirement for the firemen is age 55 on the highest three years of the last ten. (Contributions by the employer and employee each equal 12.13%. Firemen are not covered under Social Security.) Normal retirement for all other City employees is age 62 based on the best consecutive five out of the last ten years. (Contributions by the employer and the employee are 6% each. All other City employees are also covered under Social Security.)

A. S. Hansen, Inc.'s most recent reports are shown on the following pages.

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# Hansen

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A. S. Hansen, inc. First International Building, Suite 2020 • Dallas, Texas 75270 • Telephone 214-748-0501

February 9, 1979

Mr. Dan H. Davidson  
City Manager  
City of Austin  
P. O. Box 1088  
Austin, Texas 78767

Dear Mr. Davidson:

We are pleased to provide the following information with regard to the City of Austin Employees' Retirement and Pension Fund.

1. *Date of last actuarial valuation*

January 1, 1978

2. *Actuarial cost method used*

Entry-age-normal, with frozen-initial liability

3. *Normal cost due January 1, 1978*

\$4,527,630

4. *Amortization of past service costs for most recent year*

Total employer and employee contributions for 1977 were \$6,799,975 of which \$2,454,503 was applied toward the past service costs

5. *Period over which past service costs are being amortized*

The City and employees contribute at a fixed percentage of salary. Past service costs are currently being amortized over a period of less than 20 years.

6. *Interest on past service costs, if not being amortized*

Not applicable

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Mr. Dan H. Davidson  
February 9, 1979  
Page Two

7. *Unfunded past service costs as of January 1, 1978*

\$23,017,137

8. *Actuarially computed value of vested benefits in excess of the book value of fund assets as of December 31, 1977*

\$0-Book value of assets currently exceeds actuarial value of vested benefits

9. *Book value of assets as of December 31, 1977*

\$56,870,610

10. *Method of recognizing actuarial gains or losses including realized and unrealized gains and losses on securities*

The actuarial gains or losses are not calculated separately, but are used to reduce or increase the future normal costs. These actuarial gains or losses are automatically spread over future years.

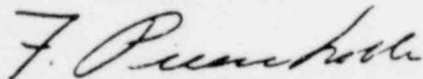
11. *Any changes in actuarial assumptions or cost methods from the previous year and approximate effect thereof*

None

If we can be of further assistance, please call on us.

Yours very truly,

A. S. HANSEN, INC.



F. Pierce Noble  
Fellow of the Society of Actuaries

FPN:pab

1516 175

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# Hansen

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A. S. Hansen, inc.      First International Building, Suite 2020 • Dallas, Texas 75270 • Telephone 214-748-0501

February 9, 1979

Mr. Dan H. Davidson  
City Manager  
City of Austin  
P. O. Box 1088  
Austin, Texas 78767

Dear Mr. Davidson:

We are pleased to provide the following information with regard to the Firemen's Relief and Retirement Fund of Austin, Texas.

1. *Date of last actuarial valuation*

January 1, 1978

2. *Actuarial cost method used*

Entry-age-normal with frozen-initial liability

3. *Normal cost due January 1, 1978*

\$1,000,900

4. *Amortization of past service costs for most recent year*

Total employer and employee contributions for 1977 were \$1,445,363 of which \$609,335 was applied toward the past service costs

5. *Period over which past service costs are being amortized*

Past service costs are currently being amortized over a period of less than 30 years

6. *Interest on past service costs, if not being amortized*

Not applicable

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Mr. Dan H. Davison  
February 9, 1979  
Page Two

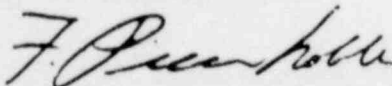
7. *Unfunded past service costs as of January 1, 1978*  
\$5,606,331
8. *Actuarially computed value of vested benefits in excess of the book value of fund assets as of December 31, 1977*  
\$6,284,199
9. *Book value of assets as of December 31, 1977*  
\$13,150,644
10. *Method of recognizing actuarial gains or losses including realized and unrealized gains and losses on securities*  

The actuarial gains or losses are not calculated separately, but are used to reduce or increase the future normal costs. These actuarial gains or losses are automatically spread over future years.
11. *Any changes in actuarial assumptions or cost methods from the previous year and approximate effect thereof*  
None.

If we can be of further assistance, please call on us.

Yours very truly,

A. S. HANSEN, INC.



F. Pierce Noble  
Fellow of the Society of Actuaries

FPN:pab

Hansen

## VALUATION AND DEBT INFORMATION

1978 Market Valuation of All Taxable Property .....	\$4,637,358,000
1978 Taxable Assessed Valuation (75% of Market Value)(1)(2)(3) .....	\$3,478,018,430
City Funded Debt Payable From Ad Valorem Taxes:	
General Purpose Bonds (as of 7-31-79) .....	\$ 98,560,000
Assumed Water District Bonds (as of 7-31-79) .....	2,994,000
Series 259 Bonds Now Being Issued .....	8,800,000
Total .....	<u>\$ 110,354,000</u>
Less: Assumed Water District Bonds(4) .....	2,994,000
Total General Purpose Debt .....	<u>\$ 107,360,000</u>
Interest and Sinking Fund (as of 6-30-79)(5) .....	\$ 5,611,662
Ratio Total General Purpose Debt to Market Valuation .....	2.32%
Ratio Total General Purpose Debt to Taxable Assessed Valuation .....	3.09%

1979 Population — 332,086  
Per Capita Taxable Assessed Valuation — \$10,473.24  
Per Capita Total Debt — \$323.29  
Area — 121.3 Square Miles

- (1) Pursuant to authority permitted by Section 1-b, Article VIII of the State Constitution, which became effective January 1, 1973, the City granted an exemption of up to \$8,000 of Assessed Valuation of the residence homestead of property owners over 65 years of age. The Taxable Assessed Valuation, as shown above, does not include \$90,440,540 Assessed Valuation of properties exempted under this authority.
- (2) The Legislature, pursuant to a constitutional amendment and Article 7150h, VATCS, mandated an additional property tax exemption, beginning in 1976, for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces. The exemption from taxation applies to either real or personal property with the amount of Assessed Valuation exempted ranging from \$1,500 to \$3,000, dependent upon the amount of disability or whether the exemption is applicable to a surviving spouse or children. The Taxable Assessed Valuation, as shown above, does not include \$4,977,520 Assessed Valuation of properties exempted under this authority.
- (3) Legislation passed by the 66th Legislature and signed by the Governor removes non-commercial vehicles from the tax rolls and increases the deduction for homesteads for persons over 65 and those that are disabled. The effect of such legislation would be to reduce the tax rolls of the City approximately 4%. However, even in the year (every other year) in which property evaluation is not undertaken, it's estimated that the City's assessed valuation will increase from approximately \$3,469,000,000 to approximately \$3,514,000,000. The City Council may continue ad valorem taxation on non-commercial vehicles by ordinance, but a decision has not been made at this time.
- (4) Assumed Water District Bonds consist of the following: \$491,000 Travis County Water Control and Improvement District No. 5 Bonds; \$1,318,000 Travis County Water Control and Improvement District No. 9 Bonds; \$995,000 Travis County Water Control and Improvement District No. 11 Bonds; and \$190,000 Travis County Water Control and Improvement District No. 13 Bonds. The City has acquired the Systems and assets of these Districts and assumed the outstanding and unpaid bonded indebtedness of said Districts under authority of Article 1182c-1, V.A.C.S. The consideration for the conveyance made by the Districts to the City is stated in the agreements between the City and the Districts which read in part as follows: "The City of Austin hereby assumes and guarantees the payment of the face value and interest legally required to be paid on all outstanding and unpaid bonded indebtedness of the District upon presentation and surrender when due of all such bonds and interest coupons." The principal and interest on these bonds are being paid from surplus revenues of the City of Austin's combined Electric Light and Power, Waterworks and Sewer System.

- (5) After provision for 7-1-79 debt service requirements.
- (6) The above statement of indebtedness does not include the following revenue bonds, as these bonds are payable solely from the net revenues of the System, as defined in the Bond Ordinance authorizing the bonds: \$370,780,000 Utility System Revenue Bonds outstanding; \$60,000,000 Utility System Revenue Bonds now being issued; and \$318,925,000 Electric, Waterworks and Sewer System Refunding Revenue Bonds.

### UNFUNDED DEBT

The City has no unfunded debt outstanding as of 7-31-79.

### DEBT AND TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal and interest on bonds within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to Austin, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation (for all city purposes). The City operates under a Home Rule Charter which imposes a limit of \$2.50 for all purposes, including General Operation expenses not to exceed \$1.00.

### VALUATION AND FUNDED DEBT HISTORY

Fiscal Period	Taxable Assessed Valuation	Funded Debt Outstanding at End of Year	Ratio Funded Debt to Taxable Assessed Valuation
1969-70	\$ 896,007,140	\$ 36,755,000	4.10%
1970-71	1,069,251,720	38,868,000	3.64%
1971-72	1,207,067,100	43,369,000	3.59%
1972-73	1,347,935,760	44,829,000	3.33%
1973-74	1,486,887,010	48,401,000	3.26%
1974-75	1,843,008,571*	69,137,000	3.75%
1975-76	1,995,128,178	80,368,000	4.03%
1976-77	2,539,518,553*	75,954,000	2.99%
1977-78	2,731,036,640	89,779,000	3.29%
1978-79	3,478,018,430	107,360,000	3.09%

\*A large amount of the increase due to revaluation.

### TAXABLE ASSESSED VALUATIONS BY CATEGORY

Classification	1976 Assessed Valuation	% of Total Assessed Valuation	1977 Assessed Valuation	% of Total Assessed Valuation	1978 Assessed Valuation	% of Total Assessed Valuation
Real:						
Land	\$ 535,633,170	21.09%	\$ 565,690,730	20.71%	\$ 740,503,670	21.29%
Improvements	1,494,040,270	58.83%	1,590,679,870	58.25%	2,067,253,180	59.44%
Total Real	\$2,029,673,440	79.92%	\$2,156,370,600	78.96%	\$2,807,756,850	80.73%
Personal Property:						
Inventories	\$ 382,766,152	15.07%	\$ 428,446,810	15.69%	\$ 501,917,570	14.43%
Automobiles, Trucks and Trailers	116,713,270	4.60%	136,031,500	4.98%	158,802,360	4.57%
House Trailers	5,227,300	.21%	5,037,840	.18%	3,861,890	.11%
Boats	2,861,261	.11%	2,901,340	.11%	3,195,880	.09%
Airplanes	2,277,130	.09%	2,248,550	.08%	2,483,880	.07%
Total Personal Property	\$ 509,845,113	20.08%	\$ 574,666,040	21.04%	\$ 670,261,580	19.27%
Total Assessed Valuation	\$2,539,518,553	100.00%	\$2,731,036,640	100.00%	\$3,478,018,430	100.00%

## ESTIMATED OVERLAPPING FUNDED DEBT PAYABLE FROM AD VALOREM TAXES

(As of 7-31-79)

<u>Taxing Jurisdiction</u>	<u>Total Funded Debt</u>	<u>% Applicable</u>	<u>Overlapping Funded Debt</u>
City of Austin .....	\$107,360,000	100.00%	\$107,360,000
Austin Independent School District .....	88,536,988	92.54%	81,932,129
Del Valle Independent School District .....	1,867,400	18.78%	350,698
Eanes Independent School District .....	7,443,000	0.17%	12,653
Round Rock Independent School District .....	30,906,000(1)	0.11%	33,997
Travis County .....	12,430,000	84.34%	10,483,462
Williamson County .....	—0—	.01%	—0—
Williamson County Municipal Utility District No. 1 .....	5,350,000	.01%	535
Total Overlapping Funded Debt .....			\$200,173,474
Ratio Overlapping Funded Debt to Taxable Assessed Valuation .....			5.76%

Per Capita Overlapping Funded Debt — \$602.78

(1) Includes \$8,000,000 sold August 7, 1979.

### TAX DATA

(Year Ending 9-30)

<u>Tax Year</u>	<u>Tax Rate</u>	<u>Distribution</u>			<u>% Current Collections</u>	<u>% Total Collections</u>
		<u>General Fund</u>	<u>Interest and Sinking Fund</u>	<u>Tax Levy</u>		
1968-69 .....	\$1.29	\$.95	\$.34	\$10,421,778	94.94%	99.55%
1969-70 .....	1.29	.95	.34	11,558,671	95.08%	99.14%
1970-71 .....	1.29	.95	.34	13,793,227	95.99%	99.47%
1971-72 .....	1.29	.95	.34	15,571,166	95.57%	98.53%
1972-73 .....	1.27	.93	.34	17,118,897	96.73%	99.57%
1973-74 .....	1.27	.93	.34	18,881,428	95.03%	97.14%
1974-75 .....	1.19	.87	.32	21,930,412	95.14%	99.31%
1975-76 .....	1.27	.95	.32	25,338,313	93.35%	96.79%
1976-77 .....	1.27	.95	.32	31,993,873	95.81%	100.14%
1977-78 .....	1.24	.92	.32	33,864,852	96.40%	99.72%
1978-79 .....	.96	.68	.28	33,388,977	94.81%	97.65%*

\*Collections for part year only, through June 30, 1979.

Property within the City is assessed as of January 1 of each year; taxes become due October 1 of the same year; and become delinquent on February 1 of the following year. Penalty and interest, however, are not added until March 1. Split payments are not permitted. Discounts are not allowed.

### MUNICIPAL SALES TAX

At an election held on September 30, 1967, the citizens of Austin voted a 1% retail sales and use tax to become effective on January 1, 1968. This tax provides a substantial additional revenue

source, and strengthens the overall financial position of the General Fund of the City. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax to the City of Austin monthly. Revenue from this source has been:

<u>Fiscal Year Ending 9-30</u>	<u>Revenue</u>	<u>% of Ad Valorem Tax Levy</u>	<u>Equivalent of Ad Valorem Tax Rate</u>	<u>Per Capita*</u>
1970 .....	\$ 4,054,923	35.02%	\$0.4269	\$16.10
1971 .....	4,746,038	34.03%	.4439	18.17
1972 .....	5,528,042	35.50%	.4580	20.18
1973 .....	6,568,190	38.37%	.4873	22.93
1974 .....	7,259,279	38.45%	.4882	24.73
1975 .....	7,905,395	36.05%	.4289	26.32
1976 .....	9,165,643	36.17%	.4594	29.75
1977 .....	11,491,263	35.92%	.4561	35.70
1978 .....	13,523,349	39.93%	.4951	40.59
1979** .....	10,464,127			

\*Based on population of City of Austin as reported in the Statistical Abstract, City of Austin and Travis County, 1978, published by the COA Planning Department.

\*\*Through June 30, 1979.

#### TOP TEN TAXPAYERS

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	<u>1978 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
International Business Machine Corporation	Manufacturing and Leasing	\$121,443,210	3.49%
Southwestern Bell Telephone Company	Telephone Utility	107,534,640	3.09%
Texas Instruments, Inc.	Manufacturing	30,641,490	.88%
Austin National Bank	Bank	21,779,400	.63%
Motorola Corporation	Manufacturing	19,733,180	.57%
Southern Union Gas Company	Gas Utility	18,654,370	.54%
Capital National Bank	Bank	18,170,870	.52%
City National Bank	Bank	14,457,560	.42%
H. E. Butt Grocery	Retail	14,252,970	.41%
Tracor Incorporated	Manufacturing	11,382,760	.33%
		<u>\$378,050,450</u>	<u>10.88%</u>

## GENERAL INFORMATION REGARDING CITY AND ITS ECONOMY

### General Description

The City of Austin is located in Travis County in Southeast Central Texas. The City lies in the valley of the Colorado River, in the midst of farm and ranch lands and the highland lake region. The dams which form the highland lakes are administered by both the Lower Colorado River Authority and the City, and provide flood control, water conservation, and certain electricity to a 31,000 square mile area.

In October, 1839, the national offices of the Republic of Texas were moved to the City, and in 1872, the City was designated as the permanent capital of the State of Texas (the "State"). As the State capital, the City is headquarters for all legislative, executive, and state agencies, judicial operations and administrative offices. The City is also the county seat of Travis County.

### Population

The City's metropolitan area in 1978 had a population of 491,519 as estimated by the City's Chamber of Commerce. The population of the Standard Metropolitan Statistical Area ("SMSA") increased by over 100,000 people during the 1970-1976 period, a growth rate of 27.9%, placing the City's SMSA as the second fastest growing metropolitan area in the State.

The following table presents population trends of the City, the State and the United States since 1940.

Year	Austin		Texas		United States	
	Population	Annual Change(a)	Population	Annual Change(a)	Population	Annual Change(a)
1940	87,930	+65.5%	6,414,824	+10.1%	132,165,000	+0.7%
1950	132,459	+50.6	7,711,194	+20.2	151,326,000	+1.4
1960	186,545	+40.9	9,573,677	+24.2	179,323,000	+1.7
1970	253,539	+35.9	11,196,730	+1.8	203,212,000	+1.3
1975	302,500(b)	+1.7	12,237,000	+1.8	213,051,000	+0.9
1976	308,087(b)	+2.1	12,487,000	+2.0	214,669,000	+0.8
1977	321,900(b)	+4.2	12,608,908	+1.0	216,383,000	+0.8
1978	332,086(b)	+3.0	12,917,534	+2.4	218,059,000	+0.8

SOURCE: United States Department of Commerce, Bureau of the Census

(a) The compound annual percentage increase or decrease over the preceding period.

(b) Department of Planning, City of Austin estimates.

### Business and Industry

There are approximately 450 manufacturing firms in the City supporting payrolls of over \$140 million annually. Over \$580 million annual value is added by manufactured products.

Industries of long standing include Elgin Butler Brick Company, in Austin since 1873, the 50-year-old Adams Extract Company and Hart Graphics and Office Centers, Inc. (formerly The Steck Company), printers, organized 1912. The largest companies in the Austin SMSA are Gastron Boat Company, International Business Machines, Inc., Motorola, Inc., Texas Instruments, Tracor, Inc. and Woodward, Inc.

Portions of IBM's office products and office systems equipment are developed and manufactured at the company's facilities in the City. Operations began in 1967 with a work force of approximately 300 which has grown to a present level of approximately 4,100 employees. Expansion completed in 1977 provides 1.2 million square feet of manufacturing and development space.



## Employment Characteristics

As of December 31, 1977, the Austin Metropolitan area had 7,800 unemployed out of a total labor force of 205,950 for an actual rate of 4.0%, compared to 5.2% for the State and 7.8% for the United States. The following tables set forth employment by type and broad industrial sources for the years indicated, for the Austin SMSA:

### WAGE AND SALARY EMPLOYMENT IN THE AUSTIN METROPOLITAN STATISTICAL AREA (a)

Industry <sup>1</sup> Classification	1970	1971	1972	1973	1974	1975	1976
Manufacturing .....	12,350	13,090	13,350	14,300	14,850	15,300	17,200
Durable Goods .....	7,950	8,550	8,900	9,850	10,550	10,850	12,600
Non-Durable Goods .....	4,400	4,450	4,450	4,450	4,300	4,450	4,600
Government .....	48,350	51,200	54,950	58,500	62,900	67,000	69,000
Federal .....	6,300	6,200	6,350	6,600	6,800	7,300	7,700
State .....	31,050	33,150	33,750	37,150	40,250	42,750	44,050
Local .....	11,000	11,850	12,850	14,750	15,850	16,950	17,250
Trade .....	25,100	26,700	28,800	32,050	32,550	35,100	35,850
Wholesale .....	4,000	4,150	4,500	4,650	4,750	5,150	5,250
Retail .....	21,100	22,550	24,300	27,400	27,800	29,950	30,600
Services .....	24,700	27,550	30,450	33,050	34,300	35,800	37,800
Business and Personal .....	8,950	9,250	9,500	10,150	10,550	11,300	12,350
Medical and Professional .....	9,700	11,650	13,150	13,950	14,400	15,000	15,750
Finance, Insurance and Real Estate .....	6,050	6,650	7,800	8,950	9,350	9,500	9,700
Contract Construction .....	8,450	9,050	10,550	11,850	11,300	9,600	8,750
Transportation and Utilities .....	3,650	4,100	4,350	5,100	5,550	5,500	5,550
Mining and Agriculture .....	300	300	350	300	300	450	500
Totals .....	122,900	131,900	142,800	155,200	161,750	168,750	174,650

SOURCE: Texas Employment Commission. All data are calendar year averages and by place of employment.

(a) Austin SMSA includes Travis and Hays Counties.

Texas Instruments, Inc. located on a 466-acre site eleven miles northwest of the Texas State Capitol, employs approximately 1,200. Current expansion is underway to create additional capacity. Motorola, Inc. began production in a major integrated circuit assembly plant in 1974. Current employment is about 1,200, and long range plans anticipate an eventual total of around 4,000. Industries located in Austin also include metals, chemicals, petroleum, printing supplies, candy, ironworks, aluminum, caskets, aircraft equipment, leather, clothing, concrete, boots, pipeline construction, castings, foods, fishing supplies, air conditioning, furniture, valve manufacturing, nuclear and scientific research, boat manufacturing and plastics.

There are extensive deposits of limestone just outside the City. Such supply of raw material contributed to the development of an industry of national recognition in 1928, when Texas Quarries was organized and started production of Cordova Shell and Cordova Cream limestone as building material. Granite Mountain, near Marble Falls (some 50 miles from Austin), together with other sources, furnishes a large supply of granite. Another natural resource of the Austin Hills is native cedar. Clays and talcs exist in commercial quantity for use as insecticide carriers, tile manufacturing and dinnerware.

Austin is an insurance center. Regional as well as 33 home insurance offices are located in the City. Proximity to State offices and a central State location are factors which encourage insurance companies to locate their headquarters in the City.

Austin is third in the State in number of conventions held and delegates attending. During 1977, 863 conventions were held and drew over 225,789 delegates. More than an estimated \$21.6

million was placed in Austin's ever expanding income. The tourism industry now exceeds \$165 million annually. Austin is the shopping center for a 20-county trade area, with a population of over 904,859 with an annual buying income of over \$4.7 billion.

**Agriculture**

The ten counties in the area surrounding Austin, which is primarily agricultural country, combine farm and livestock industries grossing in excess of \$55 million annually. Chief crops are cotton, corn and small grains. Turkey and poultry production has become increasingly important.

**Transportation**

Rail facilities are furnished by the Missouri-Kansas-Texas, Missouri Pacific, and Southern Pacific. Amtrak brought passenger trains back to Austin in January, 1973, as one stop on the Mexico City-Kansas City route. Air transportation is furnished by Braniff, Texas International, Continental Airways, Eastern, Tejas, Southwest, and Chaparral, with 58 daily arrivals and departures. Bus service is furnished by Greyhound, Continental, Kerrville and Arrow, with 45 arrivals and departures per day.

**Growth Indices**

Year	Utility Connections				Building Permits			Postal Receipts
	Electric	Water	Gas	Telephone	Taxable	Federal, State and Municipal	Total	
1958	81,763	68,732	70,795	164,504	\$101,352,400	\$ 30,514,585	\$131,866,985	\$10,788,843
1969	87,284	71,271	73,096	190,234	113,981,636	36,991,236	150,972,872	11,509,740
1970	92,449	72,923	73,831	206,477	116,352,700	17,877,138	134,229,838	12,378,374
1971	99,648	76,778	74,195	226,720	159,056,589	43,406,689	202,463,278	15,385,884
1972	110,884	79,935	79,318	247,304	204,383,230	35,848,065	240,231,295	17,405,311
1973	115,106	83,767	82,239	268,620	195,418,800	44,245,040	239,663,840	18,592,117
1974	119,423	89,065	84,304	289,723	135,792,100	127,098,561	262,890,661	21,924,804
1975	123,148	91,673	86,470	310,063	93,318,700	54,655,772	147,974,472	24,306,710
1976	124,495	91,900	88,919	335,825	150,073,500	52,884,707	202,918,207	28,123,536
1977	136,866	98,736	91,984	358,694	204,821,520	23,272,911	228,094,431	32,000,000
1978	145,491	101,689	95,693	N.A.	337,333,700	11,856,812	349,190,512	36,346,775

SOURCE: Community Profile, compiled by Chamber of Commerce.

**Education: University of Texas**

The University of Texas at Austin was founded in 1883 on forty acres. The campus now encompasses almost 300 acres. Off-campus and research facilities in Austin cover another 837 acres.

It is the only institution of higher education in the entire Southwest which is a member of the Association of American Universities, composed of forty-eight institutions of highest academic standing on the North American continent.

Enrollment	
1968-69	32,155
Fall, 1970	39,100
Fall, 1971	39,503
Fall, 1972	39,900
Fall, 1973	40,619
Fall, 1974	41,841
Fall, 1975	42,598
Fall, 1976	41,387
Fall, 1977	41,660
Fall, 1978	43,095

The Main University includes sixteen colleges and schools, a Division of Extension with a state-wide program, and more than fifty research and public service units. Its facilities are housed in more than 110 buildings. The more than thirty organized research laboratories at the University include the Cell Research Institute, Genetics Foundation, Center for Plasma Physics and Thermonuclear Research, Linguistics Research Center (Machine Translation), Defense Research Laboratory, Center for Relativity Theory, Clayton Foundation Biochemical Institute, Biological Sciences Curriculum Study Project, Geomagnetism and Electrical Geoscience Research Laboratory, and Electrical Engineering Research Laboratory.

The University's General Library, with 4,000,000 volumes, is the largest library in the region. Addition of the Lyndon B. Johnson Library and the East Campus Library and Research Center has contributed to the quality of the system.

*Other Educational Facilities*

The City's public school system had a total enrollment of 58,641 in the fall of 1978. The physical plant of the system includes seventy-five campus buildings.

Austin Community College, under the auspices of the Austin Independent School District, opened for classes in September, 1973 and now has 13,000 students at twenty-six locations.

Other institutions located in the City include St. Edwards University (Catholic - 4 years), Episcopal Seminary of the Southwest, Concordia College (Lutheran), Presbyterian Theological Seminary, Huston-Tillotson (4 years), St. Mary's Academy (Catholic), St. Stephens Episcopal School (4-year high school), State School for Deaf, State School for Blind, State School for Deaf and Blind, and a variety of private and professional institutions.

*Banking*

The eighteen banks in the City and year of their establishment are: The American National Bank, 1890; The Austin National Bank, 1890; Bank of Austin, 1957; The Capital National Bank, 1934; Citizens National Bank, 1961; City National Bank, 1936; Community National Bank, 1968; First State Bank, 1968; University State Bank, 1969; North Austin State Bank, 1959; Texas State Bank, 1945; Travis Bank and Trust, 1969; Chase National Bank, 1972; Bank of the Hills, 1972; Union National Bank, 1974; Oak Hill National Bank, 1974; National Bank of Commerce, 1976; Western National Bank, 1976; Republic National Bank, 1977.

**Combined Bank Statistics**

<u>Year</u>	<u>Deposits</u>	<u>Year</u>	<u>Deposits</u>	<u>Year</u>	<u>Deposits</u>
1968	\$680,576,748	1971	\$ 966,171,154	1975	\$1,491,707,000
1969	676,546,082	1972	1,115,220,566	1976	1,594,289,813
1970	785,515,073	1973	1,209,602,324	1977	1,855,068,000
		1974	1,359,514,955	1978	2,046,580,000

*Other Information*

The City Coliseum, with 6,900 square feet of floor space, will seat gatherings of 4,000 people. The \$3.5 million Auditorium has 110,000 square feet of floor space, and has facilities to seat 5,518 people, or exhibit space covering 80,000 square feet.

Bicentennial projects and events, totaling over \$6.3 million, were designed to permanently enhance the City's recreational and cultural facilities. Almost \$500,000 of these projects were funded by private, individual groups.

## RATINGS

Applications for contract ratings on this issue have been made to Moody's Investors Service, Inc. and Standard & Poor's Corporation. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

## TAX EXEMPTION

The delivery of the Bonds is subject to an opinion of Dumas, Huguenin, Boothman and Morrow, Bond Counsel to the City ("Bond Counsel"), to the effect that interest on the Bonds is exempt from all present Federal income taxes under existing statutes, rulings, regulations and court decisions. The laws, regulations, court decisions and administrative regulations and rulings upon which the conclusion stated in Bond Counsel's opinion will be based are subject to change by the Congress, the Treasury Department and later judicial and administrative decisions.

## REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a) (2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

## LEGAL INVESTMENTS IN TEXAS

The Bonds are legal investments for sinking funds of Texas counties, cities and towns. They are eligible to secure Texas state and school district funds, and constitute legal investments for insurance companies in the State of Texas. No review has been made of the laws of the states other than Texas to determine whether the Bonds are legal investments for various institutions in those states.

## LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The City will furnish a complete transcript of proceedings had in incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the unqualified approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds is exempt from Federal income taxation under existing statutes, regulations, rulings and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds or the coupons appertaining thereto, will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding

Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the bond resolution. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will be printed on the Bonds.

#### AUTHENTICITY OF FINANCIAL INFORMATION

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

#### CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Purchaser will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and that the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The City will furnish the Purchaser, as a part of the transcript of proceedings, a certified copy of a resolution of the City Council as of the date of the sale of the Bonds which will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Purchaser.

CAROLE KEETON McCLELLAN  
*Mayor*

ATTEST:

GRACE MONROE  
*City Clerk*