Docket No. 3780

DIRECT TESTIMONY OF

GARY L. PRICE

FOR

TEXAS POWER & LIGHT COMPANY

MARCH 1981

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DIRECT TESTIMONY OF GARY L. PRICE

Q. WILL YOU STATE YOUR NAME AND ADDRESS PLEASE?

A. Gary L. Price, Texas Power & Light Company, P. O. Box 226331, Dallas, Texas.

Q. WHAT ARE YOUR POSITION AND RESPONSIBILITY FOR TEXAS POWER & LIGHT COMPANY?

A. I am Treasurer and Assistant Secretary. As the chief accounting officer of the Company, I have overall responsibility for accounting matters and cash management. I also participate in arrangements for long-term financing of the Company.

Q. WOULD YOU BRIEFLY DESCRIBE YOUR EDUCATION, PROFESSIONAL QUALIFICATIONS AND COMPANY EXPERIENCE?

A. I received a B.B.A. degree from Baylor University in 1966. I began my career with Texas Power & Light as a trainee immediately following graduation. In 1969, I became Supervisor of Budgets and in 1972, I became Manager of General Accounting. I was elected Assistant Treasurer in 1975, and in November of 1980, I was elected Treasurer and Assistant Secretary. Included in my fourteen years with the Company are appearances before numerous city councils and the Public Utility Commission of Texas concerning rate applications of the Company.

I became a Certified Public Accountant in 1968, and I belong to the Texas Society of Certified Public Accountants, the Dallas Chapter of Certified Public Accountants and the American Institute of Certified Public Accountants.

Q. TO WHAT EXTENT DO YOUR DUTIES BRING YOU INTO CONTACT WITH THE INVESTMENT COMMUNITY?

A. For the past few years I have been involved in meeting with investment banking firms during the issuance of new securities and consultation with individual investors, security analysts and other parties interested in Texas Power & Light's securities, including agencies that rate the Company's securities.

Q. MR. PRICE, WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. There are several areas of major importance that I will address in my testimony.

First, I will discuss the present financial position of the Company and describe some of the events that have contributed to the Company's current financial status. At the same time, I will comment on the capitalization of the Company as it relates to Schedule H of the rate filing package which I am sponsoring in this proceeding.

Secondly, I will discuss the return on common equity that the Company is requesting in view of the recommendations contained in the testimony of Mr. Luftig and Dr. Brigham.

Third, I will discuss the composite overall cost of capital we are requesting and how the requested return relates to and affects the Company's financial integrity.

Fourth, I will discuss the necessity for inclusion of 100% of the adjusted test-year-end level of CWIP in the rate base and a continuation of the current recovery of fuel costs through the fuel adjustment clause.

Q. PLEASE DISCUSS THE COMPANY'S PRESENT FINANCIAL CONDITION.

A. The Company has, over the past ten years or so, been involved in a massive construction program to convert from natural gas as a boiler fuel to more abundant and less expensive lignite and nuclear fuels as Mr. Spence has previously testified. This program has been detrimental to the investor but the customer has benefited significantly in that the fuel cost savings through the use of lignite have amounted to millions of dollars. As a result of our construction program, we have nearly quadrupled our plant investment during this period which has resulted in great pressure being exerted upon the Company's financial position.

Q. MR. PRICE, COULD YOU EXPLAIN EXACTLY WHAT YOU MEAN WHEN YOU SAY PRESSURE HAS BEEN EXERTED UPON THE COMPANY'S FINANCIAL POSITION?

A. Yes. As shown on Exhibit GLP-1, our total electric plant has increased from $760 million at the end of 1970 to over $2.9 billion at the end of 1980. As shown on Exhibit GLP-2, the Company's internal generation of capital requirements has been inadequate for many years. As a result of the Company's cash earnings having been inadequate, the Company has had to acquire a disproportionately large share of its capital requirements externally. Due to this circumstance, coupled with the fact that interest rates on new debt are substantially higher than our embedded cost of debt, fixed-charge coverages have declined significantly to 3.3 times in 1980, as shown in Exhibit GLP-3. This exhibit shows TP&L's supplemental coverages which include our allocable portion of the interest on Texas Utilities Fuel Company (TUFCO) and Texas Utilities Generating Company (TUGCO) senior notes. Exhibit GLP-4 shows that, while AFUDC as a percent of net income available for common has remained in the 20 percent range over the past few years, it increased significantly in 1980 over 1979 and will increase even further as a result of construction expenditures averaging over $400 million per year over the next few years, unless adequate amounts of CWIP are included in the Company's rate base. As the CWIP balance increases, without corresponding rate base inclusion, the AFUDC to balance for common ratio becomes considerably higher and, thus, the quality of our earnings much lower.

Q. MR. PRICE, WHILE THE FINANCIAL INDICATORS YOU JUST DISCUSSED HAVE DETERIORATED OR REMAINED BELOW ACCEPTABLE MINIMUMS, HASN'T THE COMPANY ACTUALLY EXPERIENCED AN INCREASE IN THE RETURN ON COMMON EQUITY TO A LEVEL ABOVE THE 15.5% AUTHORIZED IN DOCKET 3006?

A. On the surface it might appear that we earned our authorized return; however, if we examine the numbers, taking into consideration that the Company was granted a return on unamortized investment tax credits at the composite cost of capital, we actually fell short by 116 basis points as shown in Exhibit GLP-5. In addition, when our actual earnings are adjusted to remove the effects of the abnormally hot summer we experienced in 1980, the earned return falls short of the authorized return by 219 basis points. This is especially troublesome in an inflationary period such as that of the past few years since the Company's base rates must be adequate to cover the cost of service including an adequate return on the Company's common equity without relying on increased revenues due to abnormal weather. The Company was fortunate that we did have a hot summer, since it helped to partially offset the impact of inflation and the ongoing effects of attrition. As shown in this filing, rates are not adequate and it would not be prudent to hope for another record-breaking heat wave to produce the necessary base rate revenue. Moreover, a 15.5% return on common equity is inadequate in view of today's market conditions as verified by Mr. Luftig and Dr. Brigham. As I stated before, we have saved the customer millions of dollars while the common stockholder has not been receiving an adequate return. As shown on Exhibit GLP-6 the market price of the stock of Texas Utilities has not been above book value since about September 1978. It is very obvious that the market place is telling us that our earnings are inadequate.

Q. MR. PRICE, DID THE ABNORMAL WEATHER EXPERIENCED IN 1980 AFFECT THE FINANCIAL INDICATORS SHOWN ON EXHIBITS GLP-2, GLP-3, AND GLP-4.

A. Yes. Each of these financial indicators were improved by reason of the abnormally hot weather experienced in 1980 over what they would have been had we experienced normal weather. Internal cash generaton for 1980 was 42.8%; even that inadequate percent of internal generation was better than what it would have been had we experienced normal weather (39.8%). The inadequate fixed-charge coverage realized in 1980 (3.34 times) would have been 3.15 times if normal weather had been experienced. The AFUDC as a percent of net income available for common, which rose to the unacceptable level of 27.0%, would have risen to 29.3% had the 1980 weather been normal.

Q. MR. PRICE, WOULD YOU PLEASE DESCRIBE THE COMPONENTS OF THE COMPANY'S CAPITAL STRUCTURE?

A. Yes. I have prepared Exhibit GLP-7 which shows, in column (b), the Company's actual capital by source at December 31, 1980. At the end of 1980, the Company had total capitalization of $2.4 billion made up of long term debt, preferred stock, common stock equity and unamortized investment tax credits. I will discuss this exhibit and the adjustments I have made to the capital structure at a later point in my testimony.

Q. MR. PRICE, WOULD YOU BRIEFLY DESCRIBE ANY FINANCING RESTRICTIONS IMPOSED BY THE COMPANY'S MORTGAGE, DEBENTURE AGREEMENTS AND ARTICLES OF INCORPORATION?

A. Yes, sir. With respect to our mortgage bonds, new issues must be based on property additions, with the maximum amount of new issues being limited to 60% of such additions. New issues of mortgage bonds may <u>not</u> be made unless, for twelve consecutive months out of the last preceding fifteen months, earnings before income taxes were at least twice the annual interest requirements on all bonds at that time outstanding, including the additional new issue proposed.

The Company's sinking fund debenture agreements provide, among other things, that no additional junior funded debt (debentures or debt ranking equal thereto) may be issued unless earnings for twelve consecutive months out of the last fifteen months, computed before income taxes, were at least twice the annual interest requirement on all outstanding indebtedness of the Company, including interest on the proposed junior funded debt. After incurrence of the additional debt, all similar amounts of debt of the Company may not exceed 25% of the outstanding mortgage bonds plus capital stock and surplus. The debenture agreements also contain dividend restrictions on common stock which are designed to maintain the aggregate preferred and common stock equity above 33 1/3% of total capitalization. Also, each issue of the sinking fund debentures has a cash sinking fund provision which requires a 2% annual sinking fund requirement commencing in the fifth year following issuance of the debentures, so that 40% of the issue will be redeemed by the sinking fund prior to final maturity.

The Company is also obligated for several series of pollution control revenue bonds sold by the Sabine River Authority of Texas and the Brazos River Authority of Texas to finance construction of pollution control facilities at several of the Company's jointly-owned generating stations.

With reference to the Company's preferred stock, new issues may not be made unless, for twelve consecutive months out of the last fifteen months, earnings before income taxes were at least 1 1/2 times the sum of (1) the annual interest requirement on all indebtedness, and (2) the annual dividend requirement on all shares of preferred stock outstanding including the proposed issue.

Q. WHAT QUALITY RATINGS HAVE BEEN ASSIGNED TO THE COMPANY'S OUTSTANDING DEBT AND PREFERRED STOCK ISSUES BY THE TWO MAJOR RATING AGENCIES, MOODY'S INVESTORS SERVICE, INC. AND STANDARD & POOR'S CORPORATION?

A. The Company's First Mortgage Bonds have been designated triple A, the highest bond rating of both agencies. The Sinking Fund Debentures and Pollution Control Revenue Bonds have been assigned a double A rating by both agencies since they are not secured by property but only by the general credit of the Company.

The Company's preferred stock is rated double A by both rating agencies, similar to our debentures and pollution control revenue bonds.

In order to maintain these ratings, the deterioration of the Company's financial indicators must be reversed.

Q. DOES THE COMPANY HAVE ANY OBLIGATIONS NOT INCLUDED IN THE CAPITALIZATION SHOWN IN EXHIBIT GLP-7?

A. Yes. Through our Operating Agreement with Texas Utilities Generating Company (TUGCO), the Company is, in effect, obligated, along with Texas Electric Service

Company (TES) and Dallas Power & Light (DP&L), for \$400 million of Senior Notes issued by TUGCO to finance its lignite mining operations. There are two separate issues of TUGCO Senior Notes, one issue in the principal amount of \$200 million due in September 1998 with an interest rate of 9.20% and a second issue of \$200 million due November 1999 bearing interest at 10.45%.

Under a separate but similar Operating Agreement with Texas Utilities Fuel Company (TUFCO), the Company is obligated along with TES and DP&L for \$100 million of 8.50% Senior Notes due December 1996. In addition, before rates from this proceeding go into effect, TUFCO will issue an additional \$50 million of Senior Notes.

Q. MR. PRICE, SINCE THE PRINCIPAL AMOUNTS OF THE TUGCO AND TUFCO SENIOR NOTES DO NOT APPEAR ON THE COMPANY'S FINANCIAL STATEMENTS AS A DIRECT LIABILITY, WHAT IS THE IMPACT OF THESE NOTES ON THE COMPANY'S CAPITAL REQUIREMENTS AND INTEREST COVERAGE REQUIREMENTS?

A. Under the requirements of the Securities and Exchange Commission (SEC), we <u>must</u> include our pro rata portion of interest on the TUGCO and TUFCO Senior Notes in the calculation of our fixed charge coverage as if it were our own direct liability. In order to maintain an adequate SEC fixed charge coverage, including the Senior Note interest, the Company must maintain a capital structure with an equity base sufficient to support the additional debt requirements and earnings that will produce adequate fixed charge coverage when the additional or supplemental interest components are included. Exhibits GLP-3 and GLP-8 illustrate this more clearly.

With reference to interest coverage, the significance of debt in the capital structure revolves, in the short run, around the Company's ability to pay the interest as it comes due. Interest payments, of course, come from current earnings; the ability to meet those payments is gauged in terms of interest coverage or how many times current earnings will cover the interest requirements. Even though the actual principal obligation for the TUGCO and TUFCO Senior Notes does not appear on the Company's balance sheet, the Company is directly obligated to pay its allocated share of the interest costs under the Operating Agreements.

Q. MR. PRICE, FOR WHAT PORTION OF THE TUGCO AND TUFCO NOTES IS TP&L RESPONSIBLE?

A. Of the $400 million of TUGCO Senior Notes outstanding at December 31, 1980, the Company is obligated for 43.7% or $174.8 million with a corresponding annual interest obligation of approximately $17.1 million.

Of the $88.2 million (excluding amounts due currently) of TUFCO Senior Notes outstanding at December 31, 1980, the Company is obligated for 45.68% or $40.3 million with an annual interest obligation of approximately $3.4 million. In addition, the Company will also be obligated for a like percentage of the additional $50 million of Senior Notes.

Q. MR. PRICE, YOU PREVIOUSLY DISCUSSED THE COMPANY'S CAPITAL STRUCTURE AT DECEMBER 31, 1980, AS SHOWN IN EXHIBIT GLP-7. WOULD YOU PLEASE EXPLAIN THE ADJUSTMENTS YOU HAVE MADE TO THE COMPANY'S CAPITAL STRUCTURE?

A. Yes. I have adjusted the capital structure per books at December 31, 1980, as shown in column (b) of Exhibit GLP-7, page 1 of 5, to reflect new financing for the Company in the form of $85.5 million additional common stock to be sold to Texas Utilities Company prior to the rates set in this proceeding going into effect. I have also adjusted the capital structure to include the remaining $7.6 million funds on deposit with the trustee for the BRA Pollution Control Revenue Bonds which were issued to construct pollution control facilities at Sandow #4.

The adjustment in column (e) on page 1 of 5 of Exhibit GLP-7 is to remove from the capital structure amounts related to the portion (82.569%) of Sandow

Unit #4 that is dedicated by contract to Alcoa. The adjustment is prepared on a consistent basis with the Sandow #4 elimination approved by this Commission in Docket No. 3006. The mechanics of this adjustment are shown in detail in Exhibit GLP-7, page 4 of 5.

Q. IN YOUR OPINION, DOES THE COMPANY'S CAPITAL STRUCTURE AS ADJUSTED REFLECT AN APPROPRIATE CAPITAL STRUCTURE FOR PURPOSES OF THIS RATE PROCEEDING?

A. Yes, sir. The adjusted capitalization ratios, as shown in column (g) on page 1 of Exhibit GLP-7, are the proper ratios for use in this proceeding and show that the adjusted capital structure consists of 41.25% debt, 11.54% preferred stock, 40.63% common equity and 6.58% unamortized investment tax credits. While the capital structure I have proposed is appropriate for the purposes of this particular proceeding, it is clear that, in order to support the supplemental interest obligation, the Company will need to continue to increase the common equity component in the future as can be seen from Exhibit GLP-8, which shows the effects of the Company's portion of the TUGCO and TUFCO Senior Notes on the capital structure. In addition, the Company needs to increase its equity component to partially offset increasing risks.

Q. MR. PRICE, WOULD YOU DISCUSS THE COSTS APPLICABLE TO EACH COMPONENT OF THE CAPITAL STRUCTURE AS ADJUSTED, AS WELL AS WHAT YOU HAVE DETERMINED TO BE THE OVERALL OR COMPOSITE COST OF CAPITAL?

A. I have prepared several schedules included in Exhibit GLP-7 to show the costs of each component of the capital structure of the Company, as adjusted, at December 31, 1980. Page 2 of 5 of this exhibit shows, in detail, the components of the Company's long-term debt and the associated interest costs used to arrive at an average cost of 8.02%. After adjusting for the elimination of 82.569% of Sandow #4, the average or embedded cost of the Company's long-term debt is

7.99%.

Page 3 of 5 of Exhibit GLP-7 shows, in detail, the outstanding issues of the Company's Preferred Stock and the annual dividend requirement of each issue used to arrive at the average cost of 7.96%. After adjusting the Preferred Stock for the 82.569% Sandow #4 elimination, the average or embedded cost is 7.86%.

Q. HOW DID YOU DETERMINE THE COMPANY'S COST OF COMMON EQUITY CAPITAL?

A. I have relied upon the expert opinions of Dr. Eugene Brigham and Mr. Mark Luftig whose testimonies are included in this proceeding. Dr. Brigham has recommended that the Company needs to earn and actually realize a return between 17.7% and 18.9%, and Mr. Luftig has determined that TP&L must actually earn a minimum return of 18%. After careful consideration of the testimony of these two expert rate of return witnesses, I have selected a 17.75% return and have included this return in column (h) of Exhibit GLP-7 and as a part of the computation of the overall cost of capital shown in column (i) on page 1 of 5 of that exhibit.

Both Mr. Luftig and Dr. Brigham have recommended returns on common equity that will, if earned, enable TU to sell new issues of common stock at book value. As shown in Exhibit GLP-6, the returns earned by the Company over the past two years have not been sufficient to attain a market to book ratio of 1. As a result. Texas Utilities has sold its last two issues of common stock at prices well below book value. In March 1981, Texas Utilities will sell 5,000,000 additional shares of common stock and, in all likelihood, it will be the third consecutive issue sold below book value.

Q. HAVE YOU DETERMINED AN APPROPRIATE RATE OF RETURN ON THE COMPANY'S INVESTMENT TAX CREDITS INCLUDED IN THE CAPITAL STRUCTURE?

A. Yes. After years of controversy surrounding the intent of Congress in providing for the investment tax credit and the appropriate return that should be earned on the unamortized portion of investment tax credits, the Internal Revenue Service has issued final regulations pertaining to section 46 of the Internal Revenue Code. The regulations, issued on March 15, 1979, deal specifically with proper regulatory treatment of investment tax credits and establish the composite cost of capital as the appropriate return to be earned on the tax credits. I have, therefore, applied the composite cost of capital to the unamortized investment tax credits in the capital structure shown on page 1 of 5 of Exhibit GLP-7. Also, the limitations applicable to the Company, since it is an option 2 company, are that the credit is not available if the benefits are flowed through to income faster than ratably over the useful life of the property and, further, that there can be no reduction in rate base by reason of the credit.

Q. WHAT HAVE YOU DETERMINED TO BE THE OVERALL RATE OF RETURN TO BE APPLIED TO THE COMPANY'S ORIGINAL COST RATE BASE?

A. I have determined the overall fair rate of return on invested capital of the Company at December 31, 1980, to be 12.22% as shown in Exhibit GLP-7, page 1 of 5. When applied to the Company's requested original cost rate base, as furnished by Mr. McDonough, the composite rate will produce a total dollar return of $280,778,897. If the mathematical approach employed by the Commission in the past is followed in this case, the return dollars of $280,778,897 would provide a 9.57% return on the adjusted value rate base. This computation appears in Exhibit GLP-7, page 5 of 5.

Q. MR. PRICE, WHEN THE COMMISSION GRANTS THE COMPANY A SPECIFIC RATE OF RETURN, DOES THAT, IN EFFECT, GUARANTEE THAT THE GRANTED RETURN WILL BE EARNED?

A. No, sir. There is no guarantee that the authorized return will be earned. The regulator should, however, take steps to afford the Company a reasonable opportunity to earn the return that the regulator finds to be fair, reasonable and necessary. Being granted the means or opportunity to earn the allowed return on common equity is at least as important as the determination of the cost of common equity.

Q. WOULD YOU DISCUSS WHAT YOU MEAN, IN MORE SPECIFIC TERMS?

A. Yes, sir. There are several major considerations that impact the authorized return and the Company's ability to actually earn that return. First of all, our Company is faced with a construction program of approximately $400 million per year and is going to have to raise significant amounts of capital from external sources. It is a fact that, in the inflationary period of the past fifteen years, new issues of First Mortgage Bonds have carried an interest rate in excess of the embedded cost of debt. A good example of this is our May 1980 offering of $50 million of First Mortgage Bonds with an annual coupon rate of 11 3/8%. I might add that the 11 3/8% rate was near the market minimum rate for electric utilities for the year. Our embedded cost of debt included in the rates in effect at the time was 7.79%. This, of course, is the phenomenon we refer to as capital attrition.

In the same fashion, our other costs of doing business do not remain at test year levels during the period rates are in effect. Inflation, as well as other factors, increase the Company's operating expenses over the average level of operating expenses allowed in the Company's cost of service. The result is expense attrition.

Another consideration is investment attrition. Even if inflation were completely eliminated, investment attrition would still be a factor contributing to the inability of the Company to earn the authorized return. This will occur because the Company is adding plant at a unit cost higher than the embedded cost of similar plant.

In summary, the combined effects of capital attrition, expense attrition and investment attrition assure that the Company will not have a reasonable opportunity to earn the authorized return unless the regulator recognizes the economic realities under which we operate and takes steps to offset the adverse effects of attrition.

Q. MR. PRICE, WHAT PORTION OF THE COMPANY'S CONSTRUCTION WORK IN PROGRESS ARE YOU REQUESTING TO BE INCLUDED IN THE RATE BASE?

A. We are requesting the inclusion of 100% of CWIP at December 31, 1980, as adjusted, in the Company's rate base.

Q. IN YOUR JUDGMENT, IS THE INCLUSION OF 100% OF CWIP IN THE RATE BASE ESSENTIAL TO THE FINANCIAL INTEGRITY OF TP&L?

A. Very definitely. The rate of return requested on common equity in this proceeding is predicated on a rate base which includes the requested amount of CWIP. Exclusion of CWIP from the rate base would undermine the viability of the requested return, which is the very minimum return recommended by Mr. Luftig and Dr. Brigham, and will impose obstacles to our financing program. The ability of the Company to currently recover the financing costs of its construction program has a major impact on its risk position. Cash flow is extremely important to the Company; bills must be paid with real money, not AFUDC.

The alternative to inclusion of CWIP in the rate base is to defer the recovery of the financing costs associated with the construction program by capitalizing them as AFUDC. The payment of actual financing costs, however, cannot be deferred, and, as a result, the Company's cash earnings are reduced. With less cash earnings, the Company's internal generation of funds is reduced; therefore, the need for external financing is increased. As discussed earlier in my testimony, this results in more pressure being exerted on the Company's financial position and a higher embedded cost of capital.

With $637 million in CWIP (as adjusted) at December 31, 1980, the Company must have a substantial increase in the level of Construction Work in Progress included in the rate base or the amount of AFUDC will increase even more dramatically in 1981. Referring again to GLP-1 and GLP-4, the amount of CWIP in relation to total electric plant is 25.4% and the percent AFUDC is of balance for common is 27.0%; both have increased significantly over the previous years. The increasing amount of AFUDC in lieu of cash earnings is undermining the Company's financial integrity.

Q. WHAT OTHER DISADVANTAGES RESULT FROM EXCLUDING CWIP FROM THE RATE BASE?

A. There are a number of disadvantages in addition to those I have already mentioned. The major ones are (1) a decline in the quality of earnings, (2) reduced interest coverage and (3) higher rates in the future.

Q. WHY DOES THE QUALITY OF EARNINGS DECLINE?

A. Simply stated, non-cash income is substituted for cash income. This income is simply the result of a journal entry rather than actual cash earnings. As a result, the quality of earnings declines. In other words, as AFUDC becomes a higher percentage of the Company's earnings, the quality of earnings declines. Full inclusion of CWIP in the rate base would not eliminate the accrual of AFUDC because the CWIP balance at the time these rates go into effect will be substantially higher than the level we are requesting in the rate base in this proceeding.

Q. HOW IS INTEREST COVERAGE REDUCED?

A. As I mentioned earlier, exclusion of CWIP from the rate base lowers cash flow and increases the need for external financing. This will result in more interest costs to be covered. Also, earnings that are received in lieu of AFUDC would have to cover their tax liability. Since interest coverage is computed on a pre-tax basis, the use of AFUDC in place of real earnings would result in lower coverages.

Q. HOW WOULD FUTURE RATES BE INCREASED?

A. By capitalizing AFUDC, the total cost of facilities is increased and this, in turn, increases future revenue requirements which customers must pay. Another factor is the higher cost of capital to the Company due to an increased risk position and the Company's external financing requirements being increased. This higher cost of capital will directly increase the revenue requirements from the Company's customers.

Q. DOES THE CUSTOMER PAY FOR CONSTRUCTION IF CWIP IS INCLUDED IN THE RATE BASE?

A. No. The investor is still paying for the construction. The customer is only paying the "interest" or carrying cost on the money used for construction.

Q. MR. PRICE, ARE THERE ANY FACTORS IN ADDITION TO THE ITEMS MENTIONED THUS FAR THAT WILL HAVE AN IMPACT ON THE COMPANY'S ABILITY TO MAINTAIN ITS FINANCIAL INTEGRITY UNDER THE RATES TO BE SET IN THIS PROCEEDING?

A. Yes. There is one factor in particular that has a very significant impact on our cash flow and quality of earnings. It is very important that the Company be allowed to continue to have the ability to utilize the FCF tariff to recover currently the Company's cost of fuel used in generating electricity.

Q. WHY IS THE FUEL TARIFF SCHEDULE NECESSARY?

A. The necessity of an FCF tariff schedule is still readily apparent when one realizes that this is the cheapest method for the customer and that the Company is still faced with fluctuating fuel costs due to the fuel mix and the varying costs of each type of fuel. Even minor fluctuations in the cost of gas, oil or lignite multiply out to a large amount of money when one considers the vast quantities of fuel that we burn. Through the use of a Fuel Cost Factor tariff schedule, the inevitable delay between the happening of an event (lower or higher fuel costs) that entitles a party (customer -- lower fuel costs; Company -- higher fuel costs) to legal relief and the date when he gets relief is overcome. The customer receives the benefit of lower fuel costs immediately, and the Company is protected when fuel costs increase. The uncertainty surrounding unit outages, abnormal weather, and the availablility and price of gas and oil are but a few of the factors that make it impossible to accurately predict our fuel mix and the corresponding fuel costs. During 1980, fuel costs represented approximately 51% of our total operating expenses. If we were unable to recover these costs on a current basis, our cash flow would be adversely affected and our financial position weakened.

Q. HAS THE PERIOD OF RAPIDLY ESCALATING FUEL COSTS SUBSIDED FOR TEXAS POWER & LIGHT?

A. Texas Power & Light is still subjected to fluctuating fuel costs. Weather, type of fuel used (fuel mix) and the difference in the cost of each type of fuel used are major factors of varying fuel costs. The Company uses the power plants which burn the cheapest fuel first (base load) and then uses the power plants using the more expensive fuels to meet the change in the Company's load. Therefore, changes in the customers' electrical requirements due to weather can and do cause wide fluctuation in fuel costs. Another reason for fluctuation in fuel costs is the wide difference in the cost of lignite versus natural gas. When a lignite unit is not operating (due to planned maintenance or unscheduled outage), the lost generation must be replaced by generation from a gas-fired unit. The net result is that the same amount of kilowatt hours are produced, but the fuel cost for those same kilowatt hours is increased approximately three times (lignite @ 70¢ per MMBTU-gas @ \$2.00 - \$2.50 per MMBTU).

Q. IS IT PROPER RATE-MAKING PROCEDURE TO GRANT THE SAME RETURN ON COMMON EQUITY AND THE SAME ALLOWANCE FOR WORKING CAPITAL IF FULL FUEL COST RECOVERY IS NOT PERMITTED ON A CURRENT BASIS?

A. No; any knowledgeable authority will verify that there is more risk associated with a company that does not have a tariff which permits the current recovery of its full fuel costs than a company that has such a tariff. The increased risk requires a higher return on capital to compensate investors for this increased risk. Of course, any comparison between the working capital requirements of a company with full current fuel recovery and a company with a fuel limitation or lag in the collection period (all other things being equal) will show that the working capital requirements of a company with a fuel limitation or lag will be greater due to the funds of that company being used longer before their collection from the customer.

Q. DID THE PUBLIC UTILITY COMMISSION IN DOCKET NO. 178, DOCKET NO. 1517 AND ALSO IN DOCKET NO. 3006 DETERMINE THE COMPANY'S WORKING CAPITAL REQUIREMENTS AND ITS COST OF CAPITAL RECOGNIZING THE FCF TARIFF SCHEDULE WOULD PROVIDE FOR FULL CURRENT RECOVERY OF FUEL COSTS?

A. Yes. In all previous proceedings before this Commission, the working capital requirements and the cost of capital were determined on the basis that the cost of fuel used in generating electricity would be billed currently to all customers based on the electricity consumed.

Q. IS THERE ANY OTHER BENEFIT BESIDES REDUCED WORKING CAPITAL REQUIREMENTS AND A LOWER COST OF CAPITAL DIRECTLY ATTRIBUTABLE TO THE USE OF A FUEL COST FACTOR TARIFF SCHEDULE WHICH PROVIDES FOR FULL CURRENT RECOVERY OF FUEL COSTS?

A. Yes. Rate case expenses are reduced due to the simple fact that the Company does not have to file for increased rates as often. In the last rate proceeding, the Company's rate case expenses were approximately $500,000 and took approximately eight to nine months to complete. Since fuel is the largest operating expense of the Company, any restriction placed upon the collection of fuel costs will reduce the time between rate cases. Under present economic conditions, Texas Power & Light must get rate relief almost annually even with full recovery of its fuel expense. With anything less than full recovery of fuel expense, the Company would be placed in the position of having to ask for rate relief every few months, which not only would be extremely expensive but also would be an administrative nightmare due to the fact that there are 190 cities which exercise original jurisdiction over the rates and services of Texas Power & Light within their corporate limits as well as the original jurisdiction of this Commission over the rates and services provided in the remainder of our service area. Lower rate case expenses, lower working capital requirements and a lower cost of capital all directly benefit the customer through lower base rates.

Q. MR. PRICE, WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. Yes. The main thrust of my testimony is that it is extremely important for TP&L to maintain its financial integrity. The high credit rating we have had in the past has enabled us to achieve the substantial benefits that our customers are enjoying today. Our financial flexibility and strength played a significant role in our ability to utilize lignite-fueled generation in place of high cost natural gas generation, saving our customers hundreds of millions of dollars in the ten years or so since we began utilizing lignite as a boiler fuel. During this period, we have seen times when it was very difficult for utilities to obtain long-term financing, especially on reasonable terms, but, because of our credit rating, we had access to the markets at lower costs and reasonable terms. I strongly believe that it is in the long term best interest of our customers for TP&L to maintain its triple A bond rating. Our requested inclusion of CWIP in the rate base and the requested 12.22% overall return in this proceeding are the minimums necessary to preserve our financial integrity and provide a fair return on common equity.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

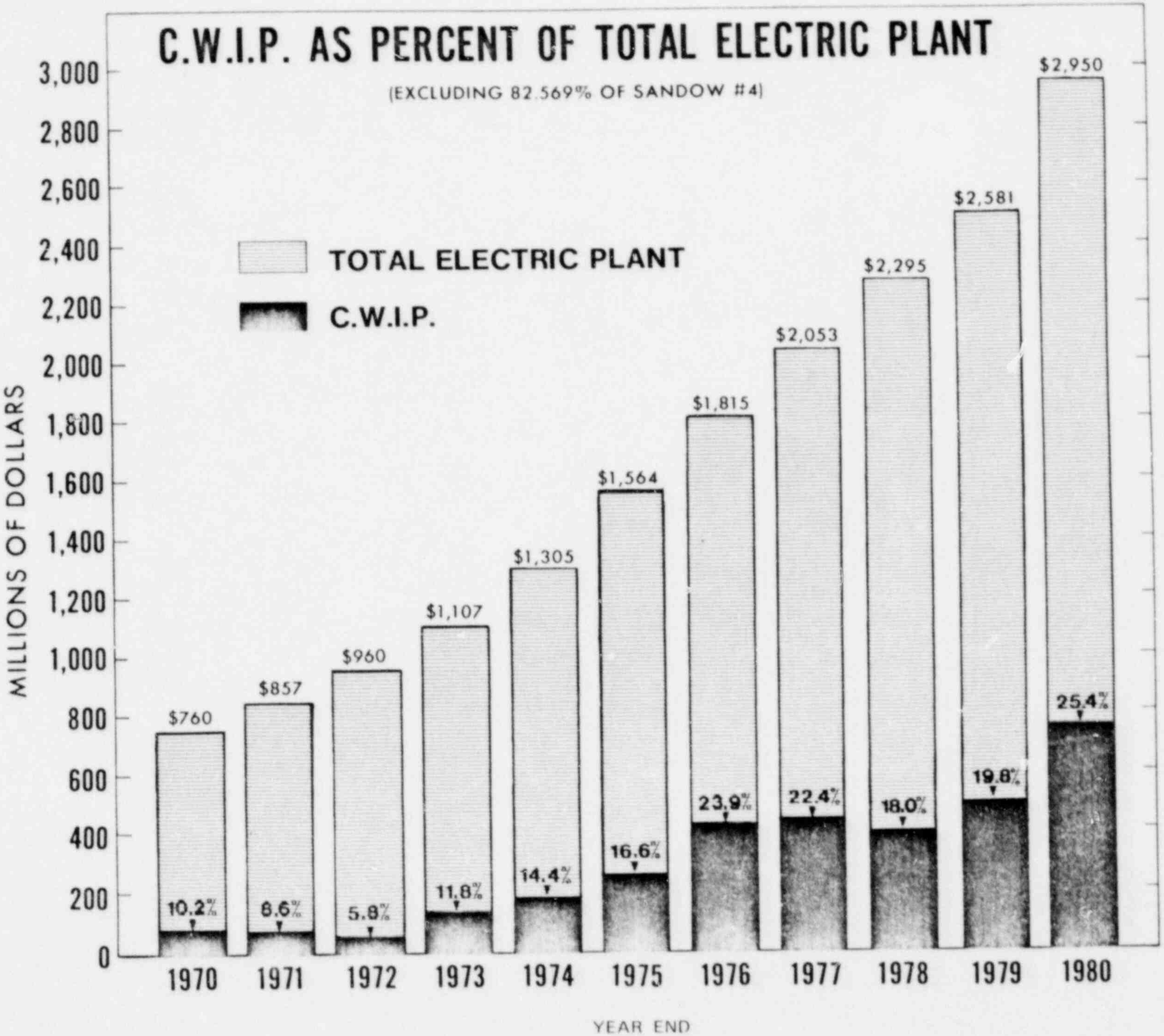

EXHIBIT GLP — 1
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TEXAS POWER & LIGHT COMPANY

Internal Generation of Capital Requirements
1971 through 1980
($000 Omitted)

No.	Description (a)	1971 (b)	1972 (c)	1973 (d)	1974 (e)	1975 (f)	1976 (g)	1977 (h)	1978 (i)	1979 (j)	1980 (k)
1	Cash Construction Requirements:										
2	Total Construction Expenditures	$100,604	$107,764	$152,542	$203,771	$264,776	$261,171	$278,075	$305,095	$363,049	$420,829
3	Less AFUDC	5,912	4,969	5,400	11,606	14,504	19,108	20,667	18,120	23,825	37,745
4	Total Cash Construction Requirements	$ 94,692	$102,795	$147,142	$192,165	$250 272	$242,063	$257,408	$286,975	$339,224	$383,084
5	Funds from Internal Operation:										
6	Net Income after Preferred and Common Dividends	$ 14,919	$ 19.485	$ 17,721	$ 20,364	$ 11,117	$ 19,815	$ 34,470	$ 47,217	$ 44,070	$ 64,021
7	Depreciation Provisions	18,812	21,958	25,217	29,518	38,064	43,671	49,009	56,312	64,152	69,880
8	Deferred Federal Income Tax - Net	1,172	2,681	5,399	6,699	9,413	11,152	13,192	20,827	27,164	33,551
9	Federal Investment Credit Adjustments	3,013	4,790	2,498	5,863	12,312	19,647	31,118	35,021	42,993	34,062
10	Allowance for Funds Used During Construction	(5,912)	(4,969)	(5,400)	(11,606)	(14,504)	(19,108)	(20,667)	(18,120)	(23,825)	(37,745)
11	Total Funds from Internal Operation	$ 32,004	$ 43,945	$ 45,435	$ 50,838	$ 56,402	$ 75,177	$107,122	$141,257	$154,554	$163,769
12	Per Cent Internal Generation (Line 11 ÷ Line 4)	33.8%	42.8%	30.9%	26.5%	22.5%	31.1%	41.6%	49.2%	45.6%	42.8%

TEXAS POWER & LIGHT COMPANY

FIXED CHARGE COVERAGES (S.E.C. Basis) INCLUDING ALLOCABLE PORTION OF INTEREST ON TUFCO AND TUGCO SENIOR NOTES

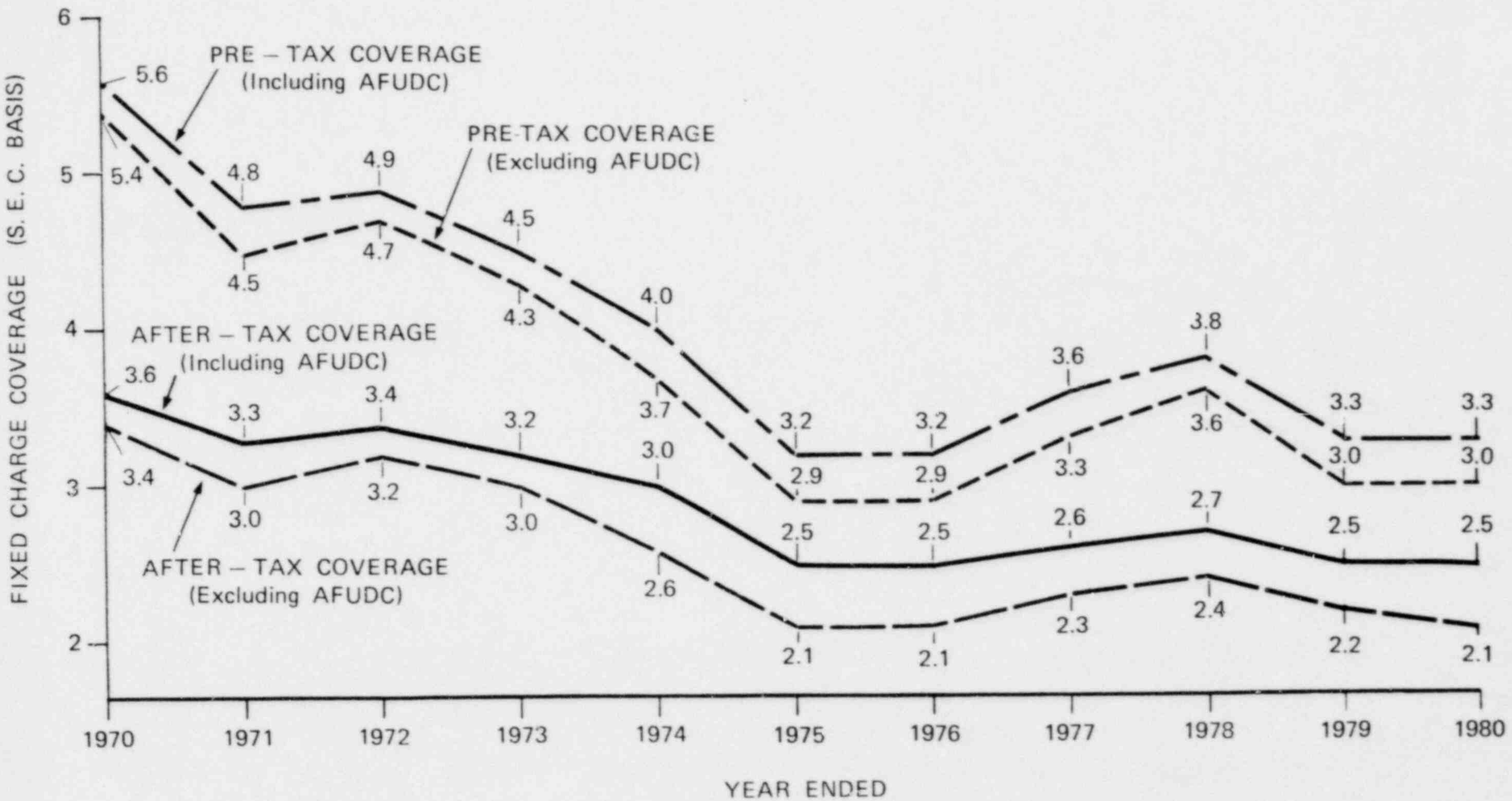

EXHIBIT GLP – 3
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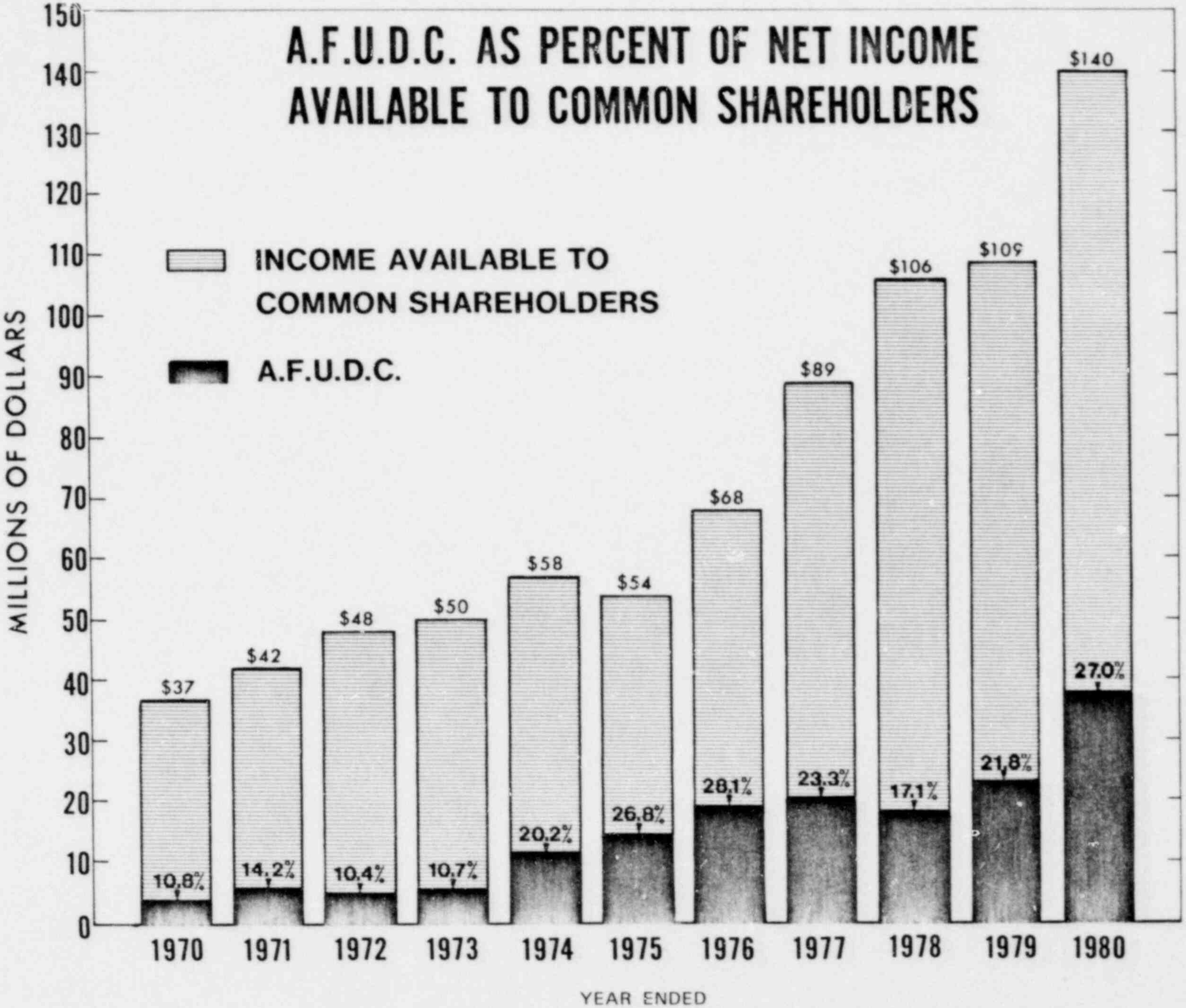

EXHIBIT GLP – 4
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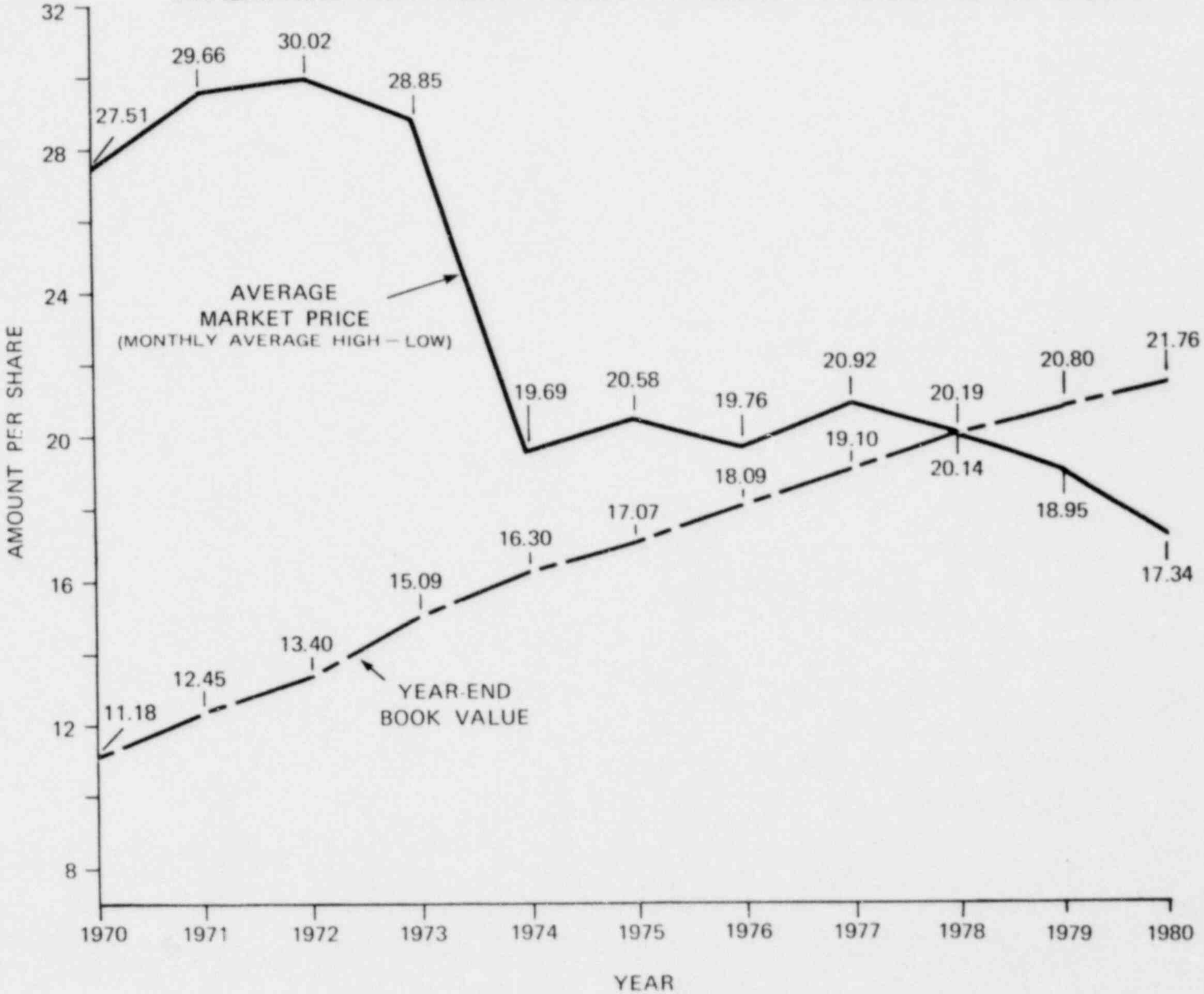
TEXAS POWER & LIGHT COMPANY
Comparison of Earned Return vs. Authorized Return on Common Equity and Unamortized Investment Tax Credits
($000 Omitted)

Line No.	Description (a)	Actual 12 Months Ended 1980 (b)	As Adjusted For Normal Weather 12 Months Ended 1980 (c)
	Earned Return Calculation:		
1	Average Common Equity	$ 863,345	$ 857,776
2	Average Unamortized Investment Tax Credits	155,078	155,078
3	Total	$1,018,423	$1,012,854
4	Earnings Available for Common Equity and Investment Tax Credits	$ 139,885	$ 128,748
5	Earned Return on Average Common Equity and Investment Tax Credits (Line 4 ÷ Line 3)	13.74%	12.71%
6	Authorized Return (A)	14.90%	14.90%
7	Earned Return Excess (Deficiency)	(1.16)%	(2.19)%

(A) Authorized Return Calculation:	Per Docket 3006 (1980) Amount	Rate	Return
Common Equity	$792,075	15.50%	$122,772
Unamortized Investment Tax Credits	118,042	10.91%	12,878
Total	$910,117		$135,650
Total Authorized Return		14.90%	

TEXAS UTILITIES COMPANY

AVERAGE MARKET PRICE Vs. BOOK VALUE OF STOCK



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TEXAS UTILITIES COMPANY

AVERAGE MARKET PRICE Vs. BOOK VALUE OF STOCK

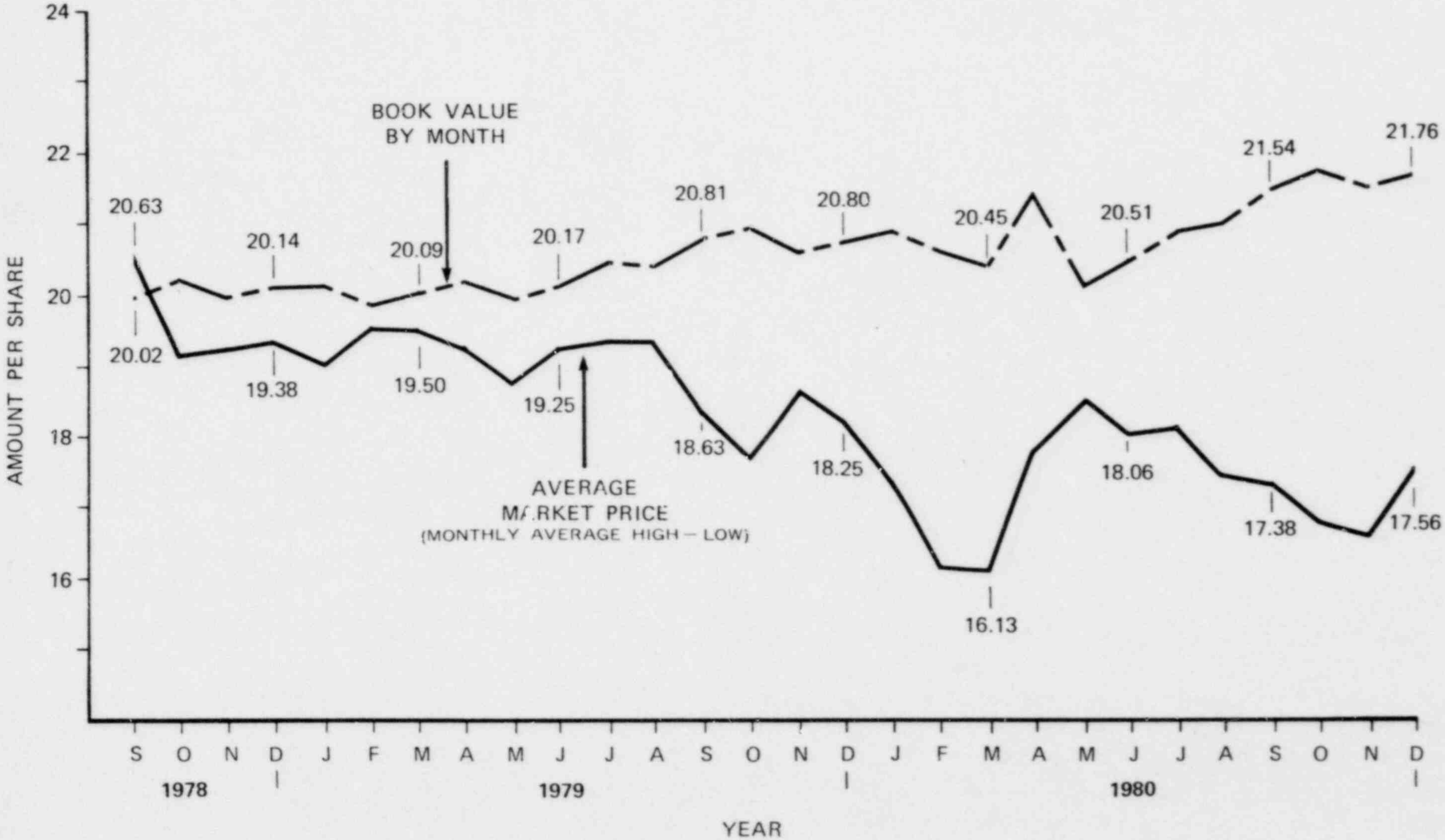

EXHIBIT GLP – 6
PAGE 2 OF 2

TEXAS POWER & LIGHT COMPANY

Schedule of Capital and
Overall Cost of Capital
(Dollars in Thousands)

Line No.	Description (a)	Capital at 12/31/80 (b)	Adjustment for New Financing (c)	Capital at 12/31/80 Adjusted for New Financing (d)	Sandow #4 Adjustment(C) (e)	Amounts at 12/31/80 Adjusted (f)	Per Cent of Total (g)	Cost of Capital (h)	Weighted Cost of Capital (i)
1	Long-Term Debt	$1,013,642	$ 7,591(A)	$1,021,233	$ (72,987)	$ 948,246	41.25%	7.99%	3.30%
2	Preferred Stock	285,782		285,782	(20,433)	265,349	11.54	7.86	.91
3	Common Stock Equity	920,355	85,500(B)	1,005,855	(71,895)	933,960	40.63	17.75	7.21
4	Unamortized Investment Credits	169,645		169,645	(18,478)	151,167	6.58	12.22	.80
5	Total	$2,389,424	$ 93,091	$2,482,515	$ (183,793)	$2,298,722	100.00%		12.22%

(A) BRA Pollution Control Revenue Bonds - funds on deposit with trustee per Exhibit GLP-7, page 4 of 5

(B) Proceeds from sale of comon stock to Texas Utilities (Parent)

(C) Elimination of capital attributed to that portion (82.569%) of Sandow #4 dedicated to Alcoa.

TEXAS POWER & LIGHT COMPANY

Schedule of Long-Term Debt and Composite Cost

Line No.	Title (a)	Issue Date (b)	Maturity Date (c)	Principal Amount Outstanding (d)	Annual Interest or Amortization Requirement (e)	% Average Cost (f)
				(Thousands of Dollars)		
	FIRST MORTGAGE BONDS:					
1	3 1/4% Series	04-01-52	04-01-82	$ 14,000	$ 455	
2	3 1/8% Series	10-01-54	10-01-84	20,000	625	
3	4 3/8% Series	11-01-56	11-01-86	10,000	437	
4	4 1/2% Series	12-01-58	12-01-88	12,500	563	
5	4 1/2% Series	01-01-61	01-01-91	12,000	540	
6	4 3/8% Series	02-01-63	02-01-93	10,000	438	
7	4 1/2% Series	01-01-65	01-01-95	14,000	630	
8	5 % Series	02-01-66	02-01-96	20,000	1,000	
9	5 1/2% Series	02-01-67	02-01-97	30,000	1,650	
10	6 5/8% Series	01-01-68	01-01-98	25,000	1,656	
11	8 5/8% Series	02-01-70	02-01-00	30,000	2,587	
12	8 7/8% Series	09-01-70	09-01-00	30,000	2,663	
13	7 1/8% Series	02-01-71	02-01-01	30,000	2,137	
14	7 1/2% Series	02-01-72	02-01-02	40,000	3,000	
15	7 1/2% Series	02-01-73	02-01-03	50,000	3,750	
16	8 1/4% Series	02-01-74	02-01-04	50,000	4,125	
17	10 1/8% Series	10-01-74	10-01-04	50,000	5,063	
18	9 1/2% Series	04-01-75	04-01-05	100,000	9,500	
19	8.60 % Series	01-01-76	01-01-06	100,000	8,600	
20	8 1/4% Series	02-01-77	02-01-07	100,000	8,250	
21	9 3/8% Series	02-01-79	02-01-09	100,000	9,375	
22	11 3/8% Series	05-01-80	05-01-10	50,000	5,688	
	SINKING FUND DEBENTURES:					
23	4 5/8% Series	01-01-62	01-01-87	6,711	310	
24	4 1/2% Series	01-01-64	01-01-89	10,773	485	
25	7 3/4% Series	04-01-69	04-01-94	16,228	1,258	
	POLLUTION CONTROL REVENUE BONDS (net):					
	Sabine River Authority of Texas					
26	6 1/4% Series	12-01-76	12-01-06	29,773	1,861	
27	5.70 % Series	07-01-77	12-01-07	11,235	640	
28	6.60 % Series	03-01-79	12-01-08	4,652	307	
	Brazos River Authority, Texas					
29	7 1/2% Series	12-01-79	17-01-04	12,723	954	
30	7 5/8% Series	12-01-79	12-01-09	29,686	2,264	
31	NOTES PAYABLE	Various	Various	1,969	151	
32	UNAMORTIZED DEBT DISCOUNT			(3,760)	292	
33	UNAMORTIZED DEBT EXPENSE			(3,848)		
34	TOTAL LONG-TERM DEBT @ 12-31-80 (Actual)			$1,013,642	$81,25[illegible]	8.02%
	ADJUSTMENTS:					
	Sandow #4 Eliminations					
35	82.569% of BRA 7 1/2% Pollution Control Revenue Bonds			(12,386)	(929)	
36	82.569% of BRA 7 5/8% Pollution Control Revenue Bonds			(28,899)	(2,204)	
37	First Mortgage Bonds at average incremental rate of 9.2%			(31,702)	(2,917)	
	Financing Adjustments					
38	Polution Control Revenue Bonds - funds on deposit					
39	BRA 7 1/2% Series			2,277	171	
40	BRA 7 5/8% Series			5,314	405	
41	TOTAL LONG-TERM DEBT @ 12-31-80 (Adjusted)			$ 948,246	$75,780	7.99%

TEXAS POWER & LIGHT COMPANY

Schedule of Preferred Stock
and Composite Cost

Line No.	Description (a)	No. of Shares Outstanding (b)	Issued (c)	Amount Per Books (d)	Annual Dividend Requirement (e)	% Average Cost (f)
				(Thousands of Dollars)		
1	$4.56 Series...........	133,786	04/50	$ 13,379	$ 610	
2	$4.00 Series...........	70,000	04/50	7,000	280	
3	$4.84 Series...........	70,000	05/53	7,000	339	
4	$4.76 Series...........	100,000	10/56	10,000	476	
5	$4.44 Series...........	150,000	01/65	15,061	666	
6	$7.80 Series...........	300,000	04/69	30,030	2,340	
7	$7.24 Series...........	250,000	02/72	25,113	1,810	
8	$8.20 Series...........	300,000	02/74	30,108	2,460	
9	$9.32 Series...........	300,000	03/75	29,625	2,796	
10	$8.68 Series...........	300,000	01/76	29,550	2,604	
11	$8.16 Series...........	300,000	01/77	29,655	2,448	
12	$8.84 Series...........	300,000	02/79	29,591	2,652	
13	$10.92 Series..........	300,000	05/80	29,670	3,276	
14	Total Preferred Stock @12-31-80 (Actual)	2,873,786		$285,782	$22,757	7.96%
	ADJUSTMENTS					
15	Sandow #4 Eliminations					
16	Preferred Stock at average incremental cost of 9.3%			(20,433)	(1,900)	
17	Total Preferred Stock @12-31-80 (Adjusted)			$265,349	$20,857	7.86%

Exhibit GLP-7
Page 3 of 5

TEXAS POWER & LIGHT COMPANY

Schedule of Capital Structure Adjustments for Elimination of Capital Attributed to that Portion of Sandow #4 Dedicated to Alcoa

(Thousands of Dollars)

Line		Total (a)	Portion Dedicated to Alcoa (82.569%) (b)
	SANDOW #4 CAPITAL REQUIREMENTS		
1	Total Charges to Construction Work in Progress	$234,032	$ 193,238
	Less:		
2	Allowance for Funds Used During Construction	4,150	3,427
3	Deferred Federal Income Taxes	7,289	6,018
4	Balance to be financed by Debt, Preferred Stock, Common Equity and Unamortized Investment Credits	222,593	183,793
5	Less Amount financed through Unamortized Investment Credits	22,379	18,478
6	Balance to be financed by First Mortgage Bonds, Pollution Control Revenue Bonds, Preferred Stock and Common Equity	$200,214	$ 165,315

Line	AVERAGE WEIGHTED INCREMENTAL COST OF FIRST MORTGAGE BONDS AND PREFERRED STOCK USED TO FINANCE THAT PORTION OF SANDOW #4 DEDICATED TO ALCOA	Principal Amount (c)	Annual Interest/Dividend Requirement (d)	% Average Cost (e)
	First Mortgage Bonds			
7	1975 - 9 1/2% Series	$100,000	$ 9,500	
8	1976 - 8.60% Series	100,000	8,600	
9	1977 - 8 1/4% Series	100,000	8,250	
10	1978 - None	-	-	
11	1979 - 9 3/8% Series	100,000	9,375	
12	1980 - 11 3/8% Series	50,000	5,688	
13	TOTAL	$450,000	$ 41,413	9.20%
	Preferred Stock			
14	1975 - $9.32 Series	$ 29,625	$ 2,796	
15	1976 - $8.68 Series	29,550	2,604	
16	1977 - $8.16 Series	29,655	2,448	
17	1978 - None	-	-	
18	1979 - $8.84 Series	29,591	2,652	
19	1980 - $10.92 Series	29,670	3,276	
20	TOTAL	$148,091	$ 13,776	9.30%

Line	CAPITAL TO BE ELIMINATED FOR SANDOW #4	Detail of Debt (f)	Principal Amount (g)	% of Total (1) (h)	% Average Cost (i)
21	First Mortgage Bonds	$31,702 (6)	$		9.20%
	Pollution Control Revenue Bonds				
22	BRA 7 1/2% Series	12,386 (4)			7 1/2%
23	BRA 7 5/8% Series	28,899 (5)			7 5/8%
24	Total Debt		72,987 (2)	44.15%	
25	Preferred Stock		20,433 (2)	12.36%	9.30%
26	Common Equity		71,895 (2)	43.49%	
27	Unamortized Investment Credits		18,478 (3)		
28	TOTAL		$183,793	100.00%	

(1) Capitalization percentages based on percent Debt, Preferred Stock and Common Equity is of Total of same at 12-31-80 adjusted for new financing per Exhibit GLP-7, page 1, column (d):

Description	Amount	Percent of Total
Long-term Debt	$1,021,233	44.15%
Preferred Stock	285,782	12.36
Common Stock Equity	1,005,855	43.49
Total	$2,312,870	100.00%

(2) Capitalization percentage times Total to be financed by First Mortgage Bonds, Pollution Control Revenue Bonds, Preferred Stock and Common Equity (Line 6, column (b) of this Exhibit).

(3) 82.569% of Unamortized Investment Credits applicable to Sandow #4 at 12-31-80 (Line 5, column (b) of this Exhibit)

(4) 82.569% of 7 1/2% BRA Pollution Control Revenue Bonds issued in December 1979

(5) 82.569% of 7 5/8% BRA Pollution Control Revenue Bonds issued in December 1979.

(6) Total Debt applicable to Sandow #4 less Pollution Control Revenue Bonds.

TEXAS POWER & LIGHT COMPANY
Schedule of Return on Original Cost Rate Base and Adjusted Value Rate Base

No.	Weighted Cost Description (a)	Original Cost of Capital (b)	Return Rate Base (c)	Amount (d)
	Original Cost Rate Base			
1	Long-Term	3.30%	$2,297,699,650	$ 75,824,088
2	Preferred Stock	.91	2,297,699,650	20,909,067
3	Common Stock Equity	7.21	2,297,699,650	165,664,145
4	Unamortized Investments Credits	.80	2,297,699,650	18,381,597
5	Total	12.22%	2,297,699,650	$280,778,897

Rate of Return on Adjusted Value Rate Base

6 $280,778,897 (Return) ÷ $2,933,650,570 (Adjusted Value Rate Base) = 9.57%

TEXAS POWER & LIGHT COMPANY
Comparative Capital Structure Ratios
December 31, 1973 through 1980
($000's Omitted)

Line No.	Description (a)	1973 (b)	1974 (c)	1975 (d)	1976 (e)	1977 (f)	1978 (g)	1979 (h)	1980 As Adjusted (i)
	Corporate								
1	Total Capital	$913,766	$1,129,119	$1,308,924	$1,541,710	$1,794,782	$1,875,301	$2,152,641	$2,298,722
2	Capital Structure:								
3	Debt	47.78%	47.44%	46.08%	45.98%	45.73%	43.89%	44.12%	41.25%
4	Preferred Stock	11.77	12.19	12.78	12.77	12.62	12.08	11.90	11.54
5	Common Stock Equity	39.32	38.94	39.02	38.31	37.61	38.51	37.46	40.63
6	Unamortized Investment Credits	1.13	1.43	2.12	2.94	4.04	5.52	6.52	6.58
7	Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	Supplemental (Includes allocable share of TUFCO and TUGCO Senior Notes)*								
8	Total Capital				$1,576,660	$1,843,112	$2,018,111	$2,383,802	$2,513,838
9	Capital Structure:								
10	Debt				47.18%	47.15%	47.86%	49.54%	46.28%
11	Preferred Stock				12.48	12.29	11.22	10.74	10.56
12	Common Stock Equity				37.46	36.63	35.79	33.83	37.15
13	Unamortized Investment Credits				2.88	3.93	5.13	5.89	6.01
14	Total				100.00%	100.00%	100.00%	100.00%	100.00%

THE STATE OF TEXAS X

COUNTY OF DALLAS X

BEFORE the undersigned authority on this day personally appeared GARY L. PRICE, who, having been placed under oath by me, did depose as follows:

"My name is Gary L. Price. I am of legal age and a resident of the State of Texas. The foregoing testimony, and exhibits, offered by me on behalf of Texas Power & Light Company, are true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true, and correct."

Gary L. Price

GARY L. PRICE

SUBSCRIBED AND SWORN TO BEFORE ME by the said Gary L. Price this 26th day of February, A. D. 1981.

Robert D. Daniels

Robert D. Daniels
Notary Public in and
for the State of Texas

My Commission expires 8-31-84