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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

Form 10-K

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

For the Fiscal Year Ended December 31, 1980 — Commission File Number 1-3591

Texas Utilities Company

(Exact name of registrant as specified in its charter)

A Texas Corporation — I.R.S. Employer No. 75-0705930

2001 Bryan Tower, Dallas, Texas 75201
Telephone Number (214) 653-4600

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	*Name of each exchange on which registered*
Common Stock, without par value	New York Stock Exchange, Inc. Midwest Stock Exchange, Incorporated Pacific Stock Exchange Incorporated

Securities Registered Pursuant to Section 12(g) of the Act: None

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 ____

Common Stock outstanding at February 28, 1981: 96,816,683 shares, without par value.
Aggregate market value of Common Stock held by non-affiliates, based on the last reported sale price on the composite tape on March 2, 1981: $1,609,577,355

DOCUMENTS INCORPORATED BY REFERENCE

Definitive proxy statement pursuant to Regulation 14A, which will be mailed to the Commission for filing on or about April 10, 1981, is incorporated by reference into Part I and Part III of this report.

PART I

Item 1. BUSINESS.

THE COMPANY AND ITS SUBSIDIARIES

Texas Utilities Company (Company) was incorporated under the laws of the State of Texas in 1945 and has perpetual existence under the provisions of the Texas Business Corporation Act. The Company is a holding company and at December 31, 1980, owned 99.9 percent of the outstanding common stock of Dallas Power & Light Company (Dallas Power) and all of the outstanding common stock of Texas Electric Service Company (Texas Electric) and of Texas Power & Light Company (Texas Power). These three companies are electric utilities and are the principal subsidiaries of the Company. The Texas Utilities Company System (System) also includes six other subsidiaries which perform specialized functions within the System. At the end of 1980, System companies had 14,389 full-time employees.

The Company holds no franchises other than its corporate franchise; the electric utility subsidiaries possess all of the necessary franchises and certificates required to enable them to conduct their businesses. Such franchises and certificates are non-exclusive, expire at various dates or are without express limit as to time, and contain no unduly burdensome or restrictive provisions.

Dallas Power, Texas Electric and Texas Power are engaged in the generation, purchase, transmission, distribution and sale of electric energy in adjoining service areas in the north central, eastern and western parts of the State of Texas, with a population estimated at more than 4,000,000 — about one-third of the population of Texas. The transmission lines of the three companies are interconnected and constitute an integrated system through which the output of the steam electric generating stations is distributed in the service area.

Dallas Power provides electric service primarily in Dallas County, including the cities of Dallas, Highland Park, University Park and Cockrell Hill and some of the adjacent unincorporated areas. The area is a banking, insurance and commercial center with substantial electronics and aerospace manufacturing and a variety of light industry.

Texas Electric provides electric service in 48 counties in north central and west Texas, including the cities of Fort Worth, Wichita Falls, Midland, Odessa, Arlington, Grand Prairie and 72 other incorporated municipalities. The territory served includes a major portion of the Permian Basin oil and gas area, and other oil fields and substantial cattle and farming sections in west Texas. Automotive and aircraft assembly, petrochemical, and specialized steel manufacturing are among the larger industrial activities. Fort Worth is a center of banking, business and industry. The area served between Fort Worth and Dallas is a highly diversified complex of light industry, warehousing and commercial development, and contains a variety of recreational attractions.

Texas Power provides electric service in 51 counties in north central and east Texas, including the cities of Irving, Waco, Tyler, Mesquite, Richardson, Killeen, Temple, Sherman, Denison, Paris, Lufkin, Brownwood and 252 other incorporated municipalities. The territory served includes the rich agricultural blacklands of central Texas, the farming and ranching sections north and east of Dallas, part of the oil and gas fields of east Texas and the Dallas-Fort Worth Airport. The area has a highly diversified industrial base of light and heavy manufacturing, including electronics, oil field equipment, aluminum smelting, tires and air conditioning equipment and oil and gas production.

Texas Utilities Services Inc. (Service Company), a subsidiary of the Company, furnishes engineering, financial and other services at cost to the System companies.

Texas Utilities Generating Company (Generating Company), a subsidiary of the Company, acts for the three electric utility subsidiaries in the operation of their jointly owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for the surface mining and recovery of lignite for use as fuel at such stations.

Item 1. BUSINESS (Continued).

Texas Utilities Fuel Company (Fuel Company), a subsidiary of the Company, owns a natural gas pipeline system, acquires, stores, and delivers fuel gas and oil and provides other fuel services for the three electric utility subsidiaries for the generation of electric energy.

Old Ocean Fuel Company (Old Ocean), a subsidiary of Texas Electric, owns and operates facilities for transporting and storing fuel gas primarily for that company.

Chaco Energy Company (Chaco), a subsidiary of the Company, was organized to own and operate facilities for the acquisition, production and delivery of coal and other fuels.

Basic Resources Inc. (Basic), a subsidiary of the Company, is engaged in the development of natural resources, primarily energy sources, and related technology and services.

For energy sales and operating revenues contributed by each class of service, see Item 6, Selected Financial Data-Consolidated Operating Statistics.

GENERAL PROBLEMS OF THE INDUSTRY

The electric utility industry in general is currently experiencing problems in a number of areas, including the effects of inflation upon the cost of operations and upon construction expenditures, availability and increased cost of fuel for the generation of electric energy, the continued ability to recover fully increased fuel costs through automatic fuel adjustment clauses, supply and high cost of capital, difficulty in obtaining sufficient return on invested capital and in securing adequate rate increases when required, compliance with environmental and mining regulations, uncertainties regarding the construction and fueling of nuclear generating units, licensing and other delays affecting the construction of new facilities, and the effects of conservation in the use of electric energy. The System companies have been experiencing certain of these problems in varying degrees (see Fuel Supply; Regulation and Rates; Environmental Matters; Item 2, Properties—Construction Programs; Item 3, Legal Proceedings and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations). The Company is unable to predict the future effect of such factors upon its operations or upon the operations of its subsidiary companies.

In addition, the National Energy Act (NEA), enacted in November 1978, seeks to promote conservation of energy and the development of more plentiful domestic energy sources through various regulatory and tax provisions. Among other things, NEA requires state regulatory authorities to give consideration to certain rate and other standards and load management techniques, and provides for compulsory interconnections and transmission of power under certain circumstances (see Regulation and Rates), and restricts the use of natural gas and oil (see Fuel Supply). The Company is unable to predict the future effect of this legislation upon its operations or upon the operations of its subsidiary companies.

PEAK LOADS AND CAPABILITY

System net capability, peak load and reserve at the time of the System peak are given below:

Year	Net Capability (megawatts)	Peak Load(a) Megawatts	Peak Load(a) Increase (Decrease) Over Prior Year	Reserve(b) (megawatts)
1980	17,412	12,591	15.7%	4,821
1979	17,432	10,880	(3.1)	6,552
1978	15,932	11,232	6.7	4,700

(a) Excluding interruptible load of Alcoa.

(b) Excess of net capability over peak load at time of the System peak.

The System peak load in 1980 occurred on July 2; summer weather in the service area was generally warmer than normal accompanied in many areas by below average rainfall. The service area experienced several periods when maximum temperatures and cooling degree days were considerably above normal. During the last several years, reserve margins have been higher than in prior years due to the shift away from natural gas to lignite, as the principal boiler fuel (see Fuel Supply).

FUEL SUPPLY

Net input to the System for 1980 was 62,922 million kilowatt-hours of which 62,866 million was generated in System stations. During this period, 693,436,183 million Btu's of fuel were consumed for electric generation at an average cost of 118¢ per million Btu.

A comparison of the unit cost per million Btu of fuel consumed and the fuel mix for electric generation during the last three years is shown below:

	Unit Cost Per Million Btu			Fuel Mix For Electric Generation		
	1980	**1979**	**1978**	**1980**	**1979**	**1978**
Gas	169.0¢	140.5¢	137.0¢	49.0%	48.6%	58.0%
Oil	317.8	188.4	202.4	0.1	1.4	0.6
Lignite*	68.5	62.3	46.7	50.9	50.0	41.4
Average/Total	118.0¢	102.0¢	100.1¢	100.0%	100.0%	100.0%

* Lignite cost per ton: $8.72 for 1980; $8.15 for 1979; and $6.28 for 1978.

The cost of fuel and increases therein are recoverable under the fuel cost factors referred to under Regulation and Rates.

Gas

Fuel gas for units at nineteen of the principal generating stations of the System, having an aggregate net capability of 12,011 megawatts, is provided under contracts with five principal suppliers, including Fuel Company which supplied approximately 52% of the fuel gas requirements of the System companies for 1980—39% under contracts principally with producers at the wellhead and 13% under contracts with Lone Star Gas Company (Lone Star) assigned to Fuel Company by Dallas Power and Texas Electric in June 1980 (see below). Lone Star also supplied approximately 18% of the fuel gas requirements of the System for the same period under contracts with other System companies expiring at intervals through 1991. Short-term curtailments of gas deliveries have been experienced under the contracts with Lone Star during periods of peak demand on its delivery system; however, such curtailments have been of relatively short duration and have had no major impact on System operations. No curtailments have been experienced under contracts expiring through 1983 with the other principal suppliers providing the remaining 30% of the fuel gas requirements during 1980.

In June 1980, several Lone Star contracts held by two of the electric utility subsidiaries were assigned to Fuel Company. Concurrently with these assignments, supplemental agreements between Fuel Company and Lone Star were signed which provide for (i) an increase in maximum daily and annual delivery obligations of Lone Star, (ii) an increase in the delivery points through which these supplies could flow to System generating stations, and (iii) an extension of the primary term through 1989 or 1990, with provision for year to year extension by mutual agreement. Additional fuel gas available to the System under these supplemental agreements will be used, together with other supplies, to meet the short-fall occasioned by the expiration of the contract for fuel gas from the Old Ocean Field.

Item 1. BUSINESS (Continued).

One major contract with a principal supplier of fuel gas for Texas Electric from the Old Ocean Field in Brazoria County, Texas, expired at the end of 1980. Fuel gas supplied under this contract accounted for approximately 19% of the System fuel gas requirements during 1980. Fuel Company has begun supplying the fuel gas previously provided under the expired contract.

Fuel Company owns and operates an intrastate natural gas pipeline system which extends from the gas-producing area of the Permian Basin in west Texas to the Fort Worth-Dallas area and eastward to the gas fields of east Texas. This system includes a one-half interest in a natural gas pipeline which extends 395 miles from the Permian Basin area of west Texas to a point of termination south of the Fort Worth-Dallas area. This 36-inch line has a total initial capacity of 550 million cubic feet of gas per day which can be increased at additional cost to 1,300 million cubic feet per day by the installation of compression. Fuel Company also owns and operates an additional 1,303 miles of various smaller capacity lines which are used to gather and transport natural gas from other gas-producing areas, including the gas fields of east Texas. Pipeline facilities of Fuel Company are interconnected with similar facilities of Old Ocean to form an integrated network through which fuel gas is gathered and transported to certain of the generating stations of the System companies for use in the generation of electric energy.

Fuel Company has acquired under contracts expiring at intervals through 2000, principally with producers at the wellhead, supplies of gas which are generally expected to be produced over a ten to fifteen year period. As gas production declines and/or contracts expire, new contracts are negotiated to replenish or augment such supplies. During 1980, no curtailments were experienced under these contracts.

Fuel Company also owns and operates underground gas storage facilities with a usable capacity of 22.4 billion cubic feet. Gas stored in these facilities is currently capable of being withdrawn at a rate of approximately 215 million cubic feet per day for use during periods of peak demand or curtailment of deliveries by other gas suppliers. Old Ocean also owns and operates an underground gas storage reservoir with a usable capacity of 5.5 billion cubic feet. Gas from this facility is also available to meet seasonal and other fluctuations to the extent of approximately 145 million cubic feet per day.

In September 1973, the Railroad Commission of Texas issued an interim order granting a rate increase to Lo-Vaca Gathering Company (Lo-Vaca), a purchaser and transporter of natural gas, a portion of which was ultimately purchased by Texas Electric. In a proceeding before the Railroad Commission, Gulf Oil Corporation (Gulf), a purchaser, filed an application in late 1978 to pass through these costs to Odessa Natural Corporation (Odessa) and Odessa filed a motion with the Railroad Commission to the effect that should Odessa be required to pay any additional amounts to Gulf, it should be allowed to pass these increased costs to Texas Electric, which purchased the gas from Odessa. Although Texas Electric cannot estimate the amount of costs at issue, such costs could be substantial and may involve retroactive charges which may not be recoverable by Texas Electric. Texas Electric, several municipalities served by it, the Public Utility Commission of Texas, and certain wholesale customers intervened in this matter in opposition to the motions of Gulf and Odessa. In December 1980 the Railroad Commission entered an order denying Gulf's claim. (See Item 3, Legal Proceedings.)

In November 1978, the Powerplant and Industrial Fuel Use Act of 1978 (Fuel Use Act), was enacted as part of the National Energy Act. Among other things, the Fuel Use Act (i) generally prohibits the use of natural gas and/or oil as a primary energy source in any new electric power plants, (ii) limits the use of natural gas as a primary energy source in existing electric power plants in any calendar year before 1990 in a greater proportion than the average yearly proportion of natural gas used during 1974 through 1976, and (iii) requires that natural gas used in such facilities cease by 1990 unless specific exemptions can be obtained. The Economic Regulatory Administration of the Department of Energy has issued regulations implementing this Act. The Company is not able to state what impact this legislation or these regulations will have on future operations. (See Item 3, Legal Proceedings.)

Oil

During 1980, dependence by the electric utility subsidiaries upon fuel oil as an alternate source of boiler fuel amounted to 128,163 barrels of oil or 0.1% of total fuel requirements. Fuel oil is stored at all nineteen of the principally gas-fueled generating stations. At December 31, 1980, System companies had fuel oil storage capacity sufficient to accommodate the storage of approximately 6.8 million barrels of oil, with approximately 4.7 million barrels of oil in inventory. It is anticipated that oil required to replenish that removed from storage and consumed for the generation of electric energy will be met primarily from purchases in the open market. Improvements in the method of delivery of certain lighter grades of oil have been made through the construction of about nine miles of pipeline facilities connecting two generating stations with the pipeline of a fuel oil supplier. Fuel Company has access to an oil pipeline and owns terminal facilities to provide for more dependable and efficient movement of oil.

Lignite

Two units in service at the Big Brown generating station, three units at the Martin Lake generating station, and three units at the Monticello generating station (see Item 2, Properties) having an aggregate net capability of 5,300 megawatts, use lignite as fuel; five other lignite-fueled units, with an aggregate net capability to the System of 3,170 megawatts, are now in design or under construction (see Item 2, Properties—Construction Programs). These lignite units, which will be base loaded to operate at the maximum practical load factor, have been or are being constructed adjacent to lignite reserves which will be surface mined. At the present time, System companies, along with Alcoa which is a joint-participant with Texas Power in the construction of the Twin Oak generating station (see Item 2, Properties—Construction Programs), own in fee or have under lease an estimated 820 million proven recoverable tons of such reserves. The companies are engaged in an active program of core drilling and/or acquiring additional reserves. Generating Company owns and operates equipment to remove the overburden and to recover lignite. One lignite unit, Sandow No. 4 (see Item 2, Properties—Construction Programs), will be owned by Texas Power and will be fueled from lignite deposits owned by Alcoa. For information concerning applicable air quality standards, see Environmental Matters.

Lignite production operations at the Big Brown, Martin Lake and Monticello generating stations are accompanied by an extensive reclamation program which returns the land to productive uses and includes a vegetation restoration program. Similar programs are planned for future lignite-fueled generating stations mentioned above. For information concerning federal and state legislation with respect to surface mining, see Environmental Matters.

Coal

Chaco has agreements with major leaseholders for sub-bituminous coal reserves totaling more than 120 million recoverable tons located in San Juan and McKinley counties in northwest New Mexico. Chaco has purchased an undivided one-third interest in such leaseholds and has the right to obtain the coal produced from the remaining two-thirds interest in substantially all of such leaseholds. Problems with respect to environmental impact studies and costs could affect the ability of Chaco to perfect its leasehold rights with respect to approximately 10 million tons of this coal. Chaco also has a lease agreement with a major mineral interest owner, Hospah Coal Company, a subsidiary of Santa Fe Industries, Inc., reported to cover more than 200 million additional tons of recoverable coal in the same area of New Mexico. (See Note 7 to Financial Statements.) In addition to these coal rights, totaling over 320 million tons of surface mineable coal above a depth of 150 feet, options are held on a reported additional tonnage below the 150 foot level. Surface mining operations by Chaco are not expected to commence before 1982; however, problems in respect to lease assignment approval, permitting, transportation and surface and water rights may delay operations to a later date.

Nuclear

Two nuclear-fueled units of 1,150 megawatts each under construction at the Comanche Peak station will provide 1,970 megawatts to the System. The first of such units is scheduled for service in 1982 and the second in 1984 (see Item 2, Properties—Construction Programs). Commitments have been obtained for anticipated uranium ore concentrate requirements and fabrication services for both units for the first 17 years of operation. Uranium hexafluoride conversion services have been contracted for through 1987, and uranium enrichment contracts, having a duration of approximately 30 years, have been made with the Department of Energy. No arrangements have as yet been made for the reprocessing requirements for the Comanche Peak units and it is understood that at present there are no reprocessing plants in commercial operation in the United States. However, there will be on-site storage capacity for spent fuel sufficient to accommodate the operation of the units for approximately 17 years and this storage capacity can be increased. Additional contracts for uranium ore concentrates and nuclear fuel cycle services will be required in the future; however, it is not possible to predict the ultimate availability or cost thereof.

General

The companies are not able to state what problems may be encountered in the future in obtaining the fuel they will require for use in generating electric energy to serve their customers, or predict the effect upon their operations of any difficulty they may experience in protecting their rights to fuel now under contract or in acquiring fuel in the future, or the cost thereof, although the cost of fuel is recoverable under the fuel cost factors referred to under Regulation and Rates.

REGULATION AND RATES

Regulation

The Company is a holding company as defined in the Public Utility Holding Company Act of 1935 (Act). The Company and its subsidiary companies are presently exempt from the provisions of such Act, except as to Section 9(a)(2) which relates to acquisition of securities of public utility companies.

At present, the Company's electric utility subsidiaries do not transmit electric energy in interstate commerce or sell electric energy at wholesale in interstate commerce, or own or operate facilities therefor, and are not connected directly or indirectly to other systems which are involved in such interstate activities, except during the continuance of emergencies permitting temporary or permanent connections which do not subject them to the jurisdiction of the Federal Energy Regulatory Commission (FERC), successor to the Federal Power Commission (FPC) under the Federal Power Act. In view thereof, each such subsidiary believes that it is not a public utility as defined in the Federal Power Act and has been advised by its counsel that it is not subject to regulation under such Act as to the issuance of securities or otherwise; however, should the Company's electric utility subsidiaries become subject to the Federal Power Act, such subsidiaries would be subject to regulation by FERC with respect to rates for transmission and sale of electric energy at wholesale, the interconnection of facilities, the issuance of securities and to the extent FERC determines, accounting policies and practices.

The Public Utility Regulatory Policies Act of 1978 (PURPA), a constituent bill of the National Energy Act, grants power to FERC on its own authority or on application of any electric utility, cogenerator or state regulatory authority to order interconnections and transmission of power under certain circumstances. However, compliance with such an order involving interstate transmission of power would not subject System companies to the general jurisdiction of FERC. PURPA also requires state regulatory authorities to hold public hearings to consider the application of certain rate design and other standards and the mandatory use of load management techniques. System companies are unable at this time to assess the full effect of these and other provisions upon the results of their operations or financial condition.

The Public Utility Commission of Texas (PUC) has original jurisdiction over electric rates and service in unincorporated areas and exclusive appellate jurisdiction to review the rate and service orders and ordinances of municipalities. Each municipality within the System service area has original jurisdiction over the regulation of electric rates and service within its corporate limits until such time that any such municipality may elect to have the PUC exercise original jurisdiction. Approximately 19% of System revenues are derived from electric energy sales to customers in unincorporated areas. (See also Fuel Supply and Environmental Matters for information relating to the Railroad Commission of Texas).

Item 1. BUSINESS (Continued).

Central and South West Corporation (CSW) is a holding company with electric utility subsidiaries operating in Arkansas, Louisiana, Oklahoma and Texas. For many years, CSW has operated two separate systems—one interstate and part of the Southwest Power Pool (SWPP), and the other an intrastate system tied in with the Texas Interconnected Systems (TIS), an intrastate network of six major investor-owned and seven public entities. TIS includes Central Power & Light Company (CP&L), the southern part of West Texas Utilities Company (WTU), both of which are CSW subsidiaries, Houston Lighting & Power Company (HL&P), and the electric utility subsidiaries of the Company, among others. On May 4, 1976, CSW put its Texas system into interstate commerce, and by that act also connected the other parties in TIS to Oklahoma through WTU. Texas Electric promptly disconnected from WTU and returned to intrastate operation. Also, on that date subsidiaries of CSW, asserting that the System electric utility companies were subject to the jurisdiction of the FPC, petitioned the FPC to require them to reestablish connections with the interstate facilities of the CSW system. (See Item 3, Legal Proceedings.) In July 1976, the FPC issued an order finding that the System companies were not public utilities as defined in the Federal Power Act. On appeal, the United States Court of Appeals for the District of Columbia Circuit has remanded this order to FERC, as successor to the FPC, for further clarification.

On May 2, 1977, in Docket No. 14, the PUC entered an interim order requiring WTU and CP&L in effect to return to their pre-May 4, 1976 mode of operation, and further requiring WTU to sever the interstate ties into Oklahoma. On May 4, 1977, after WTU had severed the interstate ties, interconnections were reestablished between its intrastate system and TIS. On June 2, 1977, the PUC entered a final order confirming its interim order and prohibiting any party operating a utility system connected with TIS from withdrawing from TIS or making connections with utility systems not so connected unless approved by the PUC or pursuant to judicial mandate or order of the FPC. (See Item 3, Legal Proceedings.)

In February 1979, certain subsidiaries of CSW filed an application with FERC under PURPA seeking generally to exempt CP&L and WTU from certain provisions of the PUC order in Docket No. 14 and to require System companies to operate interconnected with facilities in the CSW system, including interstate facilities. In July 1979, FERC issued an order instituting an investigation in the matter, which is currently proceeding. (See Item 3, Legal Proceedings.) In October 1980, the System electric utility subsidiaries, HL&P and CSW filed an Offer of Settlement in this proceeding, which has the concurrence of the FERC staff, providing, among other matters, for the entry of an order requiring the establishment of two direct current asynchronous interconnections between SWPP and TIS and for the wheeling of power between such systems under specified terms and conditions. This offer is made on a basis which would not subject System companies and HL&P to the jurisdiction of the FERC generally. In December 1980, FERC granted the motion of the Department of Justice for leave to intervene in this proceeding, which motion generally opposes the proposed settlement. As the result of the intervention by the Department of Justice, the Administrative Law Judge ruled in January 1981 that a hearing in this proceeding is necessary; however, this ruling will be reviewed by FERC. The settlement proposal of CSW, the electric utility subsidiaries of the Company and HL&P would encompass the proceeding before FERC mentioned hereinabove and is also contingent upon the settlement and termination of the proceedings before the Securities and Exchange Commission (SEC) described hereinafter.

In August 1978, in connection with the application by Generating Company for an operating license for the Comanche Peak nuclear station, the Department of Justice indicated that the intrastate provisions of agreements among TIS members raise antitrust issues. The Nuclear Regulatory Commission (NRC) has ordered a hearing on this matter which is in progress. Proposed licensing conditions relating to the antitrust matters have been agreed to by the NRC staff, the Department of Justice and all parties to the Comanche Peak proceeding. There is also in progress a similar hearing before the NRC relating to an operating license in connection with the South Texas nuclear facility being constructed by HL&P and CP&L, among others. The City of Brownsville, Texas has intervened in this proceeding claiming that certain antitrust issues relating to HL&P should be considered, and asserted that similar issues affect System companies and should be considered in connection with their license application.

Item 1. BUSINESS (Continued).

In March 1974, a request was filed with the SEC by four Oklahoma municipalities and two cooperatives, asking, among other things, that the SEC undertake a review of the status of CSW and its subsidiaries under the Public Utility Holding Company Act of 1935; and that the SEC also review the exemption granted to the Company and its subsidiaries to determine if that exemption should be revoked. A hearing concerning the status of CSW under this Act has been in progress and is currently being held in abeyance pending resolution of the matters before FERC described hereinbefore.

In December 1976, Tex-La Electric Cooperative of Texas, Inc. (Tex-La), a wholesale customer of Texas Power, requested an investigation by the PUC and the FPC to determine whether Texas Power engages in interstate commerce in connection with the transmission of energy generated by the Denison Dam plant located near the Texas/Oklahoma border and which of such agencies has jurisdiction over the wholesale sales of Texas Power. Subsequently, the PUC has established wholesale rates for sales by Texas Power to Tex-La but the matter is still pending before FERC. Several parties have intervened in the FERC proceeding including certain CSW subsidiaries, HL&P and the State of Texas. In addition, the United States Supreme Court has granted a petition from the State of Texas to determine the location of the Texas/Oklahoma boundary line in this area.

Rates

The present general rate levels of the electric utility subsidiaries were established at various dates in 1979 and 1980 by upward adjustments affecting all classes of service and provide for the full current recovery of fuel costs (see General below).

Dallas Power received an order from the PUC in October 1979, confirmed by a final order in March 1980, which recognized a revenue deficiency for the test year ended December 31, 1978, of approximately $37 million, or 9.7%. The Company commenced billing these new rates in December 1979 within the four municipalities and the areas subject to the original jurisdiction of the PUC. Prior general rate levels were established, commencing with billings in August 1978, by upward adjustments of electric service rates for all classes of service designed to increase operating revenues for the test year ended September 30, 1977, by approximately $41.6 million, or 13%.

In September 1980, Dallas Power filed applications with the PUC and with the municipalities of Dallas, Highland Park, University Park and Cockrell Hill for upward adjustments in electric service rates. On February 26, 1981 the PUC issued an order which recognized a revenue deficiency for the test year ended June 30, 1980, of approximately $56.3 million, or about 11.4%, for customers subject to the original jurisdiction of the PUC. Either through placing rates in effect under bond, as provided in the Public Utility Regulatory Act of the State of Texas, or through issuance of interim orders by the PUC acting in its appellate jurisdiction, Dallas Power began billing said increased rates to all customers in March 1981.

Texas Electric received a final order from the PUC in October 1980 which recognized a revenue deficiency for the test year ended March 31, 1980, of approximately $69.4 million, or 10.1%. The new rates, which apply to all classes of service, were placed into effect in October 1980. Prior general rate levels were established, commencing in November 1979, by upward adjustments of electric service rates for all classes of service designed to increase operating revenues for the test year ended March 31, 1979, by approximately $38 million, or 7.6%.

Texas Power received a final order from the PUC in April 1980 which recognized a revenue deficiency for the test year ended September 30, 1979, of approximately $81.9 million, or about 10%. The new rate schedules were effective in all areas with consumption after May 26, 1980 (see Item 3, Legal Proceedings). Prior general rate levels were established, commencing at various dates between May and August 1978, by upward adjustments in electric service rates for all classes of service designed to increase operating revenues for the test year ended September 30, 1977, by approximately $41 million, or 7% (see Item 3, Legal Proceedings).

In March 1981, Texas Power made applications to the PUC and to all of the incorporated municipalities in its service area for upward adjustments in electric service rates. The proposed rate adjustments, affecting all classes of service, are estimated to increase operating revenues of Texas Power by approximately $198 million, or 20.3%, for the test year ended December 31, 1980. Texas Power is unable to predict the extent, if any, to which these rate increase requests will be granted.

General

In an order issued in April 1979, following a hearing with respect to certain transactions, involving substantial amounts, among the subsidiaries of the Company, including Dallas Power, Texas Electric and Texas Power, the PUC concluded that the transactions reviewed were generally in the public interest. Certain provisions of the order, however, required that prior PUC approval be obtained with respect to certain future transactions among the subsidiaries and required a $3.2 million refund and these provisions were appealed by the electric utility subsidiaries of the Company and other parties to the proceedings. On December 30, 1980 following oral argument before the 53rd Judicial District Court of Travis County, Texas in the appeal of this matter, the Court announced its intention to enter an order remanding this matter to the PUC for further consideration in light of its conclusion that the provisions of the Texas Public Utility Regulatory Act required a prior determination by the PUC of the reasonableness of the charges involved in transactions among affiliated interests, which have been recovered by the Company's electric utility subsidiaries under their fuel adjustment clauses. The Court further indicated that it was not ordering further refunds or requiring penalties to be levied but asked that these matters be further considered on remand by the PUC. The Company's electric utility subsidiaries intend to appeal any adverse final order entered by the Court. The Company's electric utility subsidiaries cannot predict the outcome of this proceeding.

ENVIRONMENTAL MATTERS

The subsidiary companies are subject to various federal, state and local regulations dealing with air and water quality and related environmental matters (see Item 2, Properties—Construction Programs for scheduled expenditures and Item 3, Legal Proceedings).

Air

Under the Texas Clean Air Act, the Texas Air Control Board (TACB) has jurisdiction over the permissible level of air contaminant emissions from generating facilities located within the State of Texas. In addition, the new source performance standards of the United States Environmental Protection Agency (EPA) promulgated under the federal Clean Air Act, which have also been adopted by the TACB, are applicable to such generating units, the construction of which commenced after March 5, 1972.

System gas and oil-fueled generating units have been constructed to operate in compliance with regulations promulgated pursuant to these Acts. Particulate control devices have been installed at each of the System lignite-fueled units and sulfur dioxide control devices have also been installed on Unit 3 at the Monticello station and the three units in operation at the Martin Lake station in order to comply with applicable regulations under these Acts. Due to variations in the sulfur content of the lignite fuel, operation of certain of these generating units at reduced loads is required from time to time in order to maintain compliance with these standards. (See Item 3, Legal Proceedings.)

Generating facilities presently under construction are designed to comply with applicable statutes and regulations. To date, required construction permits have been obtained for Unit 4 at the Martin Lake station, Unit 1 at the Forest Grove station, Unit 4 at the Sandow station and Units 1 and 2 at the Twin Oak station.

Item 1. BUSINESS (Concluded).

The federal Clean Air Act Amendments of 1977, among other things, require the Administrator of EPA to promulgate revised new source performance standards. The amendments also contain provisions relating to the prevention of significant deterioration of air quality pursuant to which regulations have been issued, and limit the maximum allowable increases in concentrations of sulfur oxides and particulates in various areas. System companies cannot presently determine the effect of these amendments and regulations upon their planned construction programs, although it is not expected that the regulations relating to the prevention of significant deterioration of air quality will have a substantial impact on them. (See Item 3, Legal Proceedings.)

Water

The Texas Department of Water Resources (TDWR) and the EPA have jurisdiction over all water discharges from System company generating stations and mining areas. System companies have obtained all required liquid waste control orders from the Texas Water Quality Board, predecessor to the TDWR, for facilities in operation and have applied for or obtained all such orders for facilities under construction. The companies have received permits from the EPA under the National Pollutant Discharge Elimination System (NPDES) for the discharge of waters from units at the generating stations currently in operation. All NPDES permits required for units under construction and lignite mining areas have been applied for or obtained. Most of these permits expired in 1980; however, applications for new permits have been submitted while interim authorizations are in effect, and the companies believe they can satisfy the requirements necessary to obtain renewals thereof.

In June 1979, the EPA issued revised regulations for the issuance of NPDES permits the validity of which is being challenged by various electric utility companies, including the electric utility subsidiaries of the Company (see Item 3, Legal Proceedings). Also, it is anticipated that the EPA will issue new regulations relating to thermal discharges as a result of litigation setting aside certain of the thermal regulations initially adopted. System companies cannot presently determine what modifications might be necessary to obtain NPDES permits for future plants or to obtain renewals of existing permits, or to comply with future requirements pertaining to thermal limitations or standards, nor can any determination be made of the direct or indirect costs of any such modifications.

System company generating stations presently in operation have been constructed to operate in compliance with applicable state and federal standards relating to the quality of discharges of water (see Item 3, Legal Proceedings).

Diversion of water by System companies for cooling and other purposes is subject to the jurisdiction of the Texas Water Commission, formerly the Texas Water Rights Commission, which is empowered to allocate such waters among users. The companies possess all necessary permits from such Commission for the use of surface water required for their present operations and plants under construction.

Other

System lignite mining operations are currently regulated at the state level by the Railroad Commission of Texas. Surface mining permits in connection with the Big Brown, Martin Lake and Monticello stations have been issued. Federal legislation regulating surface mining was enacted in August 1977 and regulations implementing the law have been issued. (See Item 3, Legal Proceedings.)

Disposal of solid waste is regulated under the Texas Solid Waste Disposal Act and at the federal level under the Resource Conservation and Recovery Act of 1976 (RCRA). The EPA has issued regulations under RCRA and the Texas Department of Water Resources has issued regulations under the Texas act applicable to the System units. System companies cannot presently determine the effect of these Acts upon their plant operations, but have submitted applications for the permits required by such regulations. (See Item 3, Legal Proceedings.)

Item 2. PROPERTIES.

The Company owns no electric plant or real property. At December 31, 1980, System companies owned and operated 77 electric generating units at twenty-three stations having a total net capability of 17,317 megawatts. The locations of the principal electric generating stations and transmission lines of the electric utility subsidiaries are indicated on the map included herein. Forty-six generating units with a net capability of 9,308 megawatts use natural gas as the primary fuel and are designed to use fuel oil for short periods when the gas supply is interrupted or curtailed; five units with a net capability of 2,680 megawatts are designed to burn gas or oil on a continuous basis; eight units with a net capability of 5,300 megawatts use lignite as fuel; and eighteen units with a net capability of 29 megawatts are diesel and use oil. In addition, one electric utility subsidiary purchases 95 megawatts of firm power from other sources. The following schedule shows the number of generating stations and net capability of the System companies at December 31, 1980:

	Generating Stations	Net Capability (megawatts)
Dallas Power	5	2,955
Texas Electric	6	4,256
Texas Power	9	4,806
Jointly owned*	3	5,300
System	23	17,317
From other sources		95
Total		17,412

* By the three electric utility subsidiaries.

The principal generating facilities and load centers of the System are connected by 3,118 circuit miles of 345,000 volt transmission lines and 8,587 circuit miles of 138,000 and 69,000 volt transmission lines.

The interconnected electric systems of the subsidiary companies are connected by two 345,000 volt circuits to Houston Lighting & Power Company; by five 138,000 volt and eight 69,000 volt lines to West Texas Utilities Company; by one 345,000 volt, four 138,000 volt and one 69,000 volt lines to Lower Colorado River Authority; and at several points with smaller systems operating wholly within Texas. The electric utility subsidiaries are members of the Texas Interconnected Systems (TIS), an intrastate network of six major investor-owned and seven public entities (see Item 1, Business—Regulation and Rates), and of the Electric Reliability Council of Texas (ERCOT), the regional reliability coordinating organization for electric power systems in Texas.

The generating stations and other important units of property of the electric utility subsidiaries are located on lands owned primarily in fee simple. The greater portion of the transmission and distribution lines of the electric utility subsidiaries, and of the gas gathering and transmission lines of Fuel Company and Old Ocean, has been constructed over lands of others pursuant to easements or on public highways and streets as permitted by law. The rights of each of the subsidiary companies in the realty on which its properties are located are considered by it to be adequate for its use in the conduct of its business. Minor defects and irregularities customarily found in titles to properties of like size and character may exist, but any such defects and irregularities do not materially impair the use of the properties affected thereby. The electric utility subsidiaries, and Fuel Company and Old Ocean, have the right of eminent domain whereby they may, if necessary, perfect or secure titles to privately-held land used or to be used in their operations. Utility plant of the System companies is generally subject to the lien of the mortgages.

During the period from January 1, 1978 to December 31, 1980, the System companies made gross property additions of $2,517,842,000 and retirements of property aggregating $190,003,000. Such gross additions amounted to 33.9% of utility plant at December 31, 1980.

Item 2. PROPERTIES (Continued).

CONSTRUCTION PROGRAMS

Construction expenditures for additions to utility plant for the years 1981 through 1983 (net of participation by others) are estimated as follows:

	1981	1982	1983
	Thousands of Dollars		
Electric property:			
Production	$423,000	$417,000	$362,000
Transmission	95,000	102,000	116,000
Distribution	130,000	143,000	169,000
General	26,000	26,000	28,000
Fuel facilities:			
Gas	10,000	6,000	4,000
Lignite	80,000	71,000	104,000
Total	764,000	765,000	783,000
AFUDC	86,000	85,000	92,000
Total construction expenditures	$850,000	$850,000	$875,000
Such expenditures do not include:			
Nuclear fuel	$ 13,000	$ 47,000	$ 63,000
Non-utility property	13,000	33,000	48,000

The subsidiary companies are subject to federal, state and local regulations dealing with environmental protection (see Item 1, Business—Environmental Matters). Construction expenditures for lignite-fueled generating units (Electric property-Production) for additional items of equipment contributing to the protection of the environment, are estimated to include approximately $36,000,000 for 1981, $13,000,000 for 1982, and $26,000,000 for 1983. Similar such expenditures approximated $45,000,000 for 1980, $32,000,000 for 1979 and $44,200,000 for 1978.

Additional generating units now in design or under construction (net of participation by others), and the year each is scheduled for service, are as follows:

						System Share		
Ownership	Station(a)	Fuel	Unit No.	Scheduled for Service	Unit Net Capability (megawatts)	Expenditures Through December 31, 1980	Estimated Completed Cost	Estimated Completed Cost per Megawatt(b)
						Thousands of Dollars		
Texas Power	Sandow	Lignite	4	1981	545	$ 233,323	$ 244,000	$ 448
Jointly Owned(c)	Comanche Peak	Nuclear	1 2	1982 1984	985 985	1,313,311	1,895,000	972
Texas Power(d)	Twin Oak	Lignite	1 2	1986 1988	562 563	60,223	892,000	793
Jointly Owned(c)	Forest Grove	Lignite	1	1989	750	99,591	804,000	1,072
Jointly Owned(c)	Martin Lake	Lignite	4	1990	750	34,420	492,000	656

(a) Subject to approval of various regulatory agencies, including the Nuclear Regulatory Commission in the case of Comanche Peak.

(b) Except for Comanche Peak which reflects the total cost of the project for all participants.

(c) By the electric utility subsidiaries; except Comanche Peak which is net of the participation of Texas Municipal Power Agency (6.2%) and Brazos Electric Power Cooperative, Inc. (3.8%) and the anticipated participation of Tex-La Electric Cooperative of Texas, Inc. (4⅓%).

(d) Capacity owned in a joint project with Alcoa.

Item 2. PROPERTIES (Continued).

As a result of design changes and modifications required by the NRC and of delays in obtaining an operating license, in July 1980, the in-service dates of Units 1 and 2 at the Comanche Peak station were delayed from 1981 and 1983 to 1982 and 1984, respectively. In addition, as a result of the Company's continuing review of projected customer demand, the Company announced deferrals in the in-service dates of other units under construction as follows: Twin Oak Unit 1 from 1985 to 1986, Twin Oak Unit 2 from 1986 to 1988, Martin Lake Unit 4 from 1985 to 1990 and Forest Grove Unit 1 from 1987 to 1989. The above chart reflects the foregoing delays and the resulting increased construction costs.

In January 1981, Texas Power sold a 4⅓% undivided interest in the Comanche Peak station, nuclear fuel and associated transmission facilities to Tex-La Electric Cooperative of Texas, Inc. (Tex-La) for approximately $90,000,000. This sale, which is subject to NRC approval, will reduce the percentage ownership of Texas Power in such station to 31½%, with the interests of Dallas Power and Texas Electric remaining unchanged at 18⅓% and 35⅚%, respectively.

Following an incident at the Three Mile Island nuclear power plant, the NRC staff issued an "Action Plan" in June 1980, designed to provide a comprehensive and integrated plan to improve safety at nuclear power reactors. Efforts are underway to comply with applicable requirements of the Action Plan. Since many of the improvements indicated by the Three Mile Island accident had already been incorporated in the design of Comanche Peak, the Company believes that the modifications presently underway will not significantly impact either the scheduled completion or the estimated completed cost of the two units at the Comanche Peak station. However, if an operating license has not been issued by the time Unit No. 1 is ready for fuel loading, construction costs may increase and the in-service date may be delayed. It is not anticipated that any deferral of the Comanche Peak nuclear units will have a materially adverse effect upon the ability to provide adequate service or the results of operations of the System companies.

In decisions rendered in July 1976, the United States Court of Appeals for the District of Columbia Circuit, in two proceedings in which none of the System companies was a party, held that the NRC must, before granting construction permits or operating licenses, consider the environmental impact of reprocessing spent fuel and of waste disposal. In March 1977, the NRC adopted an interim rule with respect to such environmental impact and stated that all construction permits and operating licenses, including the construction permit for Comanche Peak, previously issued will remain in effect. In April 1978, the United States Supreme Court reversed the Circuit Court decisions, upheld the NRC review procedures and remanded one case to require the Circuit Court to determine if the NRC rule concerning such environmental impact was adequately supported by the rulemaking record. Before commencement of operations at Comanche Peak, an operating license must be obtained from the NRC for which application has been made (see Item 1, Business—Regulation and Rates). The Company cannot predict what effect this proceeding may have on its application for such operating license.

The effects of inflation on construction costs and reevaluation of growth expectations by the System companies may require changes in estimated completed costs and completion dates for certain generating units in design or under construction. Actual expenditures and dates of completion may further vary because of other uncertain factors such as weather conditions, licensing delays, and availability of fuel, labor, materials and capital. At December 31, 1980, construction of the additional generating units and other major projects was on schedule for completion and testing prior to the planned in-service dates. Commitments in connection with the construction programs, principally for generating plants and related facilities, are generally revocable by the System companies subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties.

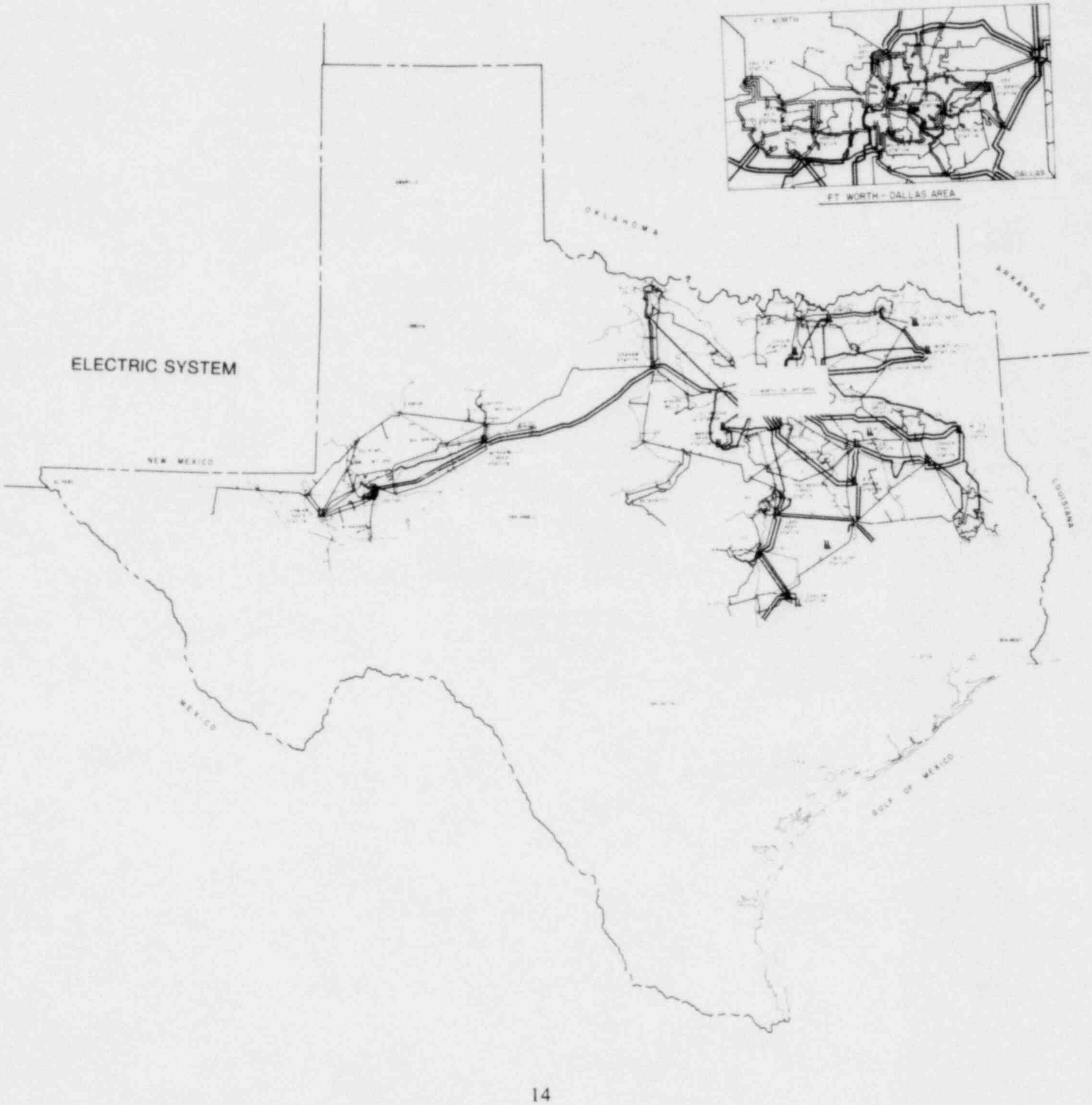
In March 1981, the Company issued and sold 5,000,000 shares of its authorized but unissued common stock for $86,100,000. Of the funds required to finance the construction programs in 1981, present estimates indicate that at least 50% of the funds will be provided from internal sources. System companies expect to sell additional securities from time to time as needed to finance the remainder of such construction programs, including (i) the anticipated private placement by Fuel Company in April 1981 of $50,000,000 of Senior Notes, (ii) the anticipated sale by Dallas Power in April 1981 of $50,000,000 principal amount of first mortgage bonds and 300,000 shares of preferred stock for approximately $30,000,000, (iii) the sale of shares of the Company's common stock pursuant to the Automatic Dividend Reinvestment and Common Stock Purchase Plan, the Employees' Thrift Plan and the Employee Stock Ownership Plan (see Note 3 to Financial Statements) and (iv) the possible sale of additional pollution control revenue bonds.

Item 2. PROPERTIES (Concluded).

TEXAS UTILITIES COMPANY SYSTEM

DALLAS POWER & LIGHT COMPANY
TEXAS ELECTRIC SERVICE COMPANY
TEXAS POWER & LIGHT COMPANY

December 31, 1980



Item 3. LEGAL PROCEEDINGS.

Fuel Supply

In January 1981, Gulf Oil Corporation filed an appeal in the 250th Judicial District Court of Travis County, Texas, contesting an order issued by the Railroad Commission of Texas denying Gulf's claim to the right to pass through increased costs of natural gas to Odessa Natural Corporation resulting from a rate increase granted Lo-Vaca Gathering Company by the Railroad Commission in September 1973 (see Item 1, Business—Fuel Supply). Also, Texas Electric filed suit in the 53rd Judicial District Court of Travis County, Texas, contesting the jurisdiction of the Railroad Commission to grant Gulf its requested relief. A decision therein has been deferred until the determination of the appeal by Gulf from the final order of the Railroad Commission.

In October 1980, System companies filed a petition in the United States Court of Appeals for the Fifth Circuit for review of regulations issued by the Economic Regulatory Administration of the Department of Energy implementing the Fuel Use Act (see Item 1, Business—Fuel Supply). Such petition has been transferred to the United States Court of Appeals for the Fourth Circuit.

Regulation and Rates

Texas Electric and HL&P were named as defendants in a suit filed against them on May 3, 1976, in the United States District Court for the Northern District of Texas, Dallas Division, by WTU and CP&L (see Item 1, Business—Regulation and Rates). The suit generally sought to require Texas Electric and HL&P to operate interconnected with the interstate facilities of WTU and CP&L. A trial on the merits in this matter has been held and in February 1979, the Court entered a judgment to the effect that it would not be in the public interest to force the defendants to interconnect in interstate commerce, finding among other things that the defendants had not violated the federal antitrust laws. An appeal to the United States Court of Appeals for the Fifth Circuit has been filed by WTU and CP&L, which have now requested that further action thereon be deferred pending resolution of the settlement arrangements undertaken in connection with the FERC proceeding described in Item 1, Business—Regulation and Rates.

In July 1977, the three electric utility subsidiaries of the Company intervened in a suit filed by WTU and CP&L in the 53rd Judicial District Court of Travis County, Texas, challenging the validity of the final order issued by the PUC in Docket No. 14. In May 1978, the Department of Energy and FERC intervened contending that the PUC violated the United States Constitution and the Federal Power Act by ordering CSW to cease and not renew interstate power sales. A decision in this suit is pending. (See Item 1, Business—Regulation and Rates.)

In July 1980, Tex-La filed suit in the 126th Judicial District Court of Travis County, Texas and the Community Center of Stafford-Armstrong Addition of the City of Seagoville, Texas, et al. filed suit in the 53rd Judicial District Court of Travis County, Texas, for review of the April 1980 PUC order granting Texas Power its most recent rate increase (see Item 1, Business—Regulation and Rates). Each of the suits seeks a reversal of the order and a refund of all payments made by the plaintiff thereunder.

In July 1978, Tex-La filed suit in the 53rd Judicial District Court of Travis County, Texas, for review of the PUC order of May 1978 granting Texas Power an increase in rates (see Item 1, Business—Regulation and Rates). This suit seeks a reversal of the order and a refund of all payments made by Tex-La thereunder. Subsequently, the McLennan County Consumers Association intervened, and the suit was remanded to the PUC for consideration of certain transactions among subsidiaries of the Company. The PUC entered an order regarding these transactions (see Item 1, Business—Regulation and Rates—General) and the rate appeal suit is currently pending in the District Court wherein the Court has announced its intention to affirm the rate increase.

Item 3. LEGAL PROCEEDINGS (Concluded).

Environmental Matters

In July 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas against Generating Company, Service Company, and the electric utility subsidiaries of the Company, by the State of Texas on behalf of the TACB. The petition alleges that Generating Company and Service Company, acting as agents for the electric utility subsidiaries, have violated regulations issued under the federal Clean Air Act, provisions of the Texas Clean Air Act, and permits issued by the TACB, in allowing the start-up of Unit 3 at the Martin Lake station before the completion and operation of its associated air pollution control equipment. The State seeks an injunction against further violation of the federal Clean Air Act and penalties from each of the defendants of $1,000 for each day and each act of violation. The defendants are contesting this action and do not expect that an adverse decision in this suit would have a material effect on their operations or financial condition. (See Item 1, Business—Environmental Matters.)

In July 1979, Generating Company and various electric utilities filed suit in the United States Court of Appeals for the District of Columbia Circuit challenging the validity of regulations issued by the EPA pursuant to the federal Clean Air Act Amendments of 1977, relating to emissions of sulfur dioxide. (See Item 1, Business—Environmental Matters.)

In June 1979, various electric utility companies, including the electric utility subsidiaries of the Company, filed suits in the United States District Court for the Western District of Virginia and the United States Court of Appeals for the Fourth Circuit challenging the validity of the revised regulations issued by the EPA in 1979, pertaining to the issuance of NPDES permits. These suits have not yet been set for trial and the companies cannot predict the outcome of this matter. (See Item 1, Business—Environmental Matters.)

In May 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas, against Generating Company by the State of Texas on behalf of the TDWR. The petition alleges that Generating Company has discharged contaminated water from the Martin Lake station into the adjacent lake in violation of provisions of the Texas Water Code and permits issued thereunder to Generating Company by the TDWR. In July 1979, the petition was amended to join a claim on behalf of the Texas Parks and Wildlife Department (TPWD) that as a result of such discharges fish have been killed, the State of Texas has suffered losses in the recreational value of its properties and the safety of the public has been endangered. In July 1980, TDWR and TPWD filed a second amended petition which names the Company and Service Company as defendants, in addition to Generating Company, alleges additional violations of permits, seeks an injunction against further violations and seeks penalties in the amount of $1,000 from each defendant for each day and each act of violation with a minimum of $281,000 from each defendant, damages in the amount of $1,450,314 in regard to state fish resources and at least $500,000 for lost recreation resources, as well as $5,000,000 in punitive damages. The defendants, including the Company, do not expect that an adverse decision in this suit would have a material effect on their operations or financial condition. (See Item 1, Business—Environmental Matters.)

In May 1979, Generating Company, along with various coal producers, filed suit in the United States District Court for the District of Columbia challenging the validity of certain of the final federal surface mining regulations implementing federal legislation passed in 1977. Judgments upholding certain of the challenged regulations and remanding others for reconsideration have been appealed to the United States Court of Appeals for the District of Columbia Circuit. Enforcement of these regulations would increase the cost of producing lignite; however, the Company does not anticipate that the terms and conditions of permits issued thereunder will have a material adverse effect upon its future use of lignite as fuel for the generation of electricity. (See Item 1, Business—Fuel Supply and Environmental Matters.)

In June 1980, Generating Company and various electric utility companies intervened in a suit pending in the United States District Court for the District of Columbia, challenging the validity of certain EPA regulations issued under RCRA. (See Item 1, Business—Environmental Matters.)

Item 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Inasmuch as a definitive proxy statement pursuant to Regulation 14A will be mailed by the registrant to the Commission for filing on or about April 10, 1981, this item has been omitted. Information with respect to this item is found in said proxy statement under the heading—Beneficial Ownership Of Common Stock Of The Company.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name of Officer	Age	Positions and Offices Held (Term Expires May 15, 1981)	Date Elected to Present Office(s)	Business Experience (Preceding Five Years)
T. L. Austin, Jr.	62	Chairman of the Board and Chief Executive and Director	November 15, 1974 (January 1, 1975 effective date)	Same.
Burl B. Hulsey, Jr.	63	President and Director	November 15, 1974 (January 1, 1975 effective date)	Same.
Perry G. Brittain	56	Executive Vice President	November 15, 1974	Same.
W. H. Harrison, Jr.	64	Executive Vice President	November 15, 1974	Same.
Erle Nye	43	Executive Vice President	November 21, 1980	Vice President and prior thereto Vice President of Dallas Power & Light Company.
L. S. Turner, Jr.	54	Executive Vice President	May 21, 1976	President and Chief Executive of Dallas Power & Light Company.
R. E. Fonville	62	Secretary and Assistant Treasurer	May 17, 1963	Same.
H. A. Horn	50	Treasurer and Assistant Secretary	May 19, 1972	Same.
S. S. Swiger	45	Controller	November 21, 1980	Treasurer and Assistant Secretary of Texas Power & Light Company.

There is no family relationship between any of the above named executive officers.

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PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS.

The Company's common stock is listed on the New York, Midwest and Pacific stock exchanges.

The price range of the common stock of the Company on the composite tape, as reported by the Wall Street Journal, and the dividends paid, for each of the calendar quarters of 1979 and 1980, were as follows:

Quarter Ended	Price Range 1980 High	Price Range 1980 Low	Price Range 1979 High	Price Range 1979 Low	Dividends Paid 1980	Dividends Paid 1979
March 31	$18⅝	$14⅞	$20⅛	$18⅛	$0.41	$0.38
June 30	19⅜	16¼	19⅞	18	0.44	0.41
September 30	18⅞	16¾	19¾	18⅛	0.44	0.41
December 31	19⅜	15¾	19⅝	16¾	0.44	0.41
					$1.73	$1.61

The Company has declared common stock dividends payable in cash in each year since its incorporation in 1945. Future dividends, however, may vary depending upon the Company's profit levels and capital requirements as well as financial and other conditions existing at the time. Reference is made to Note 4 to Financial Statements regarding limitations upon payment of dividends on common stock of certain subsidiaries.

The approximate number of record holders of the common stock of the Company as of December 31, 1980 was 77,700.

Item 6. SELECTED FINANCIAL DATA.

CONSOLIDATED FINANCIAL STATISTICS

	Year Ended December 31,				
	1980	1979	1978	1977	1976
TOTAL ASSETS end of year (thousands)	$6,552,972	$5,821,93[illegible]	$5,161,8[illegible]8	$4,563,806	$3,878,180
UTILITY PLANT end of year (thousands)	$7,438,877	$6,631,618	$5,862,096	$5,111,037	$4,398,695
Accumulated depreciation end of year	1,378,654	1,213,927	1,057,068	917,637	81[illegible],837
Construction expenditures (including allowance for funds used during construction)	807,008	872,916	737,353	734,282	671,708
CAPITALIZATION end of year (thousands)					
Long-term debt	$2,527,716	$2,368,612	$2,038,654	$1,859,057	$1,627,403
Preferred stocks	600,109	535,824	506,233	476,578	446,923
Common stock and retained earnings	2,090,520	1,830,472	1,624,298	1,432,830	1,266,086
Total	$5,218,345	$4,734,908	$4,169,185	$3,768,465	$3,340,412
CAPITALIZATION RATIOS end of year					
Long-term debt	48.4%	50.0%	48.9%	49.3%	48.7%
Preferred stocks	11.5	11.3	12.1	12.7	13.4
Common stock and retained earnings	40.1	38.7	39.0	38.0	37.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
AVERAGE INTEREST COST ON LONG-TERM DEBT end of year	8.3%	7.9%	7.5%	7.3%	7.2%
AVERAGE DIVIDEND COST ON PREFERRED STOCKS end of year	7.7%	7.4%	7.3%	7.2%	7.1%
CONSOLIDATED NET INCOME (thousands)	$297,844	$211,151	$200,738	$175,919	$147,920
DIVIDENDS DECLARED ON COMMON STOCK (thousands)	$164,527	$142,262	$119,945	$103,250	$85,800
COMMON STOCK DATA					
Shares outstanding—average	93,719,257	86,319,396	79,026,787	73,194,444	64,625,000
Shares outstanding—end of year	96,088,645	87,985,098	80,665,889	75,000,000	70,000,000
Earnings per average share	$ 3.18	$ 2.45	$ 2.54	$ 2.40	$ 2.29
Dividends declared per share	1.76	1.64	1.52	1.40	1.32
Book value per share—end of year	21.76	20.80	20.14	19.10	18.09
Earnings on average book value	15.2%	12.2%	13.1%	13.0%	12.9%
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AS PERCENT OF CONSOLIDATED NET INCOME	26.2%	28.2%	26.9%	33.3%	33.7%
FUNDS FROM OPERATIONS AS PERCENT OF CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)	52.7%	40.3%	44.1%	36.4%	29.7%

Item 6. SELECTED FINANCIAL DATA (Concluded).

CONSOLIDATED OPERATING STATISTICS

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Electric Energy Generated and Purchased (mwh)					
Generated—net station output	62,865,641	58,051,429	57,196,077	53,156,235	47,573,856
Purchased and net interchange	56,388	75,695	79,688	72,845	46,656
Total generated and purchased	62,922,029	58,127,124	57,275,765	53,229,080	47,620,512
Company use, losses, and unaccounted for	4,422,762	4,001,684	4,041,486	3,549,768	3,290,124
Total electric energy sales	58,499,267	54,125,440	53,234,279	49,679,312	44,330,388
Fuel Mix for Electric Generation (percent)					
Gas	49.0%	48.6%	58.0%	65.9%	68.3%
Oil	0.1	1.4	0.6	1.5	0.2
Lignite	50.9	50.0	41.4	32.6	31.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Electric Energy Sales (mwh)					
Residential	19,844,409	17,394,402	17,943,224	16,642,382	14,548,407
Commercial	14,683,104	13,264,436	13,117,202	12,347,755	11,338,371
Industrial	17,581,265	17,275,859	16,469,636	15,678,254	13,917,588
Government and municipal	1,796,988	1,669,726	1,728,056	1,565,518	1,425,665
Total general business	53,905,766	49,604,423	49,258,118	46,233,909	41,230,031
Other electric utilities	4,593,501	4,521,017	3,976,161	3,445,403	3,100,357
Total electric energy sales	58,499,267	54,125,440	53,234,279	49,679,312	44,330,388
Operating Revenues (thousands)					
Residential	$ 877,555	$ 672,340	$ 640,611	$ 552,331	$ 442,204
Commercial	590,921	488,170	439,146	375,822	303,785
Industrial	482,919	419,224	373,456	310,811	238,426
Government and municipal	68,396	54,565	49,623	40,331	32,390
Total general business	2,019,791	1,634,299	1,502,836	1,279,295	1,016,805
Other electric utilities	123,188	105,306	87,592	69,975	53,052
Total from electric energy sales	2,142,979	1,739,605	1,590,428	1,349,270	1,069,857
Other operating revenues	31,574	16,684	13,928	18,508	12,473
Total operating revenues	$2,174,553	$1,756,289	$1,604,356	$1,367,778	$1,082,330
Electric Customers (end of year)					
Residential	1,344,037	1,287,701	1,221,468	1,159,885	1,122,358
Commercial	170,125	164,291	160,170	153,658	146,287
Industrial	19,419	18,654	17,953	17,216	16,688
Government and municipal	10,494	11,257	11,260	11,274	11,121
Total general business	1,544,075	1,481,903	1,410,851	1,342,033	1,296,454
Other electric utilities	79	80	62	60	59
Total electric customers	1,544,154	1,481,983	1,410,913	1,342,093	1,296,513

Residential classification includes indirect sales (apartments, etc.); dwelling units not included in number of customers	223,960	240,164	243,886	248,755	240,672
Industrial classification includes interruptible service to Alcoa:					
Electric energy sales (mwh)	2,918,794	3,076,399	2,891,259	2,786,027	1,822,488
Operating revenues (thousands)	$48,813	$48,400	$41,572	$36,878	$20,052

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Liquidity and Capital Resources

The primary capital requirements for 1980 and as estimated for 1981 through 1983 are as follows:

	1980	1981	1982	1983
	Thousands of Dollars			
Construction expenditures (excluding AFUDC)	$729,000	$764,000	$765,000	$783,000
Nuclear fuel and non-utility property	30,000	26,000	80,000	111,000
Maturities of long-term debt and sinking fund requirements	40,000	17,000	28,000	41,000
Total	$799,000	$807,000	$873,000	$935,000

For detail concerning major new construction work now in progress or contemplated by the subsidiary companies, commitments with respect thereto and funds received for an interest in the Comanche Peak nuclear station, see Item 2, Properties—Construction Programs.

The System generates funds from operations sufficient to meet operating needs, pay dividends on capital stock and finance a significant portion of capital requirements. These funds are derived from consolidated net income, depreciation, deferred taxes, and federal investment tax credits. Factors affecting the ability of the electric utility subsidiaries to fund a portion of their capital requirements from operations include adequate rate relief and regulatory practices allowing a substantial portion of construction work in progress in rate base, adequate depreciation rates, normalization of federal income taxes, full current recovery of the cost of fuel used in the generation of electricity, and the opportunity to earn competitive rates of return required in the capital markets. For 1980, approximately 53% of the funds needed for construction was generated from operations.

External funds of a permanent or long-term nature are obtained by the System through the sale of common stock by the Company, and the sales of preferred stocks and long-term debt by the subsidiary companies. The capitalization ratios of the System at December 31, 1980, consisted of approximately 48% long-term debt, 12% preferred stocks, and 40% common stock and retained earnings, and similar ratios are expected to be maintained in the future. For information regarding bank lines of credit and short-term borrowings of the Company, see Note 2 to Financial Statements.

Financing to date in 1981 includes the sale by the Company in March of 5,000,000 shares of its authorized but unissued common stock for $86,100,000. The System expects to sell additional securities as needed, in amounts and of types presently undetermined. Although the System companies cannot predict future regulatory practices and are to some degree exposed to fluctuating economic and securities market conditions, no changes are expected in trends or commitments which might significantly alter their basic financial position or ability to finance capital requirements in the future (see Item 1, Business—Regulation and Rates).

See Item 6, Selected Financial Data—Consolidated Financial Statistics for additional information.

Results of Operations

Increases in operating revenues include rate increases granted the electric utility subsidiaries, recovery of higher fuel costs on a current basis, customer growth, and increased energy consumption by customers (see Item 6, Selected Financial Data—Consolidated Operating Statistics and Item 1, Business—Fuel Supply and Regulation and Rates). Energy consumption per customer is affected by material variations in weather conditions and was particularly impacted by the unusually hot and dry summer of 1980 compared to the relatively mild summer of 1979, and by warmer summer and colder winter [illegible] in 1978. Customer consumption also reflects the effects of energy conservation on the part of some [illegible]ers.

Operation and maintenance expenses have increased substantially as a result of the continuing inflationary pressures on the cost of labor, materials and services and the additional lignite-fueled generating units placed in service during 1979 and 1978; such expenses were also affected by the higher

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Concluded).

costs of operating and maintaining existing lignite-fueled generating units, including the additional costs of operating and maintaining the pollution control equipment required in connection therewith and unscheduled maintenance on several such units in 1979. Increases in taxes other than income resulted primarily from increases in revenue and property based taxes. See Item 1, Business—Fuel Supply for a comparison of unit costs of fuel consumed.

Increases in allowance for funds used during construction are primarily attributable to increases in the amount of construction work in progress of the electric utility subsidiaries not allowed in rate base by regulatory authorities, and for 1980, an increase in AFUDC rate effective November 1979 accompanied by the commencement of semi-annual compounding. The decrease in other income and deductions—net for 1980 reflects decreased interest income on temporary cash investments; the increase for 1979 resulted from an increase in interest income and increased income, from a large industrial customer (Alcoa), of one electric utility subsidiary for construction of generating facilities.

In addition to the impact of the factors mentioned above, the decrease in earnings per share of common stock for 1979 reflects the need for adequate rate relief and the dilutive effect of sales of additional shares of common stock during the year.

The electric utility subsidiaries expect to pursue adequate and timely rate relief in the future to offset the effects of increases in the costs of providing electric service.

The Company has prepared supplementary information concerning the effects of changing prices in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33; such information is included in Item 8, Financial Statements and Supplementary Data following the Notes to Financial Statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME

Schedule No.		Year Ended December 31, 1980	1979	1978
		Thousands of Dollars		
	OPERATING REVENUES	$2,174,553	$1,756,289	$1,604,356
	OPERATING EXPENSES			
	Fuel	736,921	600,064	577,780
	Operation	290,181	234,559	190,806
	Maintenance	156,818	130,037	'88,837
VI	Depreciation	161,926	150,294	134,338
	Federal income taxes (Note 8)	194,509	134,284	154,164
X	Taxes other than income	144,266	127,155	114,909
	Total operating expenses	1,684,701	1,376,393	1,260,914
	OPERATING INCOME	489,852	379,896	343,442
	OTHER INCOME			
	Allowance for equity funds used during construction	56,666	43,332	28,038
	Other income and deductions—net	21,342	25,312	4,154
	Federal income taxes	(8,345)	(13,816)	(1,316)
	Total other income	69,663	54,828	30,876
	TOTAL INCOME	559,515	434,724	374,318
	INTEREST CHARGES			
	Interest on mortgage bonds	143,877	130,381	116,640
	Interest on other long-term debt	62,682	39,839	24,784
	Other interest	33,019	30,252	21,476
	Allowance for borrowed funds used during construction	(21,505)	(16,306)	(25,922)
	Total interest charges	218,073	184,166	136,978
	PREFERRED STOCK DIVIDENDS OF SUBSIDIARIES	43,598	39,407	36,602
	CONSOLIDATED NET INCOME	$ 297,844	$ 211,151	$ 200,738
	Average shares of common stock outstanding (thousands)	93,719	86,319	79,027
	Earnings and dividends per share of common stock:			
	Earnings (on average shares outstanding)	$3.18	$2.45	$2.54
	Dividends declared	1.76	1.64	1.52

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	Year Ended December 31, 1980	1979	1978
	Thousands of Dollars		
BALANCE AT BEGINNING OF YEAR	$ 758,962	$690,073	$609,280
ADD—Consolidated net income	297,844	211,151	200,738
Total	1,056,806	901,224	810,018
DEDUCT—Dividends declared on common stock (for amounts per share, see Statement of Consolidated Income)	164,527	142,262	119,945
BALANCE AT END OF YEAR (Note 4)	$ 892,279	$758,962	$690,073

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED SOURCE OF FUNDS FOR CONSTRUCTION

	Year Ended December 31,		
	1980	1979	1978
		Thousands of Dollars	
Funds From Operations			
Consolidated net income	$297,844	$211,151	$200,738
Depreciation (including amounts charged to fuel)	181,835	167,103	151,188
Deferred federal income taxes—net	73,660	62,070	42,797
Federal investment tax credits—net	73,552	89,056	80,612
Allowance for funds used during construction	(78,171)	(59,638)	(53,960)
Total funds from operations	548,720	469,742	421,375
Less—Dividends declared on common stock	164,527	142,262	119,945
Net funds from operations	384,193	327,480	301,430
Funds From Financing			
Sales of securities:			
First mortgage bonds	125,000	175,000	—
Other long-term debt	58,879	199,538	216,752
Preferred stocks	64,285	29,591	29,655
Common stock	126,731	137,285	110,675
Retirement of long-term debt	(40,390)	(27,257)	(27,646)
Increase (decrease) in notes payable:			
Bank loans	50,000	—	(45,000)
Commercial paper	(9,790)	(45,655)	45,750
Net funds from financing	374,715	468,502	330,186
Other Sources (Uses) of Funds			
Changes in working capital, excluding notes payable and long-term debt due currently:			
Cash in banks and temporary cash investments	2,684	8,433	26,045
Accounts receivable—net	(13,636)	(23,164)	(20,849)
Inventories	(55,988)	(31,603)	(1,134)
Accounts payable	4,409	(1,578)	30,598
Taxes accrued	67,323	(19,455)	18,698
Other—net	6,271	10,035	20,460
Net change	11,063	(57,332)	73,818
Non-utility property—net	(7,122)	(4,774)	13,173
Nuclear fuel	(23,198)	(12,192)	(29,745)
Sale of utility plant	—	99,871	—
Other—net	(10,814)	(8,277)	(5,469)
Net other sources (uses) of funds	(30,071)	17,296	51,777
Total	$728,837	$813,278	$683,393
Construction Expenditures			
Utility plant	$807,008	$872,916	$737,353
Allowance for funds used during construction	(78,171)	(59,638)	(53,960)
Construction Expenditures (excluding allowance for funds used during construction)	$728,837	$813,278	$683,393

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

Schedule No.		December 31, 1980	December 31, 1979
		Thousands of Dollars	
V	**UTILITY PLANT**		
	Electric plant in service:		
	Production	$2,892,655	$2,776,069
	Transmission	816,025	751,595
	Distribution	1,429,451	1,327,271
	General	143,640	118,573
	Total	5,281,771	4,973,508
	Construction work in progress	2,055,838	1,577,946
	Nuclear fuel	87,535	64,337
	Held for future use	13,733	15,827
	Total utility plant	7,438,877	6,631,618
VI	Less accumulated depreciation	1,378,654	1,213,927
	Utility plant, less accumulated depreciation	6,060,223	5,417,691
	INVESTMENTS—at cost		
	Non-utility property	59,044	51,922
	Other investments (Note 1)	16,307	16,224
	Total investments	75,351	68,146
	CURRENT ASSETS		
	Cash in banks (Note 2)	20,459	22,343
	Special deposits	11,984	10,564
	Temporary cash investments—at cost	—	800
	Accounts receivable:		
	Customers	119,242	103,067
	Other	22,955	23,814
VIII	Allowance for uncollectible accounts	(6,518)	(4,838)
	Inventories—at average cost:		
	Materials and supplies	65,787	49,426
	Fuel stock	128,166	88,539
	Other current assets	27,808	18,308
	Total current assets	389,883	312,023
	DEFERRED DEBITS		
	Unamortized debt expense	9,308	9,212
	Other	18,207	14,861
	Total deferred debits	27,515	24,073
	Total	$6,552,972	$5,821,933

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

LIABILITIES

Schedule No.		December 31, 1980	December 31, 1979
		Thousands of Dollars	
	Capitalization		
	Common stock, Texas Utilities Company—without par value (Note 3):		
	Authorized shares—150,000,000		
	Outstanding shares—1980, 96,088,645; 1979, 87,985,098	$1,198,241	$1,071,510
	Retained earnings (Note 4)	892,279	758,962
	Total	2,090,520	1,830,472
	Preferred stocks (Note 5)	600,109	535,824
	Long-term debt, less amounts due currently (Note 6):		
	First mortgage bonds	1,829,500	1,716,000
VII	Other long-term debt	703,562	656,334
	Unamortized premium and discount	(5,346)	(3,722)
	Total	2,527,716	2,368,612
	Total capitalization	5,218,345	4,734,908
	Current Liabilities		
IX	Notes payable (Note 2):		
VII	Bank loans	50,000	—
	Commercial paper	165,910	175,700
	Long-term debt due currently	17,380	34,619
	Total (to be refinanced)	233,290	210,319
	Accounts payable	162,162	157,753
	Dividends declared	53,845	45,942
	Customers' deposits	15,161	12,948
	Taxes accrued	109,947	42,624
	Interest accrued	59,844	53,799
	Other current liabilities	27,098	26,068
	Total current liabilities	661,347	549,453
VIII	**Reserve for Insurance and Casualties**	5,013	5,122
	Accumulated Deferred Federal Income Taxes	305,718	231,151
	Unamortized Federal Investment Tax Credits	362,549	301,299
	Commitments and Contingencies (Note 7)		
	Total	$6,552,972	$5,821,933

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY

STATEMENT OF INCOME

Schedule No.		Year Ended December 31, 1980	1979	1978
		Thousands of Dollars		
	DIVIDENDS ON COMMON STOCKS OF SUBSIDIARIES			
	Dallas Power & Light Company	$ 32,996	$ 32,337	$ 19,105
	Texas Electric Service Company	58,320	50,500	46,080
	Texas Power & Light Company	75,864	65,194	59,040
	Total dividends	167,180	148,031	124,225
III	UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	136,643	70,810	85,345
	INTEREST ON LOANS TO SUBSIDIARIES	29,190	25,070	15,192
	Total	333,013	243,911	224,762
	OTHER INCOME	147	72	105
	TOTAL INCOME	333,160	243,983	224,867
	EXPENSES AND OTHER DEDUCTIONS			
	Administrative and general expenses	4,865	3,824	3,807
	Interest on notes payable	29,863	28,140	19,433
	Taxes other than income	588	868	889
	Total expenses and other deductions	35,316	32,832	24,129
	NET INCOME	$297,844	$211,151	$200,738

STATEMENT OF RETAINED EARNINGS

	Year Ended December 31, 1980	1979	1978
	Thousands of Dollars		
BALANCE AT BEGINNING OF YEAR	$ 758,962	$690,073	$609,280
ADD—Net income	297,844	211,151	200,738
Total	1,056,806	901,224	810,018
DEDUCT—Dividends declared on common stock (for amounts per share, see Statement of Consolidated Income)	164,527	142,262	119,945
BALANCE AT END OF YEAR (Note 4)	$ 892,279	$758,962	$690,073

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY

STATEMENT OF SOURCE OF FUNDS FOR INVESTMENT

	Year Ended December 31,		
	1980	1979	1978
		Thousands of Dollars	
FUNDS FROM OPERATIONS			
Net income	$297,844	$211,151	$200,738
Less—Dividends declared on common stock	164,527	142,262	119,945
—Undistributed earnings of subsidiaries	136,643	70,810	85,345
Total	301,170	213,072	205,290
Net funds from operations	(3,326)	(1,921)	(4,552)
FUNDS FROM FINANCING			
Sale of common stock	126,731	137,285	110,675
Increase (decrease) in notes payable:			
Bank loans	—	—	(45,000)
Commercial paper	(9,790)	(45,655)	45,750
Net funds from financing	116,941	91,630	111,425
OTHER SOURCES (USES) OF FUNDS			
Cash in banks and temporary cash investments—net change	(77)	139	(59)
Notes receivable subsidiary companies—net change	11,325	1,230	(60,340)
Other—net	6,005	3,418	3,526
Net other sources (uses) of funds	17,253	4,787	(56,873)
INVESTMENTS IN COMMON STOCKS OF SUBSIDIARIES	$130,868	$ 94,496	$ 50,000

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY

BALANCE SHEET

Schedule No.		December 31, 1980	December 31, 1979
		Thousands of Dollars	
	ASSETS		
III	INVESTMENTS IN COMMON STOCKS OF SUBSIDIARIES—at equity	$2,096,398	$1,828,887
	NOTES RECEIVABLE FROM SUBSIDIARIES	63,450	74,375
	CURRENT ASSETS		
	Cash in banks (Note 2)	1,631	1,554
	Notes receivable subsidiary companies	132,600	133,000
	Other current assets	4,866	4,723
	Total current assets	139,097	139,277
	Total	$2,298,945	$2,042,539
	LIABILITIES		
	COMMON STOCK, without par value (Note 3):		
	Authorized shares—150,000,000		
	Outstanding shares—1980, 96,088,645; 1979, 87,985,098	$1,198,241	$1,071,510
	RETAINED EARNINGS (Note 4)		
	Undistributed earnings of subsidiaries	808,393	671,751
	Other net earnings	83,886	87,211
	Total retained earnings	892,279	758,9[illegible]2
	CURRENT LIABILITIES		
	Dividends declared	42,263	36,064
IX	Notes payable—commercial paper (Note 2)	165,910	175,700
	Other current liabilities	252	303
	Total current liabilities	208,425	212,067
	COMMITMENTS AND CONTINGENCIES (Note 7)		
	Total	$2,298,945	$2,042,539

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Consolidation—The consolidated financial statements include Texas Utilities Company and all of its subsidiaries; all significant intercompany items and transactions have been eliminated in consolidation.

Utility Plant—Utility plant is stated at original cost. The cost of property additions charged to utility plant includes labor and materials, applicable overhead and payroll-related costs and an allowance for funds used during construction.

Allowance For Funds Used During Construction—Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on other capital used to finance construction are charged to utility plant. The accrual of AFUDC is in accord with established accounting practices of the industry, but does not represent current cash income. The subsidiaries have capitalized AFUDC at a net of tax rate of 8% compounded semi-annually of expenditures incurred, except for that portion of construction work in progress allowed in rate base by regulatory authorities. Prior to November 1979, a rate of 7% had been used. These rates were determined on the basis of, but are less than, the cost of capital used to finance the construction programs. Effective January 1, 1981, a rate of 8½% was adopted.

Depreciation—Depreciation is based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties. Depreciation as a percent of average depreciable property approximated 3.7% for 1980 and 1979, and 3.9% for 1978.

Other Investments—The difference between the amount at which the investment in a subsidiary is carried by the Company and the underlying book equity of such subsidiary at the respective dates of acquisition is included in other investments: $14,411,000 at December 31, 1980, and $14,269,000 at December 31, 1979.

Federal Income Taxes—The Company and its subsidiary companies file a consolidated federal income tax return, and federal income taxes are allocated to all subsidiary companies based upon taxable income or loss. Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation and the class life depreciation system (ADR). Current federal income taxes have been reduced by amounts of investment tax credits allowable under the Internal Revenue Code; such credits are being amortized to income over the estimated service lives of the properties. (See Note 8.)

Reserve for Insurance and Casualties—The companies, as allowed by regulatory authorities, maintain a reserve for major uninsured losses and claims.

2. Bank Balances and Short-Term Borrowings

At December 31, 1980, the Company had lines of credit with commercial banks aggregating $300,000,000. At December 31, 1979, the corresponding amount was $350,000,000 of which $70,000,000 was in the form of a temporary line of credit for which the Company paid a fee in lieu of compensating balances; such temporary line of credit was cancelled by the Company on July 1, 1980. The lines of credit may be used for either back-up lines for commercial paper or for bank loans at the prime commercial lending rate as it exists from time to time. At December 31, 1980, the total amount of borrowings authorized by the Board of Directors of the Company from banks or other lenders was $500,000,000.

Except as noted above, no commitments with respect to the maintenance of compensating balances have been made by the Company to any banks from which it has lines of credit; such arrangements are dependent upon the regular operating balances maintained in accounts with said banks by the Company and its subsidiaries.

3. Common Stock

The Company issued and sold shares of its authorized but unissued common stock during the years 1980, 1979, and 1978 as follows:

	Public Offering		Automatic Dividend Reinvestment and Common Stock Purchase Plan		Employees' Thrift Plan and Employee Stock Ownership Plan		Total	
Year	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
1980	5,000,000	$74,250,000	1,928,478	$31,715,000	1,175,069	$20,766,000	8,103,547	$126,731,000
1979	5,000,000	94,750,000	1,091,137	19,689,000	1,228,072	22,846,000	7,319,209	137,285,000
1978	5,000,000	97,250,000	95,817	1,856,000	570,072	11,569,000	5,665,889	110,675,000

In March 1981, the Company issued and sold to the public an additional 5,000,000 shares of its authorized but unissued common stock for $86,100,000.

At December 31, 1980, 3,170,929 shares of the authorized but unissued common stock of the Company were reserved for issuance and sale pursuant to the above plans.

The Company has 50,000,000 authorized shares of serial preference stock having a par value of $25 a share, none of which has been issued.

4. Retained Earnings

The articles of incorporation, the mortgages, as supplemented, and the debenture agreements of the subsidiaries contain provisions which, under certain conditions, restrict distributions on or acquisitions of their common stocks. At December 31, 1980, $57,670,000 of retained earnings of two subsidiaries was thus restricted as a result of the provisions of such articles of incorporation. Retained earnings (Company and consolidated) at such date also included $331,243,000, representing the Company's equity in undistributed earnings since acquisition included in transfers by subsidiaries from their retained earnings to stated value of common stock, making a total of retained earnings which was restricted of $388,913,000 at December 31, 1980.

5. Preferred Stocks of Subsidiaries (cumulative, without par value, entitled upon liquidation to $100 a share).

	Shares Outstanding	Amount December 31, 1980	Amount December 31, 1979	Redemption Price Per Share (before adding accumulated dividends) Current	Redemption Price Per Share (before adding accumulated dividends) Eventual Minimum
		Thousands of Dollars			
Dallas Power & Light Company					
$ 4.00 series	70,000	$ 7,049	$ 7,049	$103.56	$103.56
4.24 series	100,000	10,081	10,081	103.50	103.50
4.50 series	74,430	7,443	7,443	110.00	110.00
4.80 series	100,000	10,009	10,009	102.79	102.79
6.84 series	200,000	20,022	20,022	106.47	103.05
7.20 series	200,000	20,044	20,044	105.01	103.21
7.48 series	300,000	30,073	30,073	106.69	102.95
Texas Electric Service Company					
$ 4.00 series	110,000	11,000	11,000	102.00	102.00
4.56 series	65,000	6,563	6,563	112.00	112.00
4.64 series	100,000	10,016	10,016	103.25	103.25
5.08 series	80,000	8,004	8,004	103.60	103.60
7.44 series	300,000	30,006	30,006	106.12	102.40
8.32 series	300,000	29,655	29,655	108.32*	101.00
8.44 series	300,000	30,046	30,046	107.40	103.18
8.92 series	200,000	20,076	20,076	105.83	103.60
9.36 series	300,000	29,625	29,625	107.02	102.34
10.12 series	350,000	34,615	—	110.12*	100.00
Texas Power & Light Company					
$ 4.00 series	70,000	7,000	7,000	102.00	102.00
4.44 series	150,000	15,061	15,061	102.61	102.61
4.56 series	133,786	13,379	13,379	112.00	112.00
4.76 series	100,000	10,000	10,000	102.00	102.00
4.84 series	70,000	7,000	7,000	101.79	101.79
7.24 series	250,000	25,113	25,113	107.04	103.42
7.80 series	300,000	30,030	30,030	105.20	103.25
8.16 series	300,000	29,655	29,655	108.16*	102.04
8.20 series	300,000	30,108	30,108	107.39	103.29
8.68 series	300,000	29,550	29,550	108.43*	101.92
8.84 series	300,000	29,591	29,591	108.17*	102.05
9.32 series	300,000	29,625	29,625	106.99	102.33
10.92 series	300,000	29,670	—	110.92*	102.73
Total	6,023,216	$600,109	$535,824		

* Redemption may not be effected currently through certain refunding operations.

6. Long-Term Debt of Subsidiaries (less amounts due currently)

Interest Rate Groups				Maturity Groups			
		December 31,				December 31,	
From	To	1980	1979	From	To	1980	1979
		Thousands of Dollars				Thousands of Dollars	
First mortgage bonds:							
3⅛%	4¼%	$ 123,000	$ 134,500	1981	1986	$ 183,000	$ 194,500
4⅜	5½	223,500	223,500	1987	1992	50,500	50,500
6⅛	7¾	368,000	368,000	1993	1998	231,000	231,000
8¼	9½	940,000	940,000	1999	2004	565,000	565,000
10⅛	14⅛	175,000	50,000	2005	2010	800,000	675,000
Total		$1,829,500	$1,716,000			$1,829,500	$1,716,000
Other long-term debt:							
Sinking fund debentures							
4½%	5¼%	$ 31,991	$ 34,283	1985	1989	$ 31,991	$ 34,283
6⅜	7¾	36,079	39,558	1993	1994	36,079	39,558
Total		68,070	73,841			68,070	73,841
Pollution control revenue bonds—net							
5.70%	7⅜%	147,252	128,373	2004	2009	147,252	128,373
Senior notes							
8.50%	10.45%	488,240	334,120	1996	1999	488,240	334,120
Note payable		—	120,000	—	1980	—	120,000
Total		$ 703,562	$ 656,334			$ 703,562	$ 656,334

Sinking fund and maturity requirements for the years 1981 through 1985 under long-term debt instruments in effect at December 31, 1980, were as follows:

Year	Sinking Fund(a)	Maturity	Minimum Cash Requirement (a)(b)
		Thousands of Dollars	
1981	$16,881	$11,500	$17,380
1982	17,268	22,000	27,977
1983	18,759	34,000	41,058
1984	33,331	45,000	65,680
1985	46,168	45,610	79,590

(a) Excluding requirements satisfied prior to December 31, 1980: $2,060,000 for 1981, $1,963,000 for 1982, $882,000 for 1983, $560,000 for 1984, and $320,000 for 1985.

(b) Other requirements may be satisfied by certification of property additions at the rate of 167% of such requirements, except for eleven issues at 100%.

Utility plant of the System companies is generally subject to the lien of the mortgages.

7. Commitments and Contingencies

For major new construction work now in progress or contemplated by the subsidiaries, and commitments with respect thereto, see Item 2, Properties—Construction Programs.

The three electric utility subsidiaries have entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and the subsidiaries have agreed, in effect, to guarantee the principal, $153,590,000 at December 31, 1980, and interest on bonds issued to finance the reservoirs from which the water is supplied.

Texas Utilities Company has entered into a surety agreement pursuant to which the Company has undertaken to assure the performance by Chaco Energy Company of a lease under which coal reserves will be acquired (see Item 1, Business—Fuel Supply).

Reference is made to Item 1, Business—Fuel Supply, Regulation and Rates, and Environmental Matters and Item 3, Legal Proceedings for information relating to legal and administrative proceedings. In the opinion of the Company, such legal and administrative proceedings are not expected to have a material effect upon the financial position or results of operations of the Company or the Company and its subsidiaries.

8. Federal Income Taxes

The details of federal income taxes are as follows:

	Year Ended December 31,		
	1980	1979	1978
	Thousands of Dollars		
Charged to operating expenses:			
Current federal income taxes	$ 51,310	$(13,622)	$ 30,513
Deferred federal income taxes—net:			
Differences between depreciation methods and lives	56,185	49,138	33,734
Certain capitalized construction costs	10,516	9,269	9,968
Other	3,026	446	(678)
Total	69,727	58,853	43,024
Investment tax credits—net	73,552	89,053	80,627
Total federal income taxes charged to operating expenses	194,589	134,284	154,164
Charged to other income	8,345	13,816	1,316
Total federal income taxes	$202,934	$148,100	$155,480

Federal income taxes were less than the amount computed by applying the federal statutory rate to pre-tax book income as follows:

	Year Ended December 31,		
	1980	1979	1978
	Thousands of Dollars		
Federal income taxes at statutory rate (46%; 48% prior to 1979)	$250,413	$183,383	$188,554
Reductions in federal income taxes resulting from:			
Allowance for funds used during construction	35,959	27,434	25,901
Depletion allowance	8,033	6,265	4,737
Amortization of investment tax credits	8,925	7,237	5,216
Other	(5,438)	(5,653)	(2,780)
Total reductions	47,479	35,283	33,074
Total federal income taxes	$202,934	$148,100	$155,480
Effective tax rate	37.3%	37.1%	39.6%

9. RETIREMENT PLANS

The companies have uniform retirement plans covering substantially all employees. The costs of the plans are determined by independent actuaries and are funded by the companies as accrued. The costs of the plans, including amounts capitalized, approximated $26,520,000 for 1980, $22,878,000 for 1979, and $17,198,000 for 1978. As of the annual valuations in 1980 and 1979, accumulated benefits and net fund assets were as follows:

	1980	1979
	Thousands of Dollars	
Actuarial present value of accumulated benefits:		
Vested	$212,833	$184,868
Nonvested	24,405	21,768
Total	$237,238	$206,636
Net fund assets	$185,565	$140,567

An assumed rate of return of 5½% was used in determining the value of accumulated benefits.

10. SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

In the opinion of the Company, the following information includes all adjustments (constituting only normal recurring accruals) necessary to a fair statement of such amounts; quarterly results are not necessarily indicative of expectations for a full year's operations because of seasonal and other factors, including rate increases and variations in fuel costs resulting from changes in generation mix:

	Operating Revenues		Consolidated Net Income		Earnings Per Share of Common Stock	
Quarter Ended	1980	1979	1980	1979	1980	1979
	Thousands of Dollars		Thousands of Dollars			
March 31	$ 426,190	$ 382,978	$ 37,296	$ 37,409	$0.42	$0.44
June 30	480,254	414,599	50,206	43,352	0.54	0.50
September 30	763,826	545,273	142,716	91,376	1.51	1.06
December 31	504,283	413,439	67,626	39,014	0.71	0.45
Total	$2,174,553	$1,756,289	$297,844	$211,151	$3.18	$2.45

OPINION OF INDEPENDENT ERTIFIED PUBLIC ACCOUNTANTS

Texas Utilities Company:

We have examined the balance sheet of Texas Utilities Company and the consolidated balance sheet of Texas Utilities Company and subsidiaries as of December 31, 1980 and 1979 and the related statements of income (company and consolidated), retained earnings (company and consolidated), source of funds for construction (consolidated) and source of funds for investment (company) for each of the three years in the period ended December 31, 1980. 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 financial statements referred to above present fairly the financial position of the companies at December 31, 1980 and 1979 and the results of their operations and the source of their funds for construction and for investment for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations also comprehended the supplemental schedules listed in Item 11(a)2. In our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

/s/ DELOITTE HASKINS & SELLS
Deloitte Haskins & Sells

Dallas, Texas
March 26, 1981

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION CONCERNING EFFECTS OF CHANGING PRICES

Unaudited information furnished in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33, Financial Reporting and Changing Prices (FASB 33), follows. The Statement indicates the need for experimentation in providing information about the effects of changing prices. Such information is intended to help readers better understand the impact of inflation on the Company. Because the information is presented on an experimental basis, it should be viewed with caution. Calculation of the information inherently involves the use of assumptions, approximations, and estimates and, therefore, the resulting measurements should be considered in that context and not as precise indications of the effects of inflation. The effects of changing prices are not recognized for income tax or ratemaking purposes, therefore the supplementary information should not be interpreted as adjustments to earnings reported in the Financial Statements.

Information concerning the effects of general inflation (constant dollar) was determined by converting historical cost amounts into dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers.

Information concerning changes in specific prices (current cost) represent such changes in utility plant from the date costs were initially incurred to present, and differs from constant dollar information to the extent that the specific prices have increased at a rate different than the general rate of inflation. The current cost of utility plant was computed by indexing the existing historical cost of plant by the Handy-Whitman Index of Public Utility Construction Costs for the South Central Region and other appropriate indices. Such current costs are not necessarily representative of the replacement cost of the Company's productive capacity that might be incurred in a future period.

Depreciation on the constant dollar and current cost basis was determined by applying the System companies' straight-line depreciation rates used for financial accounting purposes to the appropriate indexed utility plant amounts, and is the only income statement item (including depreciation charged to fuel) that has been restated from the Financial Statements. In compliance with FASB 33, no adjustment has been made to federal income taxes.

Under rate-making rules prescribed by the Public Utility Commission of Texas, only the original cost of utility plant is recoverable through revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars and current cost over the original cost is not recoverable through rates as depreciation and is reflected as Reduction to Net Recoverable Cost of Utility Plant. The Company believes, based on past experiences, that System companies will be allowed to earn on the net investment in utility plant when replacement of facilities actually occurs.

During periods of inflation, the holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The amount shown as Gain From Decline in Purchasing Power of Net Amounts Owed reflects the net of these two items and is primarily attributable to the substantial amount of long-term debt which has been used to finance utility plant. Since depreciation on this utility plant is limited by regulation to the recovery of historical costs, a holding gain on debt is not allowed and recovery is limited to only the embedded cost of debt capital.

To reflect the results of rate regulation, Gain From Decline in Purchasing Power of Net Amounts Owed is offset by the Reduction to Net Recoverable Cost of Utility Plant.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION CONCERNING EFFECTS OF CHANGING PRICES (Concluded)

SUMMARY OF CONSOLIDATED NET INCOME ADJUSTED FOR EFFECTS OF CHANGING PRICES

Year Ended December 31, 1980

(Thousands of Dollars)	Historical Cost Reported In Financial Statements	Adjusted for Changing Prices: General Inflation (Constant Dollar)	Specific Prices (Current Cost)
		Average 1980 Dollars	
Operating revenues	$2,174,553	$2,174,553	$2,174,553
Operating expenses(a)	1,684,701	1,844,508	1,879,520
Operating income	489,852	330,045	295,033
Other income	69,663	69,663	69,663
Total income	559,515	399,708	364,696
Interest charges	218,073	218,073	218,073
Preferred stock dividends of subsidiaries	43,598	43,598	43,598
Consolidated net income	$ 297,844	$ 138,037	$ 103,025
Increase in specific prices of utility plant held during the year (b)			$1,020,929
Reduction to net recoverable cost of utility plant		$(510,502)	(332,594)
Effect of general inflation on utility plant			(1,163,825)
Effect of general inflation in excess of increase in specific prices of utility plant after reduction to net recoverable cost			(475,490)
Gain from decline in purchasing power of net amounts owed		383,967	383,967
Net change in purchasing power		$(126,535)	$ (91,523)

(a) Depreciation, including amounts charged to fuel, was $181,835,000 for historical cost, $341,642,000 for constant dollar and $376,654,000 for current cost.

(b) At December 31, 1980, utility plant, net of accumulated depreciation was $10,741,258,000 for current cost and $6,060,223,000 for historical cost.

COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

	1980	1979	1978	1977	1976
	Thousands of Average 1980 Dollars				
Operating revenues	$2,174,553	$1,993,800	$2,026,382	$1,859,877	$1,566,680
Constant Dollar Information					
Consolidated net income	$138,037	$99,981			
Earnings per share of common stock	$1.47	$1.16			
Net assets at year end at net recoverable cost	$2,588,319	$2,553,070			
Current Cost Information					
Consolidated net income	$103,025	$50,908			
Earnings per share of common stock	$1.10	$0.59			
Effect of general inflation in excess of increase in specific prices of utility plant after reduction to net recoverable cost	$(475,490)	$(535,423)			
Net assets at year end at net recoverable cost	$2,588,319	$2,553,070			
General Information					
Gain from decline in purchasing power of net amounts owed	$383,967	$414,547			
Dividends declared per share of common stock	$1.76	$1.86	$1.92	$1.91	$1.91
Market price per share of common stock at year end	$17.79	$19.05	$22.95	$29.18	$30.80
Consumer price index—average	246.8	217.4	195.4	181.5	170.5

PART III

Items 9 and 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT AND MANAGEMENT REMUNERATION AND TRANSACTIONS, RESPECTIVELY.

Inasmuch as a definitive proxy statement pursuant to Regulation 14A will be mailed by the registrant to the Commission on or about April 10, 1981, Items 9 and 10 have been omitted. Information is found in said proxy statement under the headings Election of Directors; and Remuneration of Officers and Directors, with regard to Items 9 and 10, respectively.

PART IV

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) Documents Filed as Part of This Report.

The following financial statement 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 or notes thereto:

I, II, IV, XI, XII and XIII.

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Continued).

3. Exhibits:

*3(a) —Restated Articles of Incorporation of Texas Utilities Company (filed as Exhibit(b)(1)-a File No. 2-62268).

*3(b) —Bylaws, as amended, of Texas Utilities Company (filed as Exhibit 2(b)-2, File No. 2-60783).

*4(a) —DALLAS POWER & LIGHT COMPANY

Mortgage and Deed of Trust, dated as of February 1, 1937, between Dallas Power & Light Company and Old Colony Trust Company, Trustee (The First National Bank of Boston, successor Trustee), filed as Exhibit B-2, File No. 2-2801.

TEXAS ELECTRIC SERVICE COMPANY

Mortgage and Deed of Trust, dated as of March 1, 1945, between Texas Electric Service Company and The Fort Worth National Bank, Trustee, filed as Exhibit 7(b), File No. 2-5609.

TEXAS POWER & LIGHT COMPANY

Mortgage and Deed of Trust, dated as of May 1, 1945, between Texas Power & Light Company and Republic National Bank of Dallas, Trustee, filed as Exhibit 7(c), File No. 2-5718.

*4(b) —Supplemental Indentures to Mortgage and Deed of Trust:

DALLAS POWER & LIGHT COMPANY

Number	Dated	File Reference	Exhibit
First	April 1, 1949	2-7855	7(a)
Second	June 1, 1950	2-8466	7(a)-2
Third	March 1, 1953	2-10071	4(b)-3
Fourth	February 1, 1956	2-12200	2(b)-1
Fifth	December 1, 1956	Form 10-K for 1980	4(c)
Sixth	December 1, 1959	Form 10-K for 1980	4(c)
Seventh	February 1, 1963	2-20997	2(b)-7
Eighth	January 1, 1966	Form 10-K for 1980	4(c)
Ninth	February 1, 1967	2-25805	2(b)-9
Tenth	June 1, 1970	2-37161	2(c)
Eleventh	November 1, 1971	2-42043	2(c)
Twelfth	September 1, 1972	2-45403	2(c)
Thirteenth	March 1, 1975	2-52708	2(c)
Fourteenth	May 1, 1977	Form 10-K for 1980	4(c)

TEXAS ELECTRIC SERVICE COMPANY

Number	Dated	File Reference	Exhibit
First	October 1, 1947	2-7186	7(b)
Second	April 1, 1948	2-7423	7(c)
Third	April 1, 1949	2-7894	7(d)
Fourth	June 1, 1951	2-8982	7(e)
Fifth	May 1, 1952	2-9547	4(c)
Sixth	April 1, 1953	2-10118	4(c)
Seventh	March 1, 1955	2-12227	2(c)
Eighth	March 1, 1956	2-60449	2(b)-1
Ninth	July 1, 1957	2-60449	2(b)-1
Tenth	November 1, 1958	2-60449	2(b)-1

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Continued).

TEXAS ELECTRIC SERVICE COMPANY (Continued)

Number	Dated	File Reference	Exhibit
Eleventh	April 1, 1963	2-21105	2(b)
Twelfth	February 1, 1965	2-23056	2(b)
Thirteenth	February 1, 1966	2-24384	2(c)
Fourteenth	May 1, 1967	2-26297	2(c)
Fifteenth	March 1, 1969	2-31474	2(c)
Sixteenth	October 1, 1970	2-38358	2(c)
Seventeenth	April 1, 1971	2-39627	2(c)
Eighteenth	January 1, 1972	2-42552	2(c)
Nineteenth	April 1, 1974	2-60449	2(b)-1
Twentieth	December 1, 1974	2-60449	2(b)-1
Twenty-first	June 1, 1975	2-60449	2(b)-1
Twenty-second	March 1, 1976	2-60449	2(b)-1
Twenty-third	February 1, 1979	2-63425	2(c)
Twenty-fourth	March 1, 1980	2-66633	2(c)

TEXAS POWER & LIGHT COMPANY

Number	Dated	File Reference	Exhibit
First	October 1, 1947	2-7204	7(a)
Second	April 1, 1948	2-7446	7(a)
Third	April 1, 1952	2-9474	4(c)
Fourth	May 1, 1953	2-10204	4(c)
Fifth	October 1, 1954	2-11162	2(b)
Sixth	November 1, 1956	2-12856	4(c)
Seventh	December 1, 1958	2-14553	2(b)
Eighth	January 1, 1961	2-19452	2(b)-1
Ninth	February 1, 1963	2-21028	2(b)
Tenth	January 1, 1965	2-24326	2(c)
Eleventh	February 1, 1966	2-24326	2(d)
Twelfth	February 1, 1967	2-25885	2(c)
Thirteenth	January 1, 1968	2-27853	2(c)
Fourteenth	February 1, 1970	2-35941	2(c)
Fifteenth	September 1, 1970	2-38171	2(c)
Sixteenth	February 1, 1971	2-39083	2(c)
Seventeenth	February 1, 1972	2-42763	2(c)
Eighteenth	February 1, 1973	2-46740	2(c)
Nineteenth	February 1, 1974	Form 8-K for February 1974	(1)
Twentieth	October 1, 1974	Form 8-K for October 1974	(1)
Twenty-first	April 1, 1975	2-52865	2(c)
Twenty-second	January 1, 1976	2-55210	2(c)
Twenty-third	February 1, 1977	2-57963	2(c)
Twenty-fourth	February 1, 1979	2-63369	2(c)
Twenty-fifth	May 1, 1980	2-67594	(b)(2)-2

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Concluded).

*4(c) —DALLAS POWER & LIGHT COMPANY

Debenture Agreements between Dallas Power & Light Company and Morgan Guaranty Trust Company of New York, Trustee:

Dated	File Reference	Exhibit
February 1, 1964	2-22020	2(b)-10
February 1, 1968	2-28016	2(b)-13

TEXAS ELECTRIC SERVICE COMPANY

Debenture Agreements between Texas Electric Service Company and The First National Bank of Fort Worth, Trustee:

Dated	File Reference	Exhibit
February 1, 1960	2-16003	2(c)
February 1, 1968	2-27908	2(d)

TEXAS POWER & LIGHT COMPANY

Debenture Agreements between Texas Power & Light Company and First National Bank in Dallas, Trustee:

Dated	File Reference	Exhibit
January 1, 1962	2-19452	2(c)-2
January 1, 1964	2-21962	2(c)-3
April 1, 1969	2-31966	4(c)

4(d) —Agreement to furnish certain debt instruments.

22 —Subsidiaries of Texas Utilities Company.

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* Incorporated herein by reference as indicated

(b) Reports on Form 8-K:

The Company filed reports on Form 8-K during the quarter ended December 31, 1980, as follows:

October 7, 1980—Item 5. OTHER MATERIALLY IMPORTANT EVENTS. Dallas Power made applications on September 26, 1980, to the Public Utility Commission of Texas and to the cities of Dallas, Highland Park, University Park and Cockrell Hill, for upward adjustments in electric service rates estimated to increase operating revenues of that company for the test year ended June 30, 1980, by approximately $81.7 million, or 16.4%. (See Part I, Item 1, Business—Regulation and Rates.)

November 5, 1980—Item 5. OTHER MATERIALLY IMPORTANT EVENTS. Texas Electric received a rate order issued by the Public Utility Commission of Texas on October 3, 1980, which recognized a revenue deficiency of approximately $69.4 million, or about 10.1%, based on a test year ended March 31, 1980. (See Part I, Item 1, Business—Regulation and Rates.)

TEXAS UTILITIES COMPANY

AND

TEXAS UTILITIES COMPANY AND SUBSIDIARIES CONSOLIDATED

SCHEDULE III—INVESTMENTS IN AND DIVIDENDS RECEIVED FROM SUBSIDIARIES

For the Years Ended December 31, 1980, 1979 and 1978

COLUMN A	COLUMN B		COLUMN C		COLUMN E		COLUMN F
	Balance at Beginning of Year		Additions		Balance at End of Year		Dividends Received
Name of Issuer and Title of Issue	Number of Shares	Thousands of Dollars	Equity in Undistributed Earnings of Subsidiaries	Common Stock Purchased	Number of Shares	Thousands of Dollars	Thousands of Dollars
			Thousands of Dollars				
Year Ended December 31, 1980							
Subsidiaries consolidated—common stock							
Texas Utilities Company investments							
Dallas Power & Light Company	13,952,130	$ 388,675	$ 27,782	$ 30,868	14,998,300	$ 447,325	$ 32,996
Texas Electric Service Company	25,000,000	600,403	47,608	50,000	27,000,000	698,011	58,320
Texas Power & Light Company	32,350,000	806,335	64,021	50,000	34,350,000	920,356	75,864
Texas Utilities Services Inc.	1,000	100	—	—	1,000	100	—
Texas Utilities Generating Company	100,000	1,000	—	—	100,000	1,000	—
Texas Utilities Fuel Company	100,000	1,000	—	—	100,000	1,000	—
Chaco Energy Company	3,900,000	35,079	(1,646)	—	3,900,000	33,433	—
Basic Resources Inc.	100	(3,705)	(1,122)	—	100	(4,827)	—
Total		$1,828,887	$136,643	$130,868		$2,096,398	$167,180
Texas Electric Service Company investment— Old Ocean Fuel Company	25,000	$ 500	$ —	$ —	25,000	$ 500	$ —
Year Ended December 31, 1979							
Subsidiaries consolidated—common stock							
Texas Utilities Company investments							
Dallas Power & Light Company	12,952,250	$ 352,290	$ 6,889	$ 29,496	13,952,130	$ 388,675	$ 32,337
Texas Electric Service Company	24,000,000	553,850	21,553	25,000	25,000,000	600,403	50,500
Texas Power & Light Company	30,750,000	722,264	44,071	40,000	32,350,000	806,335	65,194
Texas Utilities Services Inc.	1,000	100	—	—	1,000	100	—
Texas Utilities Generating Company	100,000	1,000	—	—	100,000	1,000	—
Texas Utilities Fuel Company	100,000	1,000	—	—	100,000	1,000	—
Chaco Energy Company	3,900,000	35,938	(859)	—	3,099,000	35,079	—
Basic Resources Inc.	100	(2,861)	(844)	—	100	(3,705)	—
Total		$1,663,581	$ 70,810	$ 94,496		$1,828,887	$148,031
Texas Electric Service Company investment— Old Ocean Fuel Company	25,000	$ 500	$ —	—	25,000	$ 500	$ —
Year Ended December 31, 1978							
Subsidiaries consolidated—common stock							
Texas Utilities Company investments							
Dallas Power & Light Company	6,476,125	$ 335,146	$ 17,144	$ —	12,952,250(b)	$ 352,290	$ 19,105
Texas Electric Service Company	22,000,000	477,953	25,897	50,000	24,000,000	553,850	46,080
Texas Power & Light Company	30,750,000	675,047	47,217	—	30,750,000	722,264	59,040
Texas Utilities Services Inc.	1,000	100	—	—	1,000	100	—
Texas Utilities Generating Company	100,000	1,000	—	—	100,000	1,000	—
Texas Utilities Fuel Company	100,000	1,000	—	—	100,000	1,000	—
Chaco Energy Company	3,900,000	37,996	(2,058)	—	3,900,000	35,938	—
Basic Resources Inc.	100	(6)	(2,855)	—	100	(2,861)	—
Total		$1,528,236	$ 85,345	$ 50,000		$1,663,581	$124,225
Texas Electric Service Company investment— Old Ocean Fuel Company	25,000	$ 500	$ —	$ —	25,000	$ 500	$ —

(a) Column D has been omitted since the answers thereto are None in every respect.

(b) Effective November 1978, the 6,500,000 shares of outstanding common stock of Dallas Power & Light Company were split on a two-for-one basis into 13,000,000 shares without capitalization of retained earnings.

(c) In March 1981, Texas Utilities Company purchased 3,000,000 additional shares of the authorized but unissued common stock of Texas Power & Light Company for $85,500,000.

TEXAS UTILITIES COMPANY

AND

TEXAS UTILITIES COMPANY AND SUBSIDIARIES CONSOLIDATED

SCHEDULE V—UTILITY PLANT

For the Years Ended December 31, 1980, 1979 and 1978

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Classification	Balance at Beginning of Year	Additions at Cost	Retirements	Other Changes—Add (Deduct)	Balance at End of Year
			Thousands of Dollars		
Texas Utilities Company—not applicable.					
Subsidiaries consolidated					
Year Ended December 31, 1980					
Utility plant					
Electric plant in service					
Production	$2,776,069	$131,271	$14,685	$ —	$2,892,655
Transmission	751,595	66,261	1,831	—	816,025
Distribution	1,327,271	118,503	16,323	—	1,429,451
General	118,573	30,341	5,274	—	143,640
Total	4,973,508	346,376	38,113	—	5,281,771
Construction work in progress	1,577,946	477,892	—	—	2,055,838
Nuclear fuel	64,337	23,198	—	—	87,535
Held for future use	15,827	(2,094)	—	—	13,733
Total utility plant	$6,631,618	$845,372	$38,113	$ —	$7,438,877
Year Ended December 31, 1979					
Utility plant					
Electric plant in service					
Production	$2,394,364	$389,541	$ 7,836	$ —	$2,776,069
Transmission	699,366	54,891	2,662	—	751,595
Distribution	1,223,948	115,901	12,578	—	1,327,271
General	109,677	13,170	4,274	—	118,573
Total	4,427,355	573,503	27,350	—	4,973,508
Construction work in progress	1,365,910	305,957	—	(93,921)(a)	1,577,946
Nuclear fuel	52,145	18,142	—	(5,950)(a)	64,337
Held for future use	16,686	(859)	—	—	15,827
Total utility plant	$5,862,096	$896,743	$27,350	$(99,871)	$6,631,618
Year Ended December 31, 1978					
Utility plant					
Electric plant in service					
Production	$1,901,002	$500,959	$ 7,597	$ —	$2,394,364
Transmission	670,758	30,517	1,909	—	699,366
Distribution	1,148,113	87,840	12,005	—	1,223,948
General	97,386	15,394	3,103	—	109,677
Total	3,817,259	634,710	24,614	—	4,427,355
Construction work in progress	1,256,470	109,400	—	40	1,365,910
Nuclear fuel	22,400	29,745	—	—	52,145
Held for future use	14,908	1,818	—	(40)(b)	16,686
Total utility plant	$5,111,037	$775,673	$24,614	$ —	$5,862,096

(a) Amounts received from the sale of a 10% interest in the Comanche Peak nuclear station.

(b) Transfers to construction work in progress.

TEXAS UTILITIES COMPANY

AND

TEXAS UTILITIES COMPANY AND SUBSIDIARIES CONSOLIDATED

SCHEDULE VI—ACCUMULATED DEPRECIATION

For the Years Ended December 31, 1980, 1979 and 1978

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses(a)	Retirements	Other Changes—Add(b)	Balance at End of Year
			Thousands of Dollars		
Texas Utilities Company—not applicable.					
Subsidiaries consolidated					
Year Ended December 31, 1980					
Accumulated depreciation	$1,213,927	$181,835	$22,922	$5,814	$1,378,654
Year Ended December 31, 1979					
Accumulated depreciation	$1,057,068	$167,103	$15,497	$5,253	$1,213,927
Year Ended December 31, 1978					
Accumulated depreciation	$ 917,637	$151,188	$15,972	$4,215	$1,057,068

(a) Includes depreciation on lignite fuel production facilities charged to fuel.

(b) Depreciation and depletion charged to various accounts, including depreciation of transportation and work equipment, based on estimated lives thereof, charged to clearing accounts and allocated on the basis of the use of such equipment.

TEXAS UTILITIES COMPANY

SCHEDULE VII—GUARANTEES OF SECURITIES OF SUBSIDIARIES

December 31, 1980

COLUMN A	COLUMN B	COLUMN C	COLUMN F
Name of Issuer of Security	Title of Issue	Total Amount Guaranteed and Outstanding Thousands of Dollars	Nature of Guarantee
Texas Utilities Fuel Company(b)	Guaranteed Short-term Bank Loan	$ 50,000	Principal and Interest
Texas Utilities Fuel Company	8.50% Guaranteed Senior Notes	$100,000	Principal and Interest

(a) Column D, E and G have been omitted since the answers thereto are None in every respect.

(b) Bank loan is at a rate at all times equal to the prime commercial lending rate; such loan was repaid on February 17, 1981.

TEXAS UTILITIES COMPANY

AND

TEXAS UTILITIES COMPANY AND SUBSIDIARIES CONSOLIDATED

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 1980, 1979 and 1978

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		Additions			
Description	Balance at Beginning of Year	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance at End of Year
		Thousands of Dollars			
Texas Utilities Company—not applicable.					
Subsidiaries consolidated					
Year Ended December 31, 1980					
Valuation account, deducted from related asset on the balance sheet—					
Allowance for uncollectible accounts	$4,838	$9,352	$ —	$7,672 (a)	$6,518
Balance sheet reserve—					
Reserve for insurance and casualties	5,122	4,158	—	4,267 (b)	5,013
Year Ended December 31, 1979					
Valuation account, deducted from related asset on the balance sheet—					
Allowance for uncollectible accounts	$4,325	$6,273	$ —	$5,760 (a)	$4,838
Balance sheet reserve—					
Reserve for insurance and casualties	7,628	4,314	—	6,820 (b)	5,122
Year Ended December 31, 1978					
Valuation account, deducted from related asset on the balance sheet—					
Allowance for uncollectible accounts	$3,484	$5,798	$ —	$4,957 (a)	$4,325
Balance sheet reserve—					
Reserve for insurance and casualties	5,583	1,326	—	(719)(b)	7,628

(a) Deductions from the allowance represent uncollectible accounts written off less recoveries of amounts previously written off.

(b) Deductions from the reserve for 1980 and 1979 represent major uninsured losses. Additions to the reserve for 1978 represent a partial recovery of major uninsured losses that occurred in 1977.

TEXAS UTILITIES COMPANY

AND

TEXAS UTILITIES COMPANY AND SUBSIDIARIES CONSOLIDATED

SCHEDULE IX—SHORT-TERM BORROWINGS

For the Years Ended December 31, 1980, 1979 and 1978

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Category of Aggregate Short-term Borrowings	**Balance At End of Year**	**Weighted Average Interest Rate**	**Maximum Amount Outstanding During Year**	**Weighted Average Amount Outstanding During Year(a)**	**Weighted Average Interest Rate During Year(a)**
			Thousands of Dollars		
Year Ended December 31, 1980					
Texas Utilities Fuel Company					
Amounts payable to banks for borrowings(b)	$ 50,000	21.50%	$ 50,000	$ —	21.50%
Texas Utilities Company					
Holders of commercial paper	165,910(c)	18.27	336,830	234,400	12.66
Year Ended December 31, 1979					
Texas Utilities Company					
Holders of commercial paper	$175,700(c)	13.84%	$377,825	$253,000	11.07%
Year Ended December 31, 1978					
Texas Utilities Company					
Holders of commercial paper	$221,355(c)	10.26%	$352,527	$247,400	7.85%

(a) Weighted averages are based upon daily amounts outstanding and equivalent annual interest thereon.

(b) Bank loan is at a rate at all times equal to the prime commercial lending rate; such loan was repaid on February 17, 1981.

(c) Commercial paper outstanding at December 31, 1980, 1979 and 1978, maturing at intervals up to 44, 45, and 32 days, respectively.

TEXAS UTILITIES COMPANY

AND

TEXAS UTILITIES COMPANY AND SUBSIDIARIES CONSOLIDATED

SCHEDULE X—SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 1980, 1979 and 1978

COLUMN A	COLUMN B		
	Charged to Expenses and Other Accounts		
	December 31,		
Item	1980	1979	1978
	Thousands of Dollars		
Depreciation of lignite fuel production facilities and transportation and other work equipment in addition to amounts set forth in the Statement of Consolidated Income, charged to various accounts	$ 25,723	$ 22,062	$ 21,065
Taxes other than income:			
Ad valorem	$ 48,606	$ 45,553	$ 42,498
Local gross receipts	48,244	41,167	37,564
State gross receipts	29,825	23,887	22,355
State franchise	11,527	10,660	9,569
Federal and state social security	14,628	14,427	9,824
Miscellaneous	10,994	11,378	10,487
Total	$163,824	$147,072	$132,297
Charged to:			
Operating expenses	$144,266	$127,155	$114,989
Utility plant and sundry accounts	19,558	19,917	17,308

Maintenance and repairs, depletion, amortization, rents, lease commitments, royalties, research and development, and advertising, other than amounts set out separately in the Statement of Consolidated Income, are not significant.

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.

TEXAS UTILITIES COMPANY

Date: March 27, 1981

By T. L. AUSTIN, JR.

(T. L. Austin, Jr., Chairman of the Board and Chief Executive)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
T. L. AUSTIN, JR. **(T. L. Austin, Jr., Chairman of the Board and Chief Executive)**	Principal Executive Officer and Director	
BURL B. HULSEY, JR. **(Burl B. Hulsey, Jr., President)**	President and Director	
ERLE NYE **(Erle Nye, Executive Vice President)**	Principal Financial Officer	
S. S. SWIGER **(S. S. Swiger, Controller)**	Principal Accounting Officer	
R. K. CAMPBELL **(R. K. Campbell)**	Director	
J. S. FARRINGTON **(J. S. Farrington)**	Director	March 27, 1981
W. M. GRIFFIN **(W. M. Griffin)**	Director	
W. G. MARQUARDT **(W. G. Marquardt)**	Director	
ABNER V. MCCALL **(Abner V. McCall)**	Director	
J. C. PACE, JR. **(J. C. Pace, Jr.)**	Director	
CHARLES N. PROTHRO **(Charles N. Prothro)**	Director	
WILLIAM H. SEAY **(William H. Seay)**	Director	

PROSPECTUS

5,000,000 Shares

TEXAS UTILITIES COMPANY

COMMON STOCK

(Without Par Value)

The Company's Common Stock is listed on the New York, Midwest and Pacific stock exchanges.

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 $17¾ A SHARE

	Price to Public	Underwriting Discounts and Commissions (1)	Proceeds to Company (2)
Per Share	$17.75	$0.53	$17.22
Total	$88,750,000	$2,650,000	$86,100,000

(1) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

(2) Before deducting estimated expenses of $225,000 payable by the Company.

These shares are offered, subject to prior sale, when, as and if accepted by the Underwriters named herein, and subject to approval of certain legal matters by Winthrop, Stimson, Putnam & Roberts, counsel for the Underwriters, and certain other conditions. It is expected that delivery of the certificates for the shares will be made on or about March 25, 1981, 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

GOLDMAN, SACHS & CO.

MERRILL LYNCH WHITE WELD CAPITAL MARKETS GROUP
Merrill Lynch, Pierce, Fenner & Smith Incorporated

SALOMON BROTHERS

March 18, 1981

No person is authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained in this Prospectus and, if given or made, any such information or representation must not be relied upon as having been authorized by the Company or any Underwriter. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof.

AVAILABLE INFORMATION

Texas Utilities Company (Company) is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. Certain information, as of particular dates, concerning directors and officers, their remuneration, and any material interest of such persons in transactions with the Company is disclosed in proxy statements distributed to shareholders of the Company and filed with the Commission. Such reports, proxy statements and other information can 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, 26 Federal Plaza, New York, New York; Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, California; and Room 800, Neil P. Anderson Building, 411 West Seventh Street, Fort Worth, Texas. Copies of such material can be obtained from the Public Reference Section of the Commission at 500 North Capitol Street, N.W., Washington, D.C. 20549 at prescribed rates. The Common Stock of the Company is listed on the New York, Midwest and Pacific stock exchanges, where reports, proxy statements and other information concerning the Company may be inspected.

TABLE OF CONTENTS

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, MIDWEST OR PACIFIC STOCK EXCHANGE OR ANY OTHER STOCK EXCHANGE ON WHICH THE COMMON STOCK HAS BEEN ADMITTED TO TRADING PRIVILEGES, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE COMPANY AND ITS SUBSIDIARIES

The Company was incorporated under the laws of the State of Texas in 1945 and has perpetual existence under the provisions of the Texas Business Corporation Act. The Company is a holding company and at November 30, 1980, owned 99.9 percent of the outstanding common stock of Dallas Power & Light Company (Dallas Power) and all of the outstanding common stock of Texas Electric Service Company (Texas Electric) and of Texas Power & Light Company (Texas Power). These three companies are electric utilities and are the principal subsidiaries of the Company. The Texas Utilities Company System (System) also includes six other subsidiaries which perform specialized functions within the System (see Business of Subsidiary Companies).

The principal executive offices of the Company are located at 2001 Bryan Tower, Dallas, Texas 75201; the telephone number is (214) 653-4600.

USE OF PROCEEDS

The Company proposes to use the net proceeds (estimated at $80,000,000) from the sale of the common stock offered hereby to repay a portion of short-term borrowings (commercial paper) incurred in connection with the interim financing of the construction programs of its subsidiaries. Such borrowings are expected to aggregate approximately $260,000,000 at the time of the sale of the common stock. (See Construction Programs).

DIVIDENDS AND PRICE RANGE

The Company has declared common stock dividends payable in cash in each year since its incorporation in 1945. Dividends declared per share for each of the years 1975 through 1979 and for the twelve months ended November 30, 1980, are set forth under Consolidated Financial Statistics. Regular quarterly dividends of 44¢ per share were paid on April 1, July 1 and October 1, 1980, and on January 2, 1981. On February 20, 1981, a quarterly dividend of 47¢ per share was declared payable April 1, 1981, to shareholders of record on March 6, 1981. Purchasers of the common stock offered hereby will not be entitled to this dividend.

Reference is made to Note 4 to Financial Statements regarding limitations upon payment of dividends on the common stocks of certain of the subsidiaries.

The price range of the common stock of the Company, on the New York Stock Exchange through January 23, 1976, and thereafter on the composite tape, as reported by The Wall Street Journal, was as follows:

	Price Range	
Year	High	Low
1976	$22¼	$17
1977	23⅜	18⅞
1978	22¼	18
1979	20⅛	16¾
1980	19⅜	14⅞
1981 (through March 17)	19	16¼

		Price Range	
Year		High	Low
1979	First Quarter	$20⅛	$18⅛
	Second Quarter	19⅞	18
	Third Quarter	19¾	18⅛
	Fourth Quarter	19⅝	16¾
1980	First Quarter	18⅝	14⅞
	Second Quarter	19⅜	16¼
	Third Quarter	18⅞	16¾
	Fourth Quarter	19⅜	15¾
1981	First Quarter (through March 17)	19	16¼

The last reported sale price on March 17, 1981, on the New York Stock Exchange and on the composite tape was \$17¾. The book value of the Company's common stock as of November 30, 1980, was \$21.58.

The Company has an Automatic Dividend Reinvestment and Common Stock Purchase Plan (Plan) which provides holders of shares of the Common Stock of the Company with a convenient and economical method of reinvesting cash dividends on Common Stock and making limited cash investments in additional shares of Common Stock at regular intervals without payment of any brokerage commission or service charge. Shareholders of record who elect to participate in the Plan may (i) have cash dividends on all shares of Common Stock registered in their names automatically reinvested in Common Stock (Dividend Reinvestment); (ii) continue to receive their cash dividends on Common Stock registered in their names but make limited cash investments in Common Stock, not less than \$25 nor more than \$3,000 per quarter (Stock Purchase); or (iii) reinvest the cash dividends on all shares registered in their names and also make limited cash investments in Common Stock. The price of shares purchased for Dividend Reinvestment shall be 95% of the average of the daily high and low sales prices for the Common Stock as reported on the consolidated tape for New York Stock Exchange listed securities for the five trading days ending with the quarterly dividend payment date. The price of shares purchased for Stock Purchase shall be 100% of such average. The Company reserves the right to suspend, modify, amend or terminate the Plan at any time.

GENERAL PROBLEMS OF THE INDUSTRY

The electric utility industry in general is currently experiencing problems in a number of areas, including the effects of inflation upon the cost of operations and upon construction expenditures, availability and increased cost of fuel for the generation of electric energy, the continued ability to recover fully increased fuel costs through automatic fuel adjustment clauses, supply and high cost of capital, difficulty in obtaining sufficient return on invested capital and in securing adequate rate increases when required, compliance with environmental and mining regulations, uncertainties regarding the construction and fueling of nuclear generating units, licensing and other delays affecting the construction of new facilities, and the effects of conservation in the use of electric energy. The System companies have been experiencing certain of these problems in varying degrees (see Management's Discussion and Analysis of Financial Condition and Results of Operations, Construction Programs, Fuel Supply, Regulation and Rates and Environmental Matters). The Company is unable to predict the future effect of such factors upon its operations or upon the operations of its subsidiary companies.

In addition, the National Energy Act (NEA), enacted in November 1978, seeks to promote conservation of energy and the development of more plentiful domestic energy sources through various regulatory and tax provisions. Among other things, NEA requires state regulatory authorities to give consideration to certain rate and other standards and load management techniques, and provides for compulsory interconnections and transmission of power under certain circumstances (see Regulation and Rates), and restricts the use of natural gas and oil (see Fuel Supply). The Company is unable to predict the future effect of this legislation upon its operations or upon the operations of its subsidiary companies.

CAPITALIZATION

The consolidated capitalization (including long-term debt due currently of $17,380,000) of the Company and subsidiaries as of November 30, 1980, and as adjusted to reflect (i) the expected sale, prior to the time of the sale of the common stock offered hereby, of approximately 794,000 shares of common stock for an estimated $14,000,000 pursuant to the Automatic Dividend Reinvestment and Common Stock Purchase Plan, the Employees' Thrift Plan and the Employee Stock Ownership Plan, and (ii) the sale of the common stock offered hereby (see Use of Proceeds), was as follows:

	Outstanding at November 30, 1980		As Adjusted	
	Amount	**Percent**	**Amount**	**Percent**
	Thousands of Dollars			
LONG-TERM DEBT (Note 6)				
First mortgage bonds	$1,841,000		$1,841,000	
Sinking fund debentures	68,517		68,517	
Pollution control revenue bonds	160,000		160,000	
Funds on deposit with trustee	(14,096)		(14,096)	
Senior notes	495,590		495,590	
Unamortized premium and discount	(5,360)		(5,360)	
Total	2,545,651	48.8%	2,545,651	47.9%
PREFERRED STOCKS, cumulative, without par value; outstanding—6,023,216 shares (Note 5)	600,109	11.5	600,109	11.3
COMMON STOCK, without par value: outstanding—96,048,097 shares; as adjusted—101,842,097 shares (Note 3)	1,197,548		1,291,548	
RETAINED EARNINGS (Note 4)	875,160		875,160	
Total	2,072,708	39.7	2,166,708	40.8
Total capitalization	$5,218,468	100.0%	$5,312,468	100.0%
NOTES PAYABLE (Note 2)	$ 200,715		$ 180,000*	

* Expected to aggregate approximately $260,000,000 at the time of the sale of the common stock offered hereby, including additional net short-term borrowings of $59,285,000 expected to be incurred subsequent to November 30, 1980.

See Notes to Financial Statements.

Based on the applicable most restrictive tests in their respective mortgages and articles of incorporation, as of November 30, 1980, Dallas Power, Texas Electric and Texas Power could issue first mortgage bonds or preferred stock amounting approximately to:

	First Mortgage Bonds	Preferred Stock
Dallas Power	$293,000,000	$200,000,000
Texas Electric	410,000,000	480,000,000
Texas Power	790,000,000	627,000,000

CONSOLIDATED FINANCIAL STATISTICS

	Twelve Months Ended					
	December 31,					November 30,
	1975	1976	1977	1978	1979	1980
TOTAL ASSETS end of period (thousands)	$3,245,663	$3,878,180	$4,563,806	$5,161,808	$5,821,933	$6,490,356
UTILITY PLANT end of period (thousands)	$3,736,126	$4,398,695	$5,111,037	$5,862,096	$6,631,618	$7,332,271
Accumulated provisions for depreciation end of period	716,726	813,837	917,637	1,057,068	1,213,927	1,366,118
Construction expenditures (including allowance for funds used during construction)	570,016	671,708	734,282	737,353	872,916	797,295
CAPITALIZATION end of period (thousands)						
Long-term debt	$1,334,881	$1,627,403	$1,859,057	$2,038,654	$2,368,612	$2,528,271
Preferred stocks	417,373	446,923	476,578	506,233	535,824	600,109
Common stock and retained earnings	1,024,491	1,266,086	1,432,830	1,624,298	1,830,472	2,072,708
Total	$2,776,745	$3,340,412	$3,768,465	$4,169,185	$4,734,908	$5,201,088
AVERAGE INTEREST RATE ON LONG-TERM DEBT end of period	6.9%	7.2%	7.3%	7.5%	7.8%	8.2%
AVERAGE DIVIDEND RATE ON PREFERRED STOCKS end of period	7.0%	7.1%	7.2%	7.3%	7.4%	7.7%
CONSOLIDATED NET INCOME (thousands)	$120,976	$147,920	$175,919	$200,738	$211,151	$294,351
DIVIDENDS DECLARED ON COMMON STOCK (thousands)	$ 74,400	$ 85,800	$103,250	$119,945	$142,262	$164,530
COMMON STOCK DATA						
Shares outstanding—average	60,000,000	64,625,000	73,194,444	79,026,787	86,319,396	93,045,075
Shares outstanding—end of period	60,000,000	70,000,000	75,000,000	80,665,889	87,985,098	96,048,097
Earnings per average share	$ 2.02	$ 2.29	$ 2.40	$ 2.54	$ 2.45	$ 3.16
Dividends declared per share	1.24	1.32	1.40	1.52	1.64	1.76
Book value per share—end of period	17.07	18.09	19.10	20.14	20.80	21.58
Earnings on average book value	12.1%	12.9%	13.0%	13.1%	12.2%	15.1%
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AS PERCENT OF CONSOLIDATED NET INCOME	26.1%	33.7%	33.3%	26.9%	28.2%	26.0%
FUNDS FROM OPERATIONS AS PERCENT OF CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)	28.5%	29.7%	36.4%	44.1%	40.3%	52.9%

CONSOLIDATED OPERATING STATISTICS

	Twelve Months Ended					
	December 31,					November 30,
	1975	1976	1977	1973	1979	1980
Electric Energy Generated and Purchased (mwh)						
Generated—net station output	45,862,942	47,573,856	53,156,235	57,196,077	58,051,429	62,537,108
Purchased and net interchange	225,718	46,656	72,845	79,688	75,695	96,233
Total generated and purchased	46,088,660	47,620,512	53,229,080	57,275,765	58,127,124	62,633,341
Company use, losses, and unaccounted for	3,238,645	3,290,124	3,549,768	4,041,486	4,001,684	4,386,337
Total electric energy sales	42,850,015	44,330,388	49,679,312	53,234,279	54,125,440	58,247,004
Fuel Mix for Electric Generation (percent)						
Gas	74.8%	68.3%	65.9%	58.0%	48.6%	49.1%
Oil	0.3	0.2	1.5	0.6	1.4	0.1
Lignite	24.9	31.5	32.6	41.4	50.0	50.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Electric Energy Sales (mwh)						
Residential	14,575,846	14,548,407	16,642,382	17,943,224	17,394,402	19,762,038
Commercial	11,026,495	11,338,371	12,347,755	13,117,202	13,264,436	14,602,770
Industrial	12,962,019	13,917,588	15,678,254	16,469,636	17,275,859	17,556,288
Government and municipal	1,333,765	1,425,665	1,565,518	1,728,056	1,669,726	1,776,504
Total general business	39,898,125	41,230,031	46,233,909	49,258,118	49,604,423	53,697,600
Other electric utilities	2,951,890	3,100,357	3,445,403	3,976,161	4,521,017	4,549,404
Total electric energy sales	42,850,015	44,330,388	49,679,312	53,234,279	54,125,440	58,247,004
Operating Revenues—Electric (thousands)						
Residential	$374,480	$ 442,204	$ 552,331	$ 640,611	$ 672,340	$ 870,522
Commercial	251,882	303,785	375,822	439,146	488,170	586,014
Industrial	182,491	238,426	310,811	373,456	419,224	479,319
Government and municipal	25,337	32,390	40,331	49,623	54,565	67,513
Total general business	834,190	1,016,805	1,279,295	1,502,836	1,634,299	2,003,368
Other electric utilities	39,764	53,052	69,975	87,592	105,306	121,381
Total from electric energy sales	873,954	1,069,857	1,349,270	1,590,428	1,739,605	2,124,749
Other operating revenues	14,782	12,473	18,508	13,928	16,684	20,257
Total operating revenues	$888,736	$1,082,330	$1,367,778	$1,604,356	$1,756,289	$2,145,006
Electric Customers (end of period)						
Residential	1,090,798	1,122,358	1,159,885	1,221,468	1,287,701	1,353,360
Commercial	140,085	146,287	153,658	160,170	164,291	171,325
Industrial	16,405	16,688	17,216	17,953	18,654	19,631
Government and municipal	10,736	11,121	11,274	11,260	11,257	10,951
Total general business	1,258,024	1,296,454	1,342,033	1,410,851	1,481,903	1,555,267
Other electric utilities	63	59	60	62	80	81
Total electric customers	1,258,087	1,296,513	1,342,093	1,410,913	1,481,983	1,555,348
Residential classification includes indirect sales (apartments, etc.); dwelling units not included in number of customers	236,055	240,672	248,755	243,886	240,164	226,906
Industrial classification includes interruptible service to Alcoa:						
Electric energy sales (mwh)	2,038,618	1,822,488	2,786,027	2,891,259	3,076,399	2,941,074
Operating revenues (thousands)	$18,704	$20,052	$36,878	$41,572	$48,400	$49,661

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

The primary capital requirements for 1980 and as estimated for 1981 through 1983 are as follows:

	1980	1981	1982	1983
	Thousands of Dollars			
Construction expenditures (excluding AFUDC)....	$729,000	$764,000	$765,000	$783,000
Nuclear fuel and non-utility property......................	30,000	26,000	80,000	111,000
Maturities of long-term debt and sinking fund requirements..	40,000	17,000	28,000	41,000
Total	$799,000	$807,000	$873,000	$935,000

For detail concerning major new construction work now in progress or contemplated by the subsidiary companies, commitments with respect thereto and funds received for an interest in the Comanche Peak nuclear station, see Construction Programs.

The System generates funds from operations to finance a significant portion of capital requirements. These funds are derived from consolidated net income after payment of common stock dividends, and from depreciation, deferred taxes, and federal investment tax credits. Factors affecting the ability of the electric utility subsidiaries to fund a portion of their capital requirements from operations include regulatory practices allowing a substantial portion of construction work in progress in rate base, adequate depreciation rates, normalization of federal income taxes, full current recovery of the cost of fuel used in the generation of electricity, and the opportunity to earn competitive rates of return required in the capital markets. For the twelve months ended November 30, 1980, approximately 53% of the funds needed for construction was generated from operations.

External funds of a permanent or long-term nature are obtained by the System through the sale of common stock by the Company, and the sales of preferred stocks and long-term debt by the subsidiary companies. The capitalization ratios of the System at November 30, 1980, consisted of approximately 49% long-term debt, 11% preferred stocks, and 40% common stock and retained earnings, and similar ratios are expected to be maintained in the future. For information regarding bank lines of credit and short-term borrowings of the Company, see Note 2 to Financial Statements.

In addition to the external financing outlined under Capitalization, the System also expects to sell additional securities as needed, in amounts and of types presently undetermined. Although the System companies cannot predict future regulatory practices and are to some degree exposed to fluctuating economic and securities market conditions, no changes are expected in trends or commitments which might significantly alter their basic financial position or ability to finance capital requirements in the future (see Regulation and Rates).

See Consolidated Financial Statistics for additional information.

Results of Operations

Increases in operating revenues include rate increases granted the electric utility subsidiaries, recovery of higher fuel costs on a current basis, customer growth, and increased energy consumption by customers (see Consolidated Operating Statistics, Fuel Supply and Regulation and Rates). Energy consumption per customer is affected by material variations in weather conditions and was particularly impacted by warmer summer and colder winter weather in 1977 and 1978, and by the unusually hot and dry summer of 1980 compared to the relatively mild summer of 1979. Customer consumption also reflects the effects of energy conservation on the part of some customers.

Operation and maintenance expenses have increased substantially as a result of the continuing inflationary pressures on the cost of labor, materials and services, the additional lignite-fueled generating units placed in service during 1977, 1978 and 1979, and the higher costs of operating and maintaining existing lignite-fueled generating units, including the additional costs of operating and maintaining the pollution control equipment required in connection therewith and unscheduled maintenance on several such units in 1979. Increases in state, local and miscellaneous taxes resulted primarily from increases in revenue and property based taxes. See Fuel Supply for a comparison of unit costs of fuel consumed.

Increases in allowance for funds used during construction are primarily attributable to increases in the amount of construction work in progress of the electric utility subsidiaries not allowed in rate base by regulatory authorities, and for the twelve months ended November 30, 1980, an increase in the AFUDC rate effective November 1979 accompanied by the commencement of semi-annual compounding. Increases in other income and deductions—net for 1979 and the twelve months ended November 30, 1980, reflect increased income, from a large industrial customer (Alcoa), of one electric utility subsidiary for construction of generating facilities, and increases in interest income.

In addition to the impact of the factors mentioned above, the decrease in earnings per share of common stock for 1979 reflects the need for adequate rate relief and the dilutive effect of sales of additional shares of common stock during the year.

The electric utility subsidiaries expect to pursue adequate and timely rate relief in the future to offset the effects of increases in the costs of providing electric service. The Company has prepared supplementary information concerning the effects of changing prices in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33; such information is included following the Notes to Financial Statements.

Recent consolidated operating results, all unaudited, are as follows:

	Twelve Months Ended January 31, 1981
Operating Revenues—Electric	$2,211,503,000
Consolidated Net Income	$ 307,052,000
Earnings Per Share of Common Stock	$3.25

These amounts include all adjustments (constituting only normal recurring accruals) necessary for a fair statement of the results of operations for the twelve months ended January 31, 1981. The factors which affected the results of operations for the twelve months ended November 30, 1980, are generally applicable for the twelve months ended January 31, 1981. See Management's Discussion and Analysis of Financial Condition and Results of Operations above.

BUSINESS OF SUBSIDIARY COMPANIES

The principal subsidiaries of the Company—Dallas Power, Texas Electric and Texas Power—are engaged in the generation, purchase, transmission, distribution and sale of electric energy in adjoining service areas in the north central, eastern and western parts of the State of Texas, with a population estimated at more than 4,000,000—about one-third of the population of Texas. The transmission lines of the three companies are interconnected and constitute an integrated system through which the output of the steam electric generating stations is distributed in the service area. (See Consolidated Operating Statistics.)

Dallas Power provides electric service primarily in Dallas County, including the cities of Dallas, Highland Park, University Park and Cockrell Hill and some of the adjacent unincorporated areas. The area is a banking, insurance and commercial center with substantial electronics and aerospace manufacturing and a variety of light industry.

Texas Electric provides electric service in 48 counties in north central and west Texas, including the cities of Fort Worth, Wichita Falls, Midland, Odessa, Arlington, Grand Prairie and 72 other incorporated municipalities. The territory served includes a major portion of the Permian Basin oil and gas area, and other oil fields and substantial cattle and farming sections in west Texas. Automotive and aircraft assembly, petrochemical, and specialized steel manufacturing are among the larger industrial activities. Fort Worth is a center of banking, business and industry. The area served between Fort Worth and Dallas is a highly diversified complex of light industry, warehousing and commercial development, and contains a variety of recreational attractions.

Texas Power provides electric service in 51 counties in north central and east Texas, including the cities of Irving, Waco, Tyler, Mesquite, Richardson, Killeen, Temple, Sherman, Denison, Paris, Lufkin, Brownwood and 252 other incorporated municipalities. The territory served includes the rich agricultural blacklands of central Texas, the farming and ranching sections north and east of Dallas, part of the oil and gas fields of east Texas and the Dallas-Fort Worth Airport. The area has a highly diversified industrial base of light and heavy manufacturing, including electronics, oil field equipment, aluminum smelting, tires and air conditioning equipment and oil and gas production.

Texas Utilities Services Inc. (Service Company), a subsidiary of the Company, furnishes engineering, financial and other services at cost to the System companies.

Texas Utilities Generating Company (Generating Company), a subsidiary of the Company, acts for the three electric utility subsidiaries in the operation of their jointly owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for the surface mining and recovery of lignite for use as fuel at such stations.

Texas Utilities Fuel Company (Fuel Company), a subsidiary of the Company, owns a natural gas pipeline system, acquires, stores, and delivers fuel gas and oil and provides other fuel services for the three electric utility subsidiaries for the generation of electric energy.

Old Ocean Fuel Company (Old Ocean), a subsidiary of Texas Electric, owns and operates facilities for transporting and storing fuel gas primarily for that company.

Chaco Energy Company (Chaco), a subsidiary of the Company, was organized to own and operate facilities for the acquisition, production and delivery of coal and other fuels.

Basic Resources Inc. (Basic), a subsidiary of the Company, is engaged in the development of natural resources, primarily energy sources, and related technology and services.

PEAK LOADS AND CAPABILITY

System net capability, peak load and reserve at the time of the System peak are given below:

Year	Net Capability (megawatts)	Peak Load(a) Megawatts	Peak Load(a) Increase (Decrease) Over Prior Year	Reserve(b) (megawatts)
1976	13,864	10,002	5.2%	3,862
1977	14,919	10,525	5.2	4,394
1978	15,932	11,232	6.7	4,700
1979	17,432	10,880	(3.1)	6,552
1980	17,412	12,591	15.7	4,821

(a) Excluding interruptible load of Alcoa.

(b) Excess of net capability over peak load at time of the System peak.

The System peak load in 1980 occurred on July 2; summer weather in the service area was generally warmer than normal accompanied in many areas by below average rainfall. The service area experienced several periods when maximum temperatures and cooling degree days were considerably above normal. During the last several years, reserve margins have been higher than in prior years due to the shift away from natural gas to lignite, as the principal boiler fuel (see Fuel Supply).

PROPERTY

The Company owns no electric plant or real property. At November 30, 1980, System companies owned and operated 77 electric generating units at twenty-three stations having a total net capability of 17,317 megawatts. The locations of the principal electric generating stations and transmission lines of the electric utility subsidiaries are indicated on the map included herein. Forty-six generating units with a net capability of 9,308 megawatts use natural gas as the primary fuel and are designed to use fuel oil for short periods when the gas supply is interrupted or curtailed; five units with a net capability of 2,680 megawatts are designed to burn gas or oil on a continuous basis; eight units with a net capability of 5,300 megawatts use lignite as fuel; and eighteen units with a net capability of 29 megawatts are diesel and use oil. In addition, one electric utility subsidiary purchases 95 megawatts of firm power from other sources. The following schedule shows the number of generating stations and net capability of the System companies at November 30, 1980:

	Generating Stations	Net Capability (megawatts)
Dallas Power	5	2,955
Texas Electric	6	4,256
Texas Power	9	4,806
Jointly owned*	3	5,300
System	23	17,317
From other sources		95
Total		17,412

* By the three electric utility subsidiaries.

The principal generating facilities and load centers of the System are connected by 3,118 circuit miles of 345,000 volt transmission lines and 8,587 circuit miles of 138,000 and 69,000 volt transmission lines.

The interconnected electric systems of the subsidiary companies are connected by two 345,000 volt circuits to Houston Lighting & Power Company; by five 138,000 volt and eight 69,000 volt lines to West Texas Utilities Company; by one 345,000 volt, four 138,000 volt and one 69,000 volt lines to Lower Colorado River Authority; and at several points with smaller systems operating wholly within Texas. The electric utility subsidiaries are members of the Texas Interconnected Systems (TIS), an intrastate network of six major investor-owned and seven public entities (see Regulation and Rates), and of the Electric Reliability Council of Texas (ERCOT), the regional reliability coordinating organization for electric power systems in Texas.

During the period from January 1, 1975 to November 30, 1980, the System companies made gross property additions of $4,413,034,000 and retirements of property aggregating $257,772,000. Such gross additions amounted to 60.2% of utility plant at November 30, 1980.

CONSTRUCTION PROGRAMS

Construction expenditures for additions to utility plant for the year 1980, and as estimated for the years 1981 through 1983 (net of participation by others) are as follows:

	1980	1981	1982	1983
	Thousands of Dollars			
Electric property:				
Production	$430,000	$423,000	$417,000	$362,000
Transmission	71,000	95,000	102,000	116,000
Distribution	110,000	130,000	143,000	169,000
General	23,000	26,000	26,000	28,000
Fuel facilities:				
Gas	13,000	10,000	6,000	4,000
Lignite	82,000	80,000	71,000	104,000
Total	729,000	764,000	765,000	783,000
AFUDC	78,000	86,000	85,000	92,000
Total construction expenditures	$807,000	$850,000	$850,000	$875,000
Such expenditures do not include:				
Nuclear fuel	$ 23,000	$ 13,000	$ 47,000	$ 63,000
Non-utility property	7,000	13,000	33,000	48,000

The subsidiary companies are subject to federal, state and local regulations dealing with environmental protection (see Environmental Matters). Construction expenditures for lignite-fueled generating units (Electric property-Production) for additional items of equipment contributing to the protection of the environment, are estimated to include approximately $45,000,000 for 1980, $36,000,000 for 1981, $13,000,000 for 1982, and $26,000,000 for 1983. Similar such expenditures approximated $29,200,000 for 1975, $47,300,000 for 1976, $70,000,000 for 1977, $44,200,000 for 1978 and $32,000,000 for 1979.

Additional generating units now in design or under construction (net of participation by others), and the year each is scheduled for service, are as follows:

Ownership	Station(a)	Fuel	Unit No.	Scheduled for Service	System Share: Unit Net Capability (megawatts)	System Share: Expenditures Through December 31, 1980	System Share: Estimated Completed Cost	System Share: Estimated Completed Cost per Megawatt(b)
						Thousands of Dollars		
Texas Power	Sandow	Lignite	4	1981	545	$ 233,323	$ 244,000	$ 448
Jointly Owned(c)	Comanche Peak	Nuclear	1	1982	985	1,313,311	1,895,000	972
			2	1984	985			
Texas Power(d)	Twin Oak	Lignite	1	1986	562	60,223	892,000	793
			2	1988	563			
Jointly Owned(c)	Forest Gr e	Lignite	1	1989	750	99,591	804,000	1,072
Jointly Owned(c)	Martin L ke	Lignite	4	1990	750	34,420	492,000	656

(a) Subject to approval of various regulatory agencies, including the Nuclear Regulatory Commission in the case of Comanche Peak.

(b) Except for Comanche Peak which reflects the total cost of the project for all participants.

(c) By the electric utility subsidiaries; except Comanche Peak which is net of the participation of Texas Municipal Power Agency (6.2%) and Brazos Electric Power Cooperative, Inc. (3.8%) and the anticipated participation of Tex-La Electric Cooperative of Texas, Inc. (4⅓%).

(d) Capacity owned in a joint project with Alcoa.

As a result of design changes and modifications required by the NRC and of delays in obtaining an operating license, in July 1980, the in-service dates of Units 1 and 2 at the Comanche Peak station were delayed from 1981 and 1983 to 1982 and 1984, respectively. In addition, as a result of the Company's continuing review of projected customer demand, the Company announced deferrals in the in-service date of other units under construction as follows: Twin Oak Unit 1 from 1985 to 1986, Twin Oak Unit 2 from 1986 to 1988, Martin Lake Unit 4 from 1985 to 1990 and Forest Grove Unit 1 from 1987 to 1989. The above chart reflects the foregoing delays and the resulting increased construction costs.

In January 1981, Texas Power sold a 4⅓% undivided interest in the Comanche Peak station, nuclear fuel and associated transmission facilities to Tex-La Electric Cooperative of Texas, Inc. (Tex-La) for approximately $90,000,000. This sale, which is subject to NRC approval, will reduce the percentage ownership of Texas Power in such station to 31½%, with the interests of Dallas Power and Texas Electric remaining unchanged at 18⅓% and 35⅚%, respectively.

Following an incident at the Three Mile Island nuclear power plant, the NRC staff issued an "Action Plan" in June 1980, designed to provide a comprehensive and integrated plan to improve safety at nuclear power reactors. Efforts are underway to comply with applicable requirements of the Action Plan. Since many of the improvements indicated by the Three Mile Island accident had already been incorporated in the design of Comanche Peak, the Company believes that the modifications presently underway will not significantly impact either the scheduled completion or the estimated completed cost of the two units at the Comanche Peak station. However, if an operating license has not been issued by the time Unit No. 1 is ready for fuel loading, construction costs may increase and the in-service date may be delayed. It is not anticipated that any deferral of the Comanche Peak nuclear units will have a materially adverse effect upon the ability to provide adequate service or the results of operations of the System companies.

In decisions rendered in July 1976, the United States Court of Appeals for the District of Columbia Circuit, in two proceedings in which none of the System companies was a party, held that the NRC must, before granting construction permits or operating licenses, consider the environmental impact of reprocessing spent fuel and of waste disposal. In March 1977, the NRC adopted an interim rule with respect to such environmental impact and stated that all construction permits and operating licenses, including the construction permit for Comanche Peak, previously issued will remain in effect. In April 1978, the United States Supreme Court reversed the Circuit Court decisions, upheld the NRC review procedures and remanded one case to require the Circuit Court to determine if the NRC rule concerning such environmental impact was adequately supported by the rulemaking record. Before commencement of operations at Comanche Peak, an operating license must be obtained from the NRC for which application has been made (see Regulation and Rates). The Company cannot predict what effect this proceeding may have on its application for such operating license.

The effects of inflation on construction costs and reevaluation of growth expectations by the System companies may require changes in estimated completed costs and completion dates for certain generating units in design or under construction. Actual expenditures and dates of completion may further vary because of other uncertain factors such as weather conditions, licensing delays, and availability of fuel, labor, materials and capital. At November 30, 1980, construction of the additional generating units and other major projects was on schedule for completion and testing prior to the planned in-service dates. Commitments in connection with the construction programs, principally for generating plants and related facilities, are generally revocable by the System companies subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties.

Present estimates indicate that at least 50% of the funds required to finance the construction programs in 1981 will be provided from internal sources. System companies expect to sell securities as needed to finance the remainder of such programs, including (i) the anticipated private placement by Fuel Company in April 1981 of $50,000,000 of Senior Notes, (ii) the anticipated sale by Dallas Power in April 1981 of $50,000,000 principal amount of first mortgage bonds and 250,000 shares of preferred stock for approximately $25,000,000, (iii) the sale from time to time of shares of the Company's common stock pursuant to the Automatic Dividend Reinvestment and Common Stock Purchase Plan, the Employees' Thrift Plan and the Employee Stock Ownership Plan (see Note 3 to Financial Statements), (iv) the possible sale of additional pollution control revenue bonds and (v) the sale of the common stock offered hereby (see Use of Proceeds).

FUEL SUPPLY

Net input to the System for the twelve months ended November 30, 1980, was 62,633 million kilowatt-hours of which 62,537 million was generated in System stations. During this period, 690,620,284 million Btu's of fuel were consumed for electric generation at an average cost of 117¢ per million Btu: gas—164.8¢ per million Btu, oil—285.6¢ per million Btu, and lignite—70.4¢ per million Btu ($8.99 per ton); the fuel mix for electric generation during said period was as follows: gas—49.1%, oil—0.1%, and lignite—50.8%.

A comparison of the unit cost per million Btu of fuel consumed and the fuel mix for electric generation during the last five years is shown below:

	Unit Cost Per Million Btu					Fuel Mix For Electric Generation				
	1975	1976	1977	1978	1979	1975	1976	1977	1978	1979
Gas	73.0¢	101.0¢	123.5¢	137.0¢	140.5¢	74.8%	68.3%	65.9%	58.0%	48.6%
Oil	191.0	229.4	186.5	202.4	188.4	0.3	0.2	1.5	0.6	1.4
Lignite*	23.9	28.8	39.5	46.7	62.3	24.9	31.5	32.6	41.4	50.0
Average/Total	61.1¢	78.5¢	97.1¢	100.1¢	102.0¢	100.0%	100.0%	100.0%	100.0%	100.0%

* Lignite cost per ton: $3.12 for 1975; $3.75 for 1976; $5.21 for 1977; $6.28 for 1978; and $8.15 for 1979.

The cost of fuel and increases therein are recoverable under the fuel cost factors referred to under Regulation and Rates.

Gas

Fuel gas for units at nineteen of the principal generating stations of the System, having an aggregate net capability of 12,011 megawatts, is provided under contracts with five principal suppliers, including Fuel Company which supplied approximately 50% of the fuel gas requirements of the System companies for the twelve months ended November 30, 1980—38% under contracts principally with producers at the wellhead and 12% under contracts with Lone Star Gas Company (Lone Star) assigned to Fuel Company by Dallas Power and Texas Electric in June 1980 (see below). Lone Star also supplied approximately 19%

of the fuel gas requirements of the System for the same period under contracts with other System companies expiring at intervals through 1991. Short-term curtailments of gas deliveries have been experienced under the contracts with Lone Star during periods of peak demand on its delivery system; however, such curtailments have been of relatively short duration and have had no major impact on System operations. No curtailments have been experienced under contracts expiring through 1983 with the other principal suppliers providing the remaining 31% of the fuel gas requirements for the twelve month period.

In June 1980, several Lone Star Gas Company contracts held by two of the electric utility subsidiaries were assigned to Fuel Company. Concurrently with these assignments, supplemental agreements between Fuel Company and Lone Star Gas Company were signed which provide for (i) an increase in maximum daily and annual delivery obligations of Lone Star, (ii) an increase in the delivery points through which these supplies could flow to System generating stations, and (iii) an extension of the primary term through 1989 or 1990, with provision for year to year extension by mutual agreement. Additional fuel gas available to the System under these supplemental agreements will be used, together with other supplies, to meet the short-fall occasioned by the expiration of the contract for fuel gas from the Old Ocean Field.

One major contract with a principal supplier of fuel gas for Texas Electric from the Old Ocean Field in Brazoria County, Texas, expired at the end of 1980. Fuel gas supplied under this contract accounted for approximately 20% of the System fuel gas requirements during the twelve months ended November 30, 1980. Fuel Company has begun supplying the fuel gas previously provided under the expired contract.

Fuel Company owns and operates an intrastate natural gas pipeline system which extends from the gas-producing area of the Permian Basin in west Texas to the Fort Worth-Dallas area and eastward to the gas fields of east Texas. This system includes a one-half interest in a natural gas pipeline which extends 395 miles from the Permian Basin area of west Texas to a point of termination south of the Fort Worth-Dallas area. This 36-inch line has a total initial capacity of 550 million cubic feet of gas per day which can be increased at additional cost to 1,300 million cubic feet per day by the installation of compression. Fuel Company also owns and operates an additional 1,303 miles of various smaller capacity lines which are used to gather and transport natural gas from other gas-producing areas, including the gas fields of east Texas. Pipeline facilities of Fuel Company are interconnected with similar facilities of Old Ocean to form an integrated network through which fuel gas is gathered and transported to certain of the generating stations of the System companies for use in the generation of electric energy.

Fuel Company has acquired under contracts expiring at intervals through 2000, principally with producers at the wellhead, supplies of gas which are generally expected to be produced over a ten to fifteen year period. As gas production declines and/or contracts expire, new contracts are negotiated to replenish or augment such supplies. During the twelve months ended November 30, 1980, no curtailments were experienced under these contracts.

Fuel Company also owns and operates underground gas storage facilities with a usable capacity of 22.4 billion cubic feet. Gas stored in these facilities is currently capable of being withdrawn at a rate of approximately 215 million cubic feet per day for use during periods of peak demand or curtailment of deliveries by other gas suppliers. Old Ocean also owns and operates an underground gas storage reservoir with a usable capacity of 5.5 billion cubic feet. Gas from this facility is also available to meet seasonal and other fluctuations to the extent of approximately 145 million cubic feet per day.

In September 1975 and April 1976 suits were filed in the 149th Judicial District Court of Brazoria County, Texas and the United States District Court for the Southern District of Texas, Galveston Division, respectively, involving claims of the First National Bank of Chicago, the University of Chicago, Mobil Oil Corporation, Texaco, Inc. and certain owners of carried working interests in the Old Ocean Field from which substantial supplies of gas were furnished to Texas Electric under a contract which has expired. The claims involved an alleged failure to deliver gas and a substantial amount of unspecified damages. This litigation concerning Texas Electric's right to receive gas from the Old Ocean Field terminated favorably to Texas Electric in January 1981.

In September 1973, the Railroad Commission of Texas issued an interim order granting a rate increase to Lo-Vaca Gathering Company (Lo-Vaca), a purchaser and transporter of natural gas, a portion of which was ultimately purchased by Texas Electric. In a proceeding before the Railroad Commission, Gulf Oil Corporation (Gulf), a purchaser, filed an application in late 1978 to pass through these costs to Odessa Natural Corporation (Odessa) and Odessa filed a motion with the Railroad Commission to the effect that should Odessa be required to pay any additional amounts to Gulf, it should be allowed to pass these increased costs to Texas Electric, which purchased the gas from Odessa. Although Texas Electric cannot estimate the amount of costs at issue, such costs could be substantial and may involve retroactive charges which may not be recoverable by Texas Electric. Texas Electric, several municipalities served by it, the Public Utility Commission of Texas, and certain wholesale customers intervened in this matter in opposition to the motions of Gulf and Odessa. In December 1980 the Railroad Commission entered an order denying Gulf's claim from which Gulf filed an appeal in January 1981 in the 250th Judicial District Court of Travis County, Texas. Also, Texas Electric filed suit in the 53rd Judicial District Court of Travis County, Texas, contesting the jurisdiction of the Railroad Commission to grant Gulf its requested relief. A decision therein has been deferred until the determination of the appeal by Gulf from the final order of the Railroad Commission.

In November 1978, the Powerplant and Industrial Fuel Use Act of 1978 (Fuel Use Act) was enacted as part of the National Energy Act. Among other things, the Fuel Use Act (i) generally prohibits the use of natural gas and/or oil as a primary energy source in any new electric power plants, (ii) limits the use of natural gas as a primary energy source in existing electric power plants in any calendar year before 1990 in a greater proportion than the average yearly proportion of natural gas used during 1974 through 1976, and (iii) requires that natural gas use in such facilities cease by 1990 unless specific exemptions can be obtained. The Economic Regulatory Administration of the Department of Energy has issued regulations implementing this Act. In October 1980, System companies filed a petition to review these regulations in the United States Court of Appeals for the Fifth Circuit which petition has been transferred to the United States Court of Appeals for the Fourth Circuit. The Company is not able to state what impact this legislation or these regulations will have on future operations.

Oil

During the twelve months ended November 30, 1980, dependence by the electric utility subsidiaries upon fuel oil as an alternate source of boiler fuel amounted to 159,934 barrels of oil or 0.1% of total fuel requirements. Fuel oil is stored at all nineteen of the principally gas-fueled generating stations. At November 30, 1980, System companies had fuel oil storage capacity sufficient to accommodate the storage of approximately 6.8 million barrels of oil, with approximately 4.6 million barrels of oil in inventory. It is anticipated that oil required to replenish that removed from storage and consumed for the generation of electric energy will be met primarily from purchases in the open market. Improvements in the method of delivery of certain lighter grades of oil have been made through the construction of about nine miles of pipeline facilities connecting two generating stations with the pipeline of a fuel oil supplier. Fuel Company has access to an oil pipeline and owns terminal facilities to provide for more dependable and efficient movement of oil.

Lignite

Two units in service at the Big Brown generating station, three units at the Martin Lake generating station, and three units at the Monticello generating station (see Property), having an aggregate net capability of 5,300 megawatts, use lignite as fuel; five other lignite-fueled units, with an aggregate net capability to the System of 3,170 megawatts, are now in design or under construction (see Construction Programs). These lignite units, which will be base loaded to operate at the maximum practical load factor, have been or are being constructed adjacent to lignite reserves which will be surface mined. At the present time, System companies, along with Alcoa which is a joint-participant with Texas Power in the construction of the Twin Oak generating station (see Construction Programs), own in fee or have under lease an estimated 820 million proven recoverable tons of such reserves. The companies are engaged in an active program of core drilling and/or acquiring additional reserves. Generating Company owns and operates equipment to remove the overburden and to recover lignite. One lignite unit, Sandow No. 4 (see Construction Programs), will be owned by Texas Power and will be fueled from lignite deposits owned by Alcoa. For information concerning applicable air quality standards, see Environmental Matters.

Lignite production operations at the Big Brown, Martin Lake and Monticello generating stations are accompanied by an extensive reclamation program which returns the land to productive uses and includes a vegetation restoration program. Similar programs are planned for future lignite-fueled generating stations mentioned above. For information concerning federal and state legislation with respect to surface mining, see Environmental Matters.

Coal

Chaco has agreements with major leaseholders for sub-bituminous coal reserves totaling more than 120 million recoverable tons located in San Juan and McKinley counties in northwest New Mexico. Chaco has purchased an undivided one-third interest in such leaseholds and has the right to obtain the coal produced from the remaining two-thirds interest in substantially all of such leaseholds. Problems with respect to environmental impact studies and costs could affect the ability of Chaco to perfect its leasehold rights with respect to approximately 10 million tons of this coal. Chaco also has a lease agreement with a major mineral interest owner, Hospah Coal Company, a subsidiary of Santa Fe Industries, Inc., reported to cover more than 200 million additional tons of recoverable coal in the same area of New Mexico. (See Note 7 to Financial Statements.) In addition to these coal rights, totaling over 320 million tons of surface mineable coal above a depth of 150 feet, options are held on a reported additional tonnage below the 150 foot level. Surface mining operations by Chaco are not expected to commence before 1982; however, problems in respect to lease assignment approval, permitting, transportation and surface and water rights may delay operations to a later date.

Nuclear

Two nuclear-fueled units of 1,150 megawatts each under construction at the Comanche Peak station will provide 1,970 megawatts to the System. The first of such units is scheduled for service in 1982 and the second in 1984 (see Construction Programs). Commitments have been obtained for anticipated uranium ore concentrate requirements and fabrication services for both units for the first 17 years of operation. Uranium hexafluoride conversion services have been contracted for through 1987, and uranium enrichment contracts, having a duration of approximately 30 years, have been made with the Department of Energy. No arrangements have as yet been made for the reprocessing requirements for the Comanche Peak units and it is understood that at present there are no reprocessing plants in commercial operation in the United States. However, there will be on-site storage capacity for spent fuel sufficient to accommodate the operation of the units for approximately 17 years and this storage capacity can be increased. Additional contracts for uranium ore concentrates and nuclear fuel cycle services will be required in the future; however, it is not possible to predict the ultimate availability or cost thereof.

General

The companies are not able to state what problems may be encountered in the future in obtaining the fuel they will require for use in generating electric energy to serve their customers, or predict the effect upon their operations of any difficulty they may experience in protecting their rights to fuel now under contract or in acquiring fuel in the future, or the cost thereof, although the cost of fuel is recoverable under the fuel cost factors referred to under Regulation and Rates.

REGULATION AND RATES

Regulation

The Company is a holding company as defined in the Public Utility Holding Company Act of 1935 (Act). The Company and its subsidiary companies are presently exempt from the provisions of such Act, except as to Section 9(a)(2) which relates to acquisition of securities of public utility companies.

At present, the Company's electric utility subsidiaries do not transmit electric energy in interstate commerce or sell electric energy at wholesale in interstate commerce, or own or operate facilities therefor, and are not connected directly or indirectly to other systems which are involved in such interstate activities, except during the continuance of emergencies permitting temporary or permanent connections which do not subject them to the jurisdiction of the Federal Energy Regulatory Commission (FERC), successor to the Federal Power Commission (FPC) under the Federal Power Act. In view thereof, each such subsidiary believes that it is not a public utility as defined in the Federal Power Act and has been advised by its counsel that it is not subject to regulation under such Act as to the issuance of securities or otherwise; however, should the Company's electric utility subsidiaries become subject to the Federal Power Act, such subsidiaries would be subject to regulation by FERC with respect to rates for transmission and sale of electric energy at wholesale, the interconnection of facilities, the issuance of securities and to the extent FERC determines, accounting policies and practices.

The Public Utility Regulatory Policies Act of 1978 (PURPA), a constituent bill of the National Energy Act, grants power to FERC on its own authority or on application of any electric utility, cogenerator or state regulatory authority to order interconnections and transmission of power under certain circumstances. However, compliance with such an order involving interstate transmission of power would not subject System companies to the general jurisdiction of FERC. PURPA also requires state regulatory authorities to hold public hearings to consider the application of certain rate design and other standards and the mandatory use of load management techniques. System companies are unable at this time to assess the full effect of these and other provisions upon the results of their operations or financial condition.

The Public Utility Commission of Texas (PUC) has original jurisdiction over electric rates and service in unincorporated areas and exclusive appellate jurisdiction to review the rate and service orders and ordinances of municipalities. Each municipality within the System service area has original jurisdiction over the regulation of electric rates and service within its corporate limits until such time that any such municipality may elect to have the PUC exercise original jurisdiction. Approximately 19% of System revenues are derived from electric energy sales to customers in unincorporated areas. (See also Fuel Supply and Environmental Matters for information relating to the Railroad Commission of Texas).

Central and South West Corporation (CSW) is a holding company with electric utility subsidiaries operating in Arkansas, Louisiana, Oklahoma and Texas. For many years, CSW has operated two separate systems—one interstate and part of the Southwest Power Pool (SWPP), and the other an intrastate system tied in with the Texas Interconnected Systems (TIS), an intrastate network of six major investor-owned and seven public entities. TIS includes Central Power & Light Company (CP&L), the southern part of West Texas Utilities Company (WTU), both of which are CSW subsidiaries, Houston Lighting & Power Company (HL&P), and the electric utility subsidiaries of the Company, among others. On May 4, 1976, CSW put its Texas system into interstate commerce, and by that act also connected the other parties in TIS to Oklahoma through WTU. Texas Electric promptly disconnected from WTU and returned to intrastate operation. Also, on that date subsidiaries of CSW, asserting that the System electric utility companies were subject to the jurisdiction of the FPC, petitioned the FPC to require them to reestablish connections with the interstate facilities of the CSW system. In July 1976, the FPC issued an order finding that the System companies were not public utilities as defined in the Federal Power Act. On appeal, the United States Court of Appeals for the District of Columbia Circuit has remanded this order to FERC, as successor to the FPC, for further clarification.

On May 2, 1977, in Docket No. 14, the PUC entered an interim order requiring WTU and CP&L in effect to return to their pre-May 4, 1976 mode of operation, and further requiring WTU to sever the interstate ties into Oklahoma. On May 4, 1977, after WTU had severed the interstate ties, interconnections were reestablished between its intrastate system and TIS. On June 2, 1977, the PUC entered a final order confirming its interim order and prohibiting any party operating a utility system connected with TIS from withdrawing from TIS or making connections with utility systems not so connected unless approved by the PUC or pursuant to judicial mandate or order of the FPC. In July 1977, the three electric utility subsidiaries of the Company intervened in a suit filed by WTU and CP&L in the 53rd Judicial District Court of Travis County, Texas, challenging the validity of the final order issued by the PUC in Docket No. 14. In May 1978, the Department of Energy and the FERC intervened contending that the PUC violated the United States Constitution and the Federal Power Act by ordering CSW to cease and not renew interstate power sales. A decision in this suit is pending.

In February 1979, certain subsidiaries of CSW filed an application with FERC under PURPA seeking generally to exempt CP&L and WTU from certain provisions of the PUC order in Docket No. 14 and to require System companies to operate interconnected with facilities in the CSW system, including interstate facilities. In July 1979, FERC issued an order instituting an investigation in the matter, which is currently proceeding. In October 1980, the System electric utility subsidiaries, HL&P and CSW filed an Offer of Settlement in this proceeding, which has the concurrence of the FERC staff, providing, among other matters, for the entry of an order requiring the establishment of two direct current asynchronous interconnections between SWPP and TIS and for the wheeling of power between such systems under specified terms and conditions. This offer is made on a basis which would not subject System companies and HL&P to the jurisdiction of the FERC generally. In December 1980, FERC granted the motion of the Department of Justice for leave to intervene in this proceeding, which motion generally opposes the proposed settlement. As the result of the intervention by the Department of Justice, the Administrative Law Judge ruled in January 1981 that a hearing in this proceeding is necessary; however, this ruling will be reviewed by FERC. The settlement proposal of CSW, the electric utility subsidiaries of the Company and HL&P would encompass the proceeding before FERC mentioned hereinabove and is also contingent upon the settlement and termination of the proceedings before the Securities and Exchange Commission (SEC) described hereinafter.

In August 1978, in connection with the application by Generating Company for an operating license for the Comanche Peak nuclear station, the Department of Justice indicated that the intrastate provisions of agreements among TIS members raise antitrust issues. The Nuclear Regulatory Commission (NRC) has ordered a hearing on this matter which is in progress. Proposed licensing conditions relating to the antitrust matters have been agreed to by the NRC staff, the Department of Justice and all parties to the Comanche Peak proceeding. There is also in progress a similar hearing before the NRC relating to an operating license in connection with the South Texas nuclear facility being constructed by HL&P and CP&L, among others. The City of Brownsville, Texas has intervened in this proceeding claiming that certain antitrust issues relating to HL&P should be considered, and asserted that similar issues affect System companies and should be considered in connection with their license application.

In March 1974, a request was filed with the SEC by four Oklahoma municipalities and two cooperatives, asking, among other things, that the SEC undertake a review of the status of CSW and its subsidiaries under the Public Utility Holding Company Act of 1935; and that the SEC also review the exemption granted to the Company and its subsidiaries to determine if that exemption should be revoked. A hearing concerning the status of CSW under this Act has been in progress and is currently being held in abeyance pending resolution of the matters before FERC described hereinbefore.

Texas Electric and HL&P were named as defendants in a suit filed against them on May 3, 1976, in the United States District Court for the Northern District of Texas, Dallas Division, by WTU and CP&L. The suit generally sought to require Texas Electric and HL&P to operate interconnected with the interstate facilities of WTU and CP&L. A trial on the merits in this matter has been held and in February 1979, the Court entered a judgment to the effect that it would not be in the public interest to force the defendants to interconnect in interstate commerce, finding among other things that the defendants had not violated the federal antitrust laws. An appeal to the United States Court of Appeals for the Fifth Circuit has been filed by WTU and CP&L, which have now requested that further action thereon be deferred pending resolution of the settlement arrangements undertaken in connection with the FERC proceeding described hereinbefore.

In December 1976, Tex-La Electric Cooperative of Texas, Inc. (Tex-La), a wholesale customer of Texas Power, requested an investigation by the PUC and the FPC to determine whether Texas Power engages in interstate commerce in connection with the transmission of energy generated by the Denison Dam plant located near the Texas/Oklahoma border and which of such agencies has jurisdiction over the wholesale sales of Texas Power. Subsequently, the PUC has established wholesale rates for sales by Texas Power to Tex-La but the matter is still pending before FERC. Several parties have intervened in the FERC proceeding including certain CSW subsidiaries, HL&P and the State of Texas. In addition, the United States Supreme Court has granted a petition from the State of Texas to determine the location of the Texas/Oklahoma boundary line in this area.

Rates

The present general rate levels of the electric utility subsidiaries were established at various dates in 1979 and 1980 by upward adjustments affecting all classes of service and provide for the full current recovery of fuel costs (see General below).

Dallas Power received an order from the PUC in October 1979, confirmed by a final order in March 1980, which recognized a revenue deficiency for the test year ended December 31, 1978, of approximately $37 million, or 9.7%. The Company commenced billing these new rates in December 1979 within the four municipalities and the areas subject to the original jurisdiction of the PUC. Prior general rate levels were established, commencing with billings in August 1978, by upward adjustments of electric service rates for all classes of service designed to increase operating revenues for the test year ended September 30, 1977, by approximately $41.6 million, or 13%.

In September 1980, Dallas Power filed applications with the PUC and with the municipalities of Dallas, Highland Park, University Park and Cockrell Hill for upward adjustments in electric service rates. On February 26, 1981, the PUC issued an order which recognized a revenue deficiency for the test year ended June 30, 1980, of approximately $56.3 million, or about 11.4%, for customers subject to the original jurisdiction of the PUC. Either through placing rates in effect under bond, as provided in the Public Utility Regulatory Act of the State of Texas, or through issuance of interim orders by the PUC acting in its appellate jurisdiction, Dallas Power began billing said increased rates to all customers in March 1981.

Texas Electric received a final order from the PUC in October 1980 which recognized a revenue deficiency for the test year ended March 31, 1980, of approximately $69.4 million, or 10.1%. The new rates, which apply to all classes of service, were placed into effect in October 1980. Prior general rate levels were established, commencing in November 1979, by upward adjustments of electric service rates for all classes of service designed to increase operating revenues for the test year ended March 31, 1979, by approximately $38 million, or 7.6%.

Texas Power received a final order from the PUC in April 1980 which recognized a revenue deficiency for the test year ended September 30, 1979, of approximately $81.9 million, or about 10%. The new rate schedules were effective in all areas with consumption after May 26, 1980. Prior general rate levels were established, commencing at various dates between May and August 1978, by upward adjustments in electric service rates for all classes of service designed to increase operating revenues for the test year ended September 30, 1977, by approximately $41 million, or 7%.

In March 1981, Texas Power made applications to the PUC and to all of the incorporated municipalities in its service area for upward adjustments in electric service rates. The proposed rate adjustments, affecting all classes of service, are estimated to increase operating revenues of Texas Power by approximately $198 million, or 20.3%, for the test year ended December 31, 1980. Texas Power is unable to predict the extent, if any, to which these rate increase requests will be granted.

In July 1980, Tex-La filed suit in the 126th Judicial District Court of Travis County, Texas and the Community Center of Stafford-Armstrong Addition of the City of Seagoville, Texas, et al. filed suit in the 53rd Judicial District Court of Travis County, Texas, for review of the April 1980 PUC order granting Texas Power its most recent rate increase. Each of the suits seeks a reversal of the order and a refund of all payments made by the plaintiff thereunder.

In July 1978, Tex-La filed suit in the 53rd Judicial District Court of Travis County, Texas, for review of the PUC order of May 1978 granting Texas Power an increase in rates. This suit seeks a reversal of the order and a refund of all payments made by Tex-La thereunder. Subsequently, the McLennan County Consumers Association intervened, and the suit was remanded to the PUC for consideration of certain transactions among subsidiaries of the Company. The PUC entered an order regarding these transactions (see General below) and the rate appeal suit is currently pending in the District Court wherein the Court has announced its intention to affirm the rate increase.

General

In an order issued in April 1979, following a hearing with respect to certain transactions, involving substantial amounts, among the subsidiaries of the Company, including Dallas Power, Texas Electric and Texas Power, the PUC concluded that the transactions reviewed were generally in the public interest. Certain provisions of the order, however, required that prior PUC approval be obtained with respect to certain future transactions among the subsidiaries and required a $3.2 million refund and these provisions were appealed by the electric utility subsidiaries of the Company and other parties to the proceedings. On December 30, 1980 following oral argument before the 53rd Judicial District Court of Travis County, Texas in the appeal of this matter, the Court announced its intention to enter an order remanding this matter to the PUC for further consideration in light of its conclusion that the provisions of the Texas Public Utility Regulatory Act required a prior determination by the PUC of the reasonableness of the charges involved in transactions among affiliated interests, which have been recovered by the Company's electric utility subsidiaries under their fuel adjustment clauses. The Court further indicated that it was not ordering further refunds or requiring penalties to be levied but asked that these matters be further considered on remand by the PUC. The Company's electric utility subsidiaries intend to appeal any adverse final order entered by the Court. The Company's electric utility subsidiaries cannot predict the outcome of this proceeding.

ENVIRONMENTAL MATTERS

The subsidiary companies are subject to various federal, state and local regulations dealing with air and water quality and related environmental matters (see Construction Programs for scheduled expenditures).

Air

Under the Texas Clean Air Act, the Texas Air Control Board (TACB) has jurisdiction over the permissible level of air contaminant emissions from generating facilities located within the State of Texas. In addition, the new source performance standards of the United States Environmental Protection Agency (EPA) promulgated under the federal Clean Air Act, which have also been adopted by the TACB, are applicable to such generating units, the construction of which commenced after March 5, 1972.

System gas and oil-fueled generating units have been constructed to operate in compliance with regulations promulgated pursuant to these Acts. Particulate control devices have been installed at each of the System lignite-fueled units and sulfur dioxide control devices have also been installed on Unit 3 at the Monticello station and the three units in operation at the Martin Lake station in order to comply with applicable regulations under these Acts. Due to variations in the sulfur content of the lignite fuel, operation of certain of these generating units at reduced loads is required from time to time in order to maintain compliance with these standards.

In July 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas against Generating Company, Service Company, and the electric utility subsidiaries of the Company, by the State of Texas on behalf of the TACB. The petition alleges that Generating Company and Service Company, acting as agents for the electric utility subsidiaries, have violated regulations issued under the federal Clean Air Act, provisions of the Texas Clean Air Act, and permits issued by the TACB, in allowing the start-up of Unit 3 at the Martin Lake station before the completion and operation of its associated air pollution control equipment. The State seeks an injunction against further violation of the federal Clear Air Act and penalties from each of the defendants of $1,000 for each day and each act of violation. The defendants are contesting this action and do not expect that an adverse decision in this suit would have a material effect on their operations or financial condition.

Generating facilities presently under construction are designed to comply with applicable statutes and regulations. To date, required construction permits have been obtained for Unit 4 at the Martin Lake station, Unit 1 at the Forest Grove station, Unit 4 at the Sandow station and Units 1 and 2 at the Twin Oak station.

The federal Clean Air Act Amendments of 1977, among other things, require the Administrator of EPA to promulgate revised new source performance standards. The amendments also contain provisions relating to the prevention of significant deterioration of air quality pursuant to which regulations have been issued, and limit the maximum allowable increases in concentrations of sulfur oxides and particulates in various areas. System companies cannot presently determine the effect of these amendments and regulations upon their planned construction programs, although it is not expected that the regulations relating to the prevention of significant deterioration of air quality will have a material impact on them. In July 1979, Generating Company and various electric utilities filed suit in the United States Court of Appeals for the District of Columbia Circuit challenging the validity of the regulations relating to emissions of sulfur dioxide.

Water

The Texas Department of Water Resources (TDWR) and the EPA have jurisdiction over all water discharges from System company generating stations and mining areas. System companies have obtained all required liquid waste control orders from the Texas Water Quality Board, predecessor to the TDWR, for facilities in operation and have applied for or obtained all such orders for facilities under construction. The companies have received permits from the EPA under the National Pollutant Discharge Elimination System (NPDES) for the discharge of waters from units at the generating stations currently in operation. All NPDES permits required for units under construction and lignite mining areas have been applied for or obtained. Most of these permits expired in 1980; however, applications for new permits have been submitted while interim authorizations are in effect, and the companies believe they can satisfy the requirements necessary to obtain renewals thereof.

In June 1979, the EPA issued revised regulations for the issuance of NPDES permits and various electric utility companies, including the electric utility subsidiaries of the Company, filed suits in the United States District Court for the Western District of Virginia and the United States Court of Appeals for the Fourth Circuit challenging the validity of the revised NPDES regulations. These suits have not yet been set for trial and the companies cannot predict the outcome of this matter. Also, it is anticipated that the EPA will issue new regulations relating to thermal discharges as a result of litigation setting aside certain of the thermal regulations initially adopted. System companies cannot presently determine what modifications might be necessary to obtain NPDES permits for future plants or to obtain renewals of existing permits, or to comply with future requirements pertaining to thermal limitations or standards, nor can any determination be made of the direct or indirect costs of any such modifications.

System company generating stations presently in operation have been constructed to operate in compliance with applicable state and federal standards relating to the quality of discharges of water; however, in May 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas, against Generating Company by the State of Texas on behalf of the TDWR. The petition alleges that Generating Company has discharged contaminated water from the Martin Lake station into the adjacent lake in violation of provisions of the Texas Water Code and permits issued thereunder to Generating Company by the TDWR. In July 1979, the petition was amended to join a claim on behalf of the Texas Parks and Wildlife Department (TPWD) that as a result of such discharges fish have been killed, the State of Texas has suffered losses in the recreational value of its properties and the safety of the public has been endangered. In July 1980, TDWR and TPWD filed a second amended petition which names the Company and Service Company as defendants, in addition to Generating Company, alleges additional violations of permits, seeks an injunction against further violations and seeks penalties in the amount of $1,000 from each defendant for each day and each act of violation with a minimum of $281,000 from each defendant, damages in the amount of $1,450,314 in regard to state fish resources and at least $500,000 for lost recreation resources, as well as $5,000,000 in punitive damages. The defendants, including the Company, do not expect that an adverse decision in this suit would have a material adverse effect on their operations or financial condition.

Diversion of water by System companies for cooling and other purposes is subject to the jurisdiction of the Texas Water Commission, formerly the Texas Water Rights Commission, which is empowered to allocate such waters among users. The companies possess all necessary permits from such Commission for the use of surface water required for their present operations and plants under construction.

Other

System lignite mining operations are currently regulated at the state level by the Railroad Commission of Texas. Surface mining permits in connection with the Big Brown, Martin Lake and Monticello stations have been issued. Federal legislation regulating surface mining was enacted in August 1977 and regulations implementing the law have been issued. In May 1979, Generating Company, along with various coal producers, filed suit in the United States District Court for the District of Columbia challenging the validity of certain of the final federal surface mining regulations. Judgments upholding certain of the challenged regulations and remanding others for reconsideration have been appealed to the United States Court of Appeals for the District of Columbia Circuit. Enforcement of these regulations would increase the cost of producing lignite; however, the Company does not anticipate that the terms and conditions of permits issued thereunder will have a material adverse effect upon its future use of lignite as fuel for the generation of electricity.

Disposal of solid waste is regulated under the Texas Solid Waste Disposal Act and at the federal level under the Resource Conservation and Recovery Act of 1976 (RCRA). The EPA has issued regulations under RCRA and the Texas Department of Water Resources has issued regulations under the Texas act applicable to the System units. System companies cannot presently determine the effect of these Acts upon their plant operations, but have submitted applications for the permits required by such regulations. In June 1980, various electric utility companies, and Generating Company, intervened in a suit pending in the United States District Court for the District of Columbia, challenging the validity of certain of the EPA regulations.

MANAGEMENT

The directors and executive officers of the Company are as follows:

T. L. Austin, Jr.
Director, Chairman of the Board and Chief Executive

Burl B. Hulsey, Jr.
Director and President

R. K. Campbell
Director

J. S. Farrington
Director

W. M. Griffin
Director

W. G. Marquardt
Director

Abner V. McCall
Director

J. C. Pace, Jr.
Director

Charles N. Prothro
Director

William H. Seay
Director

Perry G. Brittain
Executive Vice President

W. H. Harrison, Jr.
Executive Vice President

Erle Nye
Executive Vice President

L. S. Turner, Jr.
Executive Vice President

R. E. Fonville
Secretary and
Assistant Treasurer

H. A. Horn
Treasurer and
Assistant Secretary

S. S. Swiger
Controller

Each of the executive officers has been employed by the Company or a subsidiary company, although not necessarily in his present position, for more than five years.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of common stock, without par value, of which 96,048,097 shares were outstanding at November 30, 1980, and serial preference stock, par value $25 per share, of which none is outstanding. The following statements with respect to such capital stock of the Company are a summary of certain rights and privileges attaching to the stock under the laws of the State of Texas and the Articles of Incorporation and Bylaws of the Company. This summary does not purport to be complete and is qualified in its entirety by reference to such laws, Articles of Incorporation, and Bylaws for complete statements.

Each holder of common stock is entitled to one vote for each share of common stock held on all questions submitted to shareholders and to cumulative voting at all elections of directors. The common stock has no preemptive or conversion rights. Upon issuance and sale of the shares offered hereby, such shares will be fully paid and nonassessable.

The holders of the preference stock are not accorded voting rights, except that, when dividends thereon are in default in an amount equivalent to four full quarterly dividends, the holders of the preference stock are entitled to vote for the election of one-third of the Board of Directors or two directors, whichever is greater, and, when dividends are in default in an amount equivalent to eight full quarterly dividends, for the election of the smallest number of directors necessary so that a majority of the full Board shall have been elected by the holders of the preference stock. The Company must also secure the approval of the holders of two-thirds of the outstanding shares of preference stock prior to effecting various changes in its capital structure.

After the payment of full preferential dividends on the preference stock, common shareholders are entitled to dividends when and as declared by the Board of Directors. After payment to the holders of preference stock of the preferential amounts to which they are entitled, the remaining assets to be distributed, if any, upon any dissolution or liquidation shall be distributed to the holders of the common stock. Each share of common stock is equal to every other share of common stock with respect to dividends and also with respect to distributions upon any dissolution or liquidation. (See Note 4 to Financial Statements.)

The common stock of the Company is listed on the New York, Midwest and Pacific stock exchanges. Application has been made for the listing on such exchanges of the additional shares offered hereby.

The transfer agents for the common stock are Morgan Guaranty Trust Company of New York and Mercantile National Bank at Dallas.

EXPERTS AND LEGALITY

The balance sheet of the Company and of the Company and subsidiaries as of December 31, 1978 and 1979, and the related statements of income, retained earnings, source of funds for construction and source of funds for investment for each of the five years in the period ended December 31, 1979 included herein have been examined by Deloitte Haskins & Sells, independent Certified Public Accountants, as stated in [illegible]ion appearing herein, and have been so included in reliance upon such opinion given upon th[illegible]y of that firm as experts in accounting and auditing.

The statements made as to matters of law and legal conclusions pertaining to the incorporation and common stock of the companies, and the regulation to which the companies are subject, have been reviewed by Messrs. Worsham, Forsythe & Sampels (as to the Company, Service Company, Generating Company, Fuel Company, Chaco, and Basic), G. A. Engelland, Esq. (as to Dallas Power), Messrs. Cantey, Hanger, Gooch, Munn & Collins (as to Texas Electric and Old Ocean), and Messrs. Burford & Ryburn (as to Texas Power), counsel for such companies, respectively, and such statements are made upon their authority as experts.

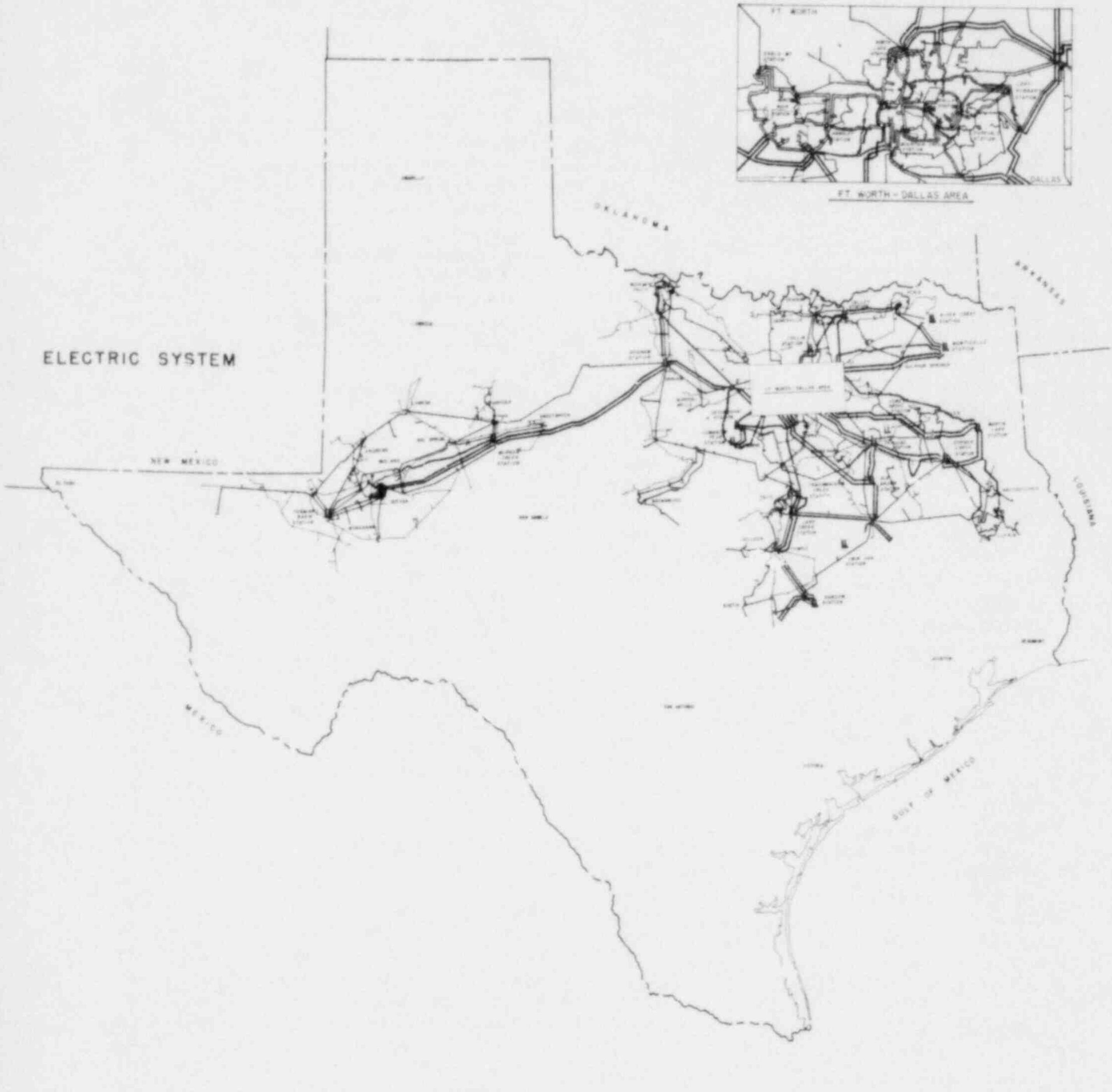
The legality of the shares of common stock offered hereby will be passed upon for the Company by Messrs. Worsham, Forsythe & Sampels, Dallas, Texas, and Messrs. Reid & Priest, New York, New York, and for the Underwriters by Messrs. Winthrop, Stimson, Putnam & Roberts, New York, New York, except that all matters relating to state regulation, and all other questions of conformity to local laws will be passed upon only by Messrs. Worsham, Forsythe & Sampels. In respect to the subsidiaries of the Company referred to above, such firms will rely as to matters of Texas law on the statements herein made on the authority of counsel for such subsidiaries.

At January 31, 1981, members of the firm of Messrs. Worsham, Forsythe & Sampels owned 18,525 shares of the common stock of the Company; G. A. Engelland, Esq., owned 541 shares of the common stock of the Company; Mr. J. A. Gooch, a member of the firm of Messrs. Cantey, Hanger, Gooch, Munn & Collins, is a Director of Texas Electric, and members of his firm owned 624 shares of the common stock of the Company; and members of the firm of Messrs. Burford & Ryburn owned 200 shares of the common stock of the Company.

TEXAS UTILITIES COMPANY SYSTEM

DALLAS POWER & LIGHT COMPANY
TEXAS ELECTRIC SERVICE COMPANY
TEXAS POWER & LIGHT COMPANY

November 30, 1980



UNDERWRITERS

Under the terms of and subject to the conditions contained in an Underwriting Agreement dated March 18, 1981, the Underwriters named below have severally agreed to purchase, and the Company has agreed to sell to each Underwriter, severally, the respective numbers of shares of common stock offered hereby set forth below.

Name	Number of Shares
Morgan Stanley & Co. Incorporated	404,250
Goldman, Sachs & Co.	404,250
Merrill Lynch, Pierce, Fenner & Smith Incorporated	404,250
Salomon Brothers	404,250
ABD Securities Corporation	12,000
Advest, Inc.	30,000
American Securities Corporation	12,000
A. E. Ames & Co. Incorporated	5,000
Anderson & Strudwick, Incorporated	4,000
Arnhold and S. Bleichroeder, Inc.	12,000
Atlantic Capital Corporation	30,000
Bache Halsey Stuart Shields Incorporated	100,000
Bacon, Whipple & Co.	30,000
Robert W. Baird & Co. Incorporated	30,000
Baker, Watts & Co.	4,000
Barclay Putnam Div. of F. L. Putnam & Company, Inc.	2,000
Basle Securities Corporation	30,000
Bateman Eichler, Hill Richards Incorporated	30,000
George K. Baum & Company	2,000
Bear, Stearns & Co.	100,000
Sanford C. Bernstein & Co., Inc.	12,000
Birr, Wilson & Co., Inc.	5,000
William Blair & Company	30,000
Blunt Ellis & Loewi Incorporated	12,000
Blyth Eastman Paine Webber Incorporated	100,000
Boettcher & Company	12,000
J. C. Bradford & Co., Incorporated	30,000
Alex. Brown & Sons	50,000
Bruns, Nordeman, Rea & Co.	5,000
Burgess & Leith Incorporated	4,000
Butcher & Singer Inc.	7,000
Butler, Wick & Co.	2,000
Carolina Securities Corporation	2,000
The Chicago Corporation	5,000
B. C. Christopher & Company	4,000
Cowen & Co.	12,000
Craigie Incorporated	5,000
Crowell, Weedon & Co.	12,000
Dain Bosworth Incorporated	30,000
Daiwa Securities America Inc.	5,000
Davenport & Co. of Virginia, Inc.	4,000
Davis, Skaggs & Co., Inc.	5,000
R. G. Dickinson & Co.	5,000
Dillon, Read & Co. Inc.	100,000
Doft & Co., Inc.	7,000
Dominion Securities Inc.	5,000
Donaldson, Lufkin & Jenrette Securities Corporation	100,000
Drexel Burnham Lambert Incorporated	100,000
F. Eberstadt & Co., Inc.	12,000
Edelstein, Campbell & Co., Inc.	2,000
A. G. Edwards & Sons, Inc.	50,000
Elkins & Co.	7,000
Eppler, Guerin & Turner, Inc.	100,000
Equitable Securities Corporation	5,000
EuroPartners Securities Corporation	12,000
Faherty & Faherty Inc.	2,000
Fahnestock & Co.	7,000
Ferris & Company, Incorporated	5,000
First Albany Corporation	4,000
The First Boston Corporation	100,000
First Equity Corporation of Florida	2,000
First Harlem Securities Corporation	2,000
First Manhattan Co.	4,000
First of Michigan Corporation	30,000
First Southwest Company	7,000
Robert Fleming Incorporated	12,000
Folger Nolan Fleming Douglas Incorporated	12,000
Foster & Marshall Inc.	12,000
Frederick & Company, Inc.	2,000
Freehling & Co.	4,000
Gradison & Company Incorporated	2,000
Greenshields & Co Inc	4,000
Gruntal & Co.	5,000
Hanifen, Imhoff Inc.	2,000
Bernard Herold & Co., Inc.	2,000
Herzfeld & Stern	5,000
J. J. B. Hilliard, W. L. Lyons, Inc.	12,000
Howard, Weil, Labouisse, Friedrichs Incorporated	7,000
E. F. Hutton & Company Inc.	100,000
Interstate Securities Corporation	7,000
Investment Corporation of Virginia	4,000
Janney Montgomery Scott Inc.	12,000
Jesup & Lamont Securities Co., Inc.	4,000
Johnson, Lane, Space, Smith & Co., Inc.	5,000
Johnston, Lemon & Co. Incorporated	12,000
Edward D. Jones & Co.	7,000
Josephthal & Co. Incorporated	7,000
Kidder, Peabody & Co. Incorporated	100,000
John G. Kinnard and Company Incorporated	2,000
Kirkpatrick, Pettis, Smith, Polian Inc.	2,000
Kleinwort, Benson Incorporated	12,000
Ladenburg, Thalmann & Co. Inc.	12,000
Laidlaw Adams & Peck Inc.	5,000
Cyrus J. Lawrence Incorporated	7,000
Lazard Frères & Co.	100,000
Legg Mason Wood Walker, Incorporated	12,000
Lehman Brothers Kuhn Loeb Incorporated	100,000

Name	Number of Shares
Manley, Bennett, McDonald & Co.	4,000
A. E. Masten & Co. Incorporated	4,000
McCourtney-Breckenridge & Company	2,000
McDonald & Company	30,000
McLeod Young Weir Incorporated	4,000
The Milwaukee Company	4,000
Montgomery Securities	12,000
Moore & Schley, Cameron & Co.	5,000
Morgan, Keegan & Company, Inc.	4,000
Morgan, Olmstead, Kennedy & Gardner Incorporated	4,000
Moseley, Hallgarten, Estabrook & Weeden Inc.	30,000
Neuberger & Berman	7,000
New Japan Securities International Inc.	2,000
W. H. Newbold's Son & Co., Inc.	2,000
Newhard, Cook & Co. Incorporated	5,000
The Nikko Securities Co. International, Inc.	5,000
Nippon Kangyo Kakumaru International, Inc.	2,000
Nomura Securities International, Inc.	7,000
The Ohio Company	7,000
Olde & Co. Incorporated	2,000
Oppenheimer & Co., Inc.	50,000
Parker/Hunter Incorporated	7,000
Pflueger & Baerwald Inc.	2,000
Philips, Appel & Walden, Inc.	4,000
Piper, Jaffray & Hopwood Incorporated	30,000
Prescott, Ball & Turben	30,000
Quinn & Co., Inc.	2,000
Raffensperger, Hughes & Co. Incorporated	4,000
Rauscher Pierce Refsnes, Inc.	100,000
W. H. Reaves & Co., Inc.	12,000
Robertson, Colman, Stephens & Woodman	5,000
The Robinson-Humphrey Company, Inc.	30,000
Rodman & Renshaw, Inc.	4,000
Wm. C. Roney & Co.	5,000
Rotan Mosle Inc.	50,000
L. F. Rothschild, Unterberg, Towbin	100,000
R. Rowland & Co., Incorporated	7,000
Salkin, Welch & Co., Incorporated	2,000
Sanyo Securities America Inc.	2,000
Scherck, Stein & Franc, Inc.	4,000
Schneider, Bernet & Hickman, Inc.	12,000
Scott & Stringfellow, Inc.	4,000
H. B. Shaine & Co., Inc.	4,000
Shearson Loeb Rhoades Inc.	100,000
I. M. Simon & Co.	4,000
Smith Barney, Harris Upham & Co. Incorporated	100,000
Smith, Hague & Co., Incorporated	2,000
Smith, Moore & Co.	2,000
South Texas Securities Co.	2,000
Southwest Securities, Inc.	4,000
Stephens Inc.	7,000
Stern Brothers & Co.	5,000
Stifel, Nicolaus & Company Incorporated	7,000
Stix & Co. Inc.	4,000
Sutro & Co. Incorporated	12,000
Sweney Cartwright & Co.	2,000
Thomson McKinnon Securities Inc.	50,000
Traub and Company, Inc.	4,000
Trubee, Collins & Co.	2,000
Tucker, Anthony & R. L. Day, Inc.	30,000
Ultrafin International Corporation	5,000
Underwood, Neuhaus & Co., Incorporated	30,000
Vercoe & Company, Inc.	2,000
Burton J. Vincent, Chesley & Co.	4,000
Edward A. Viner & Co., Inc.	2,000
Wagenseller & Durst, Inc.	7,000
Warburg Paribas Becker Incorporated	100,000
Weber, Hall, Sale & Associates, Inc.	2,000
Wedbush, Noble, Cooke, Inc.	2,000
Wertheim & Co., Inc.	100,000
Wheat, First Securities, Inc.	30,000
Dean Witter Reynolds Inc.	100,000
Yamaichi International (America), Inc.	5,000
Total	5,000,000

The Underwriting Agreement provides that the several obligations of the Underwriters are subject to the approval of certain legal matters by counsel and to the conditions that no stop order suspending the effectiveness of the Registration Statement is in effect and no proceedings for such purpose are pending before or threatened by the Securities and Exchange Commission, and that there has been no material adverse change (not in the ordinary course of business) in the condition of the Company and its consolidated subsidiaries from that set forth in or contemplated by the Registration Statement. The nature of the Underwriters' obligation is such that they are committed to take and pay for all of the shares of common stock offered hereby if any are taken.

The Underwriters propose to offer part of the shares of common stock directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price which represents a concession, not in excess of 37.5¢ a share under the public offering price, and any Underwriter may allow and such dealers may reallow a concession, not in excess of 15¢ a share, to other Underwriters or certain other dealers who enter into a Dealer Agreement.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TEXAS UTILITIES COMPANY:

We have examined the balance sheet of Texas Utilities Company and the consolidated balance sheet of Texas Utilities Company and subsidiaries as of December 31, 1978 and 1979 and the related statements of income (company and consolidated), retained earnings (company and consolidated), source of funds for construction (consolidated) and source of funds for investment (company) for each of the five years in the period ended December 31, 1979. 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 financial statements referred to above present fairly the financial position of the companies at December 31, 1978 and 1979 and the results of their operations and the source of their funds for construction and for investment for each of the five years in the period ended December 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS

Dallas, Texas
March 21, 1980

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME

	Twelve Months Ended					
	December 31, (Audited)					November 30, 1980 (Unaudited)
	1975	1976	1977	1978	1979	
	Thousands of Dollars					
Operating Revenues—Electric	$888,736	$1,082,330	$1,367,778	$1,604,356	$1,756,289	$2,145,006
Operating Expenses (Note 1)						
Operation	124,361	140,414	168,486	190,806	234,559	279,100
Fuel	267,854	368,039	509,890	577,780	600,064	728,174
Maintenance	44,847	49,658	69,370	88,837	130,037	148,759
Depreciation provisions	94,765	104,686	116,348	134,338	150,294	161,116
Federal income taxes	41,030	30,833	11,306	30,513	(13,622)	56,209
Deferred federal income taxes—net	18,509	21,109	28,535	43,024	58,853	70,850
Federal investment tax credits—net	21,087	40,753	75,835	80,627	89,053	72,065
State, local and miscellaneous taxes	73,570	84,165	98,682	114,989	127,155	142,365
Total operating expenses	686,023	839,657	1,078,452	1,260,914	1,376,393	1,658,638
Operating Income	202,713	242,673	289,326	343,442	379,896	486,368
Other Income						
Allowance for equity funds used during construction (Note 1)	18,676	26,485	33,198	28,038	43,332	56,904
Other income and deductions—net	1,618	5,738	10,472	4,154	25,312	26,022
Federal income taxes on other income	(816)	(2,950)	(5,138)	(1,316)	(13,816)	(13,473)
Total other income	19,478	29,273	38,532	30,876	54,828	69,453
Total Income	222,191	271,946	327,858	374,318	434,724	555,821
Interest Charges						
Interest on mortgage bonds	81,034	100,971	114,082	116,640	130,381	142,576
Interest on other long-term debt	5,754	5,873	18,816	24,784	39,839	62,276
Other interest	4,276	8,584	10,071	21,476	30,252	33,131
Allowance for borrowed funds used during construction (Note 1)	(12,942)	(23,324)	(25,379)	(25,922)	(16,306)	(19,542)
Total interest charges	78,122	92,104	117,596	136,978	184,166	218,441
Preferred Stock Dividends of Subsidiaries	27,527	31,922	34,349	36,602	39,407	43,029
Transfer From Surplus Reserve (Note 8)	4,434	—	—	—	—	—
Consolidated Net Income	$120,976	$ 147,920	$ 175,919	$ 200,738	$ 211,151	$ 294,351
Average shares of common stock outstanding (thousands)	60,000	64,625	73,194	79,027	86,319	93,045
Earnings and dividends per share of common stock:						
Earnings (on average shares outstanding)	$2.02	$2.29	$2.40	$2.54	$2.45	$3.16
Dividends declared	1.24	1.32	1.40	1.52	1.64	1.76

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED SOURCE OF FUNDS FOR CONSTRUCTION

	Twelve Months Ended					
	December 31, (Audited)					November 30, 1980 (Unaudited)
	1975	1976	1977	1978	1979	
	Thousands of Dollars					
Funds From Operations						
Consolidated net income	$120,976	$147,920	$175,919	$200,738	$211,151	$294,351
Less—Dividends declared on common stock	74,400	85,800	103,250	119,945	142,262	164,530
Balance	46,576	62,120	72,669	80,793	68,889	129,821
Depreciation provisions (including amounts charged to fuel)	98,837	110,437	126,712	151,188	167,103	181,404
Deferred federal income taxes—net	18,509	21,109	29,397	42,797	62,070	74,565
Federal investment tax credits—net	21,087	40,753	75,850	80,612	89,056	72,065
Allowance for funds used during construction	(31,618)	(49,809)	(58,577)	(53,960)	(59,638)	(76,446)
Total funds from operations	153,391	184,610	246,051	301,430	327,480	381,409
Funds From Financing						
First mortgage bonds	200,000	200,000	175,000	—	175,000	125,000
Other long-term debt	—	117,347	69,486	216,752	199,538	241,926
Preferred stocks	59,250	29,550	29,655	29,655	29,591	64,285
Common stock	—	179,475	94,075	110,675	137,285	126,699
Notes payable—bank loans	43,000	(50,000)	45,000	(45,000)	—	—
—commercial paper	108,500	(28,050)	95,155	45,750	(45,655)	(176,610)
Long-term debt retired	(54,058)	(3,841)	(25,255)	(27,646)	(27,257)	(38,573)
Total funds from financing	356,692	444,481	483,116	330,186	468,502	342,727
Add (Deduct)						
Non-utility property	(3,850)	(3,891)	(52,483)	13,173	(4,774)	(6,763)
Nuclear fuel	(2,554)	(9,687)	(6,328)	(29,745)	(12,192)	(3,758)
Utility plant—sale	—	—	—	—	99,871	99,871
Other—net	2,645	26,427	19,603	42,304	(74,042)	(80,918)
Total	(3,759)	12,849	(39,208)	25,732	8,863	8,432
Total	506,324	641,940	689,959	657,348	804,845	732,568
Cash in Banks and Temporary Cash Investments—net change	32,074	(20,041)	(14,254)	26,045	8,433	(11,719)
Construction Expenditures (excluding allowance for funds used during construction)	$538,398	$621,899	$675,705	$683,393	$813,278	$720,849

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	Twelve Months Ended					
	December 31, (Audited)					November 30, 1980 (Unaudited)
	1975	1976	1977	1978	1979	
	Thousands of Dollars					
Balance at Beginning of Period	$427,915	$474,491	$536,611	$609,280	$690,073	$ 745,339
Add—Consolidated net income	120,976	147,920	175,919	200,738	211,151	294,351
Total	548,891	622,411	712,530	810,018	901,224	1,039,690
Deduct—Dividends declared on common stock (for amounts per share, see Statement of Consolidated Income)	74,400	85,800	103,250	119,945	142,262	164,530
Balance at End of Period (Note 4)	$474,491	$536,611	$609,280	$690,073	$758,962	$ 875,160

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, (Audited) 1978	1979	November 30, 1980 (Unaudited)
	Thousands of Dollars		
UTILITY PLANT—at original cost (Note 1)			
Electric plant in service:			
Production	$2,394,364	$2,776,069	$2,861,961
Transmission	699,366	751,595	790,590
Distribution	1,223,948	1,327,271	1,397,612
General	109,677	118,573	136,033
Total	4,427,355	4,973,508	5,186,196
Construction work in progress	1,365,910	1,577,946	2,056,683
Nuclear fuel	52,145	64,337	74,135
Held for future use	16,686	15,827	15,257
Total utility plant	5,862,096	6,631,618	7,332,271
Less accumulated provisions for depreciation	1,057,068	1,213,927	1,366,118
Utility plant, less accumulated provisions for depreciation	4,805,028	5,417,691	5,966,153
INVESTMENTS—at cost			
Non-utility property	47,148	51,922	58,557
Other investments (Note 1)	16,926	16,224	15,734
Total investments	64,074	68,146	74,291
CURRENT ASSETS			
Cash in banks (Note .)	29,876	22,343	31,464
Special deposits	11,765	10,564	11,263
Temporary cash investments—at cost	1,700	800	10,622
Accounts receivable:			
Customers	90,553	103,067	137,278
Other	12,652	23,814	24,050
Allowance for uncollectible accounts	(4,325)	(4,838)	(6,455)
Inventories—at average cost:			
Materials and supplies	36,555	49,426	64,869
Fuel stock	69,807	88,539	127,775
Other current assets	14,385	18,308	23,467
Total current assets	262,968	312,023	424,333
DEFERRED DEBITS			
Unamortized debt expense	6,579	9,212	9,333
Other	23,159	14,861	16,246
Total deferred debits	29,738	24,073	25,579
Total	$5,161,808	$5,821,933	$6,490,356

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

LIABILITIES

	December 31, (Audited) 1978	1979	November 30, 1980 (Unaudited)
	Thousands of Dollars		
Capitalization			
Common stock, without par value (Note 3):			
Authorized shares—150,000,000			
Outstanding shares—1978, 80,665,889; 1979, 87,985,098; 1980, 96,048,097	$ 934,225	$1,071,510	$1,197,548
Retained earnings (Note 4)	690,073	758,962	875,160
Total	1,624,298	1,830,472	2,072,708
Preferred stocks (Note 5)	506,233	535,824	600,109
Long-term debt—less amounts due currently (Note 6):			
First mortgage bonds	1,565,507	1,716,000	1,829,500
Other long-term debt	474,765	656,334	704,131
Unamortized premium and discount	(1,618)	(3,722)	(5,360)
Total	2,038,654	2,368,612	2,528,271
Total capitalization	4,169,185	4,734,908	5,201,088
Current Liabilities			
Notes payable—commercial paper (Note 2)	221,355	175,700	200,715
Long-term debt due currently	19,400	34,619	17,380
Total (to be refinanced)	240,755	210,319	218,095
Accounts payable	159,331	157,753	133,361
Dividends declared	39,860	45,942	53,845
Customers' deposits	9,992	12,948	15,005
Taxes accrued	62,079	42,624	119,310
Interest accrued	45,625	53,799	51,110
Other current liabilities	30,525	26,068	31,038
Total current liabilities	588,167	549,453	621,764
Reserve for Insurance and Casualties (Note 1)	7,628	5,122	4,730
Accumulated Deferred Federal Income Taxes (Note 1)	170,344	231,151	302,541
Unamortized Federal Investment Tax Credits (Note 1)	226,484	301,299	360,233
Commitments and Contingencies (Note 7)			
Total	$5,161,808	$5,821,933	$6,490,356

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY

STATEMENT OF INCOME

	Twelve Months Ended					
	December 31, (Audited)					November 30, 1980 (Unaudited)
	1975	1976	1977	1978	1979	
	Thousands of Dollars					
DIVIDENDS ON COMMON STOCKS OF SUBSIDIARIES						
Dallas Power & Light Company	$ 13,042	$ 13,042	$ 14,104	$ 19,105	$ 32,337	$ 32,996
Texas Electric Service Company	29,900	34,500	40,000	46,080	50,500	58,320
Texas Power & Light Company	43,030	48,300	54,050	59,040	65,194	75,864
Total dividends	85,972	95,842	108,154	124,225	148,031	167,180
UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	36,300	54,477	72,297	85,345	70,810	133,338
INTEREST ON LOANS TO SUBSIDIARIES	4,176	8,641	7,833	15,192	25,070	29,176
Total	126,448	158,960	188,284	224,762	243,911	329,694
OTHER INCOME	19	62	20	105	72	199
TOTAL INCOME	126,467	159,022	188,304	224,867	243,983	329,893
EXPENSES AND OTHER DEDUCTIONS						
Administrative and general expenses	1,817	3,299	3,158	3,807	3,824	4,532
Interest on notes payable	3,150	7,245	8,315	19,433	28,140	30,431
State franchise and miscellaneous taxes	524	558	912	889	868	579
Total expenses and other deductions	5,491	11,102	12,385	24,129	32,832	35,542
NET INCOME	$120,976	$147,920	$175,919	$200,738	$211,151	$294,351

STATEMENT OF SOURCE OF FUNDS FOR INVESTMENT

	Twelve Months Ended					
	December 31, (Audited)					November 30, 1980 (Unaudited)
	1975	1976	1977	1978	1979	
	Thousands of Dollars					
FUNDS FROM OPERATIONS						
Net income	$120,976	$147,920	$175,919	$200,738	$211,151	$294,351
Less—Dividends declared on common stock	74,400	85,800	103,250	119,945	142,262	164,530
—Undistributed earnings of subsidiaries	36,300	54,477	72,297	85,345	70,810	133,338
Total	110,700	140,277	175,547	205,290	213,072	297,868
Net funds from operations	10,276	7,643	372	(4,552)	(1,921)	(3,517)
FUNDS FROM FINANCING						
Common stock	—	179,475	94,075	110,675	137,285	126,699
Notes payable—bank loans	43,000	(50,000)	45,000	(45,000)	—	—
—commercial paper	108,500	(28,050)	95,155	45,750	(45,655)	(176,610)
Total funds from financing	151,500	101,425	234,230	111,425	91,630	(49,911)
ADD—Other-net	659	4,338	2,142	3,526	3,418	2,683
Total	162,435	113,406	236,744	110,399	93,127	(50,745)
CASH IN BANKS AND TEMPORARY CASH INVESTMENTS—net change	(190)	(101)	68	(59)	139	(561)
NOTES RECEIVABLE SUBSIDIARY COMPANIES—net change	(100,700)	54,500	(69,565)	(60,340)	1,230	152,675
INVESTMENTS IN COMMON STOCKS OF SUBSIDIARIES	$ 61,545	$167,805	$167,247	$ 50,000	$ 94,496	$101,369

See accompanying Notes to Finan ial Statements.

TEXAS UTILITIES COMPANY

BALANCE SHEET

	December 31, (Audited) 1978	1979	November 30, 1980 (Unaudited)
	Thousands of Dollars		
ASSETS			
INVESTMENTS IN COMMON STOCKS OF SUBSIDIARIES—at equity	$1,663,581	$1,828,887	$2,049,398
CURRENT ASSETS			
Cash in banks (Note 2)	1,693	1,554	2,064
Notes receivable subsidiary companies	208,605	207,375	216,675
Dividends receivable subsidiary companies	—	—	43,302
Other current assets	2,605	4,723	4,479
Total current assets	212,903	213,652	266,520
Total	$1,876,484	$2,042,539	$2,315,918
LIABILITIES			
CAPITAL STOCK—Common, without par value (Note 3):			
Authorized shares—150,000,000			
Outstanding shares—1978, 80,665,889; 1979, 87,985,098; 1980, 96,048,097	$ 934,225	$1,071,510	$1,197,548
RETAINED EARNINGS (Note 4)			
Undistributed earnings of subsidiaries	600,941	671,751	790,892
Other net earnings	89,132	87,211	84,268
Total retained earnings	690,073	758,962	875,160
CURRENT LIABILITIES			
Dividends declared	30,644	36,064	42,261
Notes payable—commercial paper (Note 2)	221,355	175,700	200,715
Other current liabilities	187	303	234
Total current liabilities	252,186	212,067	243,210
COMMITMENTS AND CONTINGENCIES (Note 7)			
Total	$1,876,484	$2,042,539	$2,315,918

STATEMENT OF RETAINED EARNINGS

	Twelve Months Ended December 31, (Audited) 1975	1976	1977	1978	1979	November 30, 1980 (Unaudited)
	Thousands of Dollars					
BALANCE AT BEGINNING OF PERIOD	$427,915	$474,491	$536,611	$609,280	$690,073	$ 745,339
ADD—Net income	120,976	147,920	175,919	200,738	211,151	294,351
Total	548,891	622,411	712,530	810,018	901,224	1,039,690
DEDUCT—Dividends declared on common stock (for amounts per share, see Statement of Consolidated Income)	74,400	85,800	103,250	119,945	142,262	164,530
BALANCE AT END OF PERIOD (Note 4)	$474,491	$536,611	$609,280	$690,073	$758,962	$ 875,160

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

For the Five Years Ended December 31, 1979 (Audited) and the Twelve Months Ended November 30, 1980 (Unaudited)

1. Significant Accounting Policies

Consolidation—The consolidated financial statements include Texas Utilities Company and all of its subsidiaries; all significant intercompany items and transactions have been eliminated in consolidation.

Utility Plant—The cost of property additions, including replacements of units of property, betterments and an allowance for funds used during construction is charged to utility plant. Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on other capital used to finance construction are charged to utility plant. The accrual of AFUDC is in accord with established accounting practices of the industry, but does not represent current cash income. The subsidiaries have capitalized AFUDC at the rate of 7% of expenditures incurred, except for that portion of construction work in progress allowed in rate base by regulatory authorities. Effective November 1, 1979, such rate was increased to a net of tax rate of 8%, compounded semi-annually. These rates were determined on the basis of, but are less than, the cost of capital used to finance the construction programs. Maintenance and repairs of property, and replacements of items determined to be less than units of property, are charged to operating expenses. Accumulated provisions for depreciation is charged with the cost of units of property retired, plus removal costs, less salvage.

Other Investments—The difference between the amount at which the investment in a subsidiary is carried by the Company and the underlying book equity of such subsidiary at the respective dates of acquisition is included in other investments: $14,257,000 at December 31, 1978, $14,269,000 at December 31, 1979, and $14,411,000 at November 30, 1980.

Depreciation—Depreciation provisions are based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties. Depreciation provisions in percent of average depreciable property approximated 3.5% for 1975, 3.7% for 1976, 3.8% for 1977, 3.9% for 1978, and 3.7% for 1979, and the twelve months ended November 30, 1980.

Federal Income Taxes—Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation for property placed in service after 1969 and also the class life depreciation system (ADR) for property placed in service after 1971. Federal income tax provisions have been reduced by the amounts of investment tax credits allowable under the Internal Revenue Code, including amounts for an Employee Stock Ownership Plan established pursuant to the Tax Reduction Act of 1975, as amended; a ratable portion, except for amounts applicable to the Employee Stock Ownership Plan, is being amortized to income over the estimated service lives of the properties. (See Note 9.)

Retirement Plans—The companies have uniform retirement plans covering substantially all employees. The costs of the plans are determined by independent actuaries and are funded by the companies as accrued. The costs of the plans, including amounts capitalized, approximated $6,499,000 for 1975, $13,528,000 for 1976, $13,862,000 for 1977, $17,198,000 for 1978, $22,878,000 for 1979, and $25,208,000 for the twelve months ended November 30, 1980. As of the latest annual actuarial valuations in 1980, the actuarial present value of accumulated benefits approximated $214,450,000 for vested benefits and $18,562,000 for nonvested benefits, and fund assets approximated $167,394,000. An assumed rate of return of 5½% was used in determining the value of accumulated benefits.

Reserve for Insurance and Casualties—The companies make provision for major uninsured losses and claims and charge the amounts thereof to the reserve when incurred.

2. BANK BALANCES AND SHORT-TERM BORROWINGS

At December 31, 1978, the Company had lines of credit with commercial banks aggregating $230,000,000. At December 31, 1979, the corresponding amount was $350,000,000 of which $70,000,000 was in the form of a temporary line of credit for which the Company paid a fee in lieu of compensating balances; such temporary line of credit was cancelled by the Company on July 1, 1980. At November 30, 1980, the Company had lines of credit with commercial banks aggregating $300,000,000. The lines of credit may be used for either back-up lines for commercial paper or bank loans at the prime commercial lending rate as it exists from time to time. At November 30, 1980, the total amount of borrowings authorized by the Board of Directors of the Company from banks or other lenders was $500,000,000.

Except as noted above, no commitments with respect to the maintenance of compensating balances have been made by the Company to any banks from which it has lines of credit; such arrangements are dependent upon the regular operating balances maintained in accounts with said banks by the Company and its subsidiaries.

Short-term borrowings outstanding and weighted average interest rates were as follows:

	Twelve Months Ended		
	December 31,		November 30,
	1978	1979	1980
	Thousands of Dollars		
Balance at end of period (a)	$221,355	$175,700	$200,715
Weighted average interest rate at end of period	10.26%	13.84%	14.27%
Maximum amount outstanding during period	$352,527	$377,825	$377,825
Weighted average amount outstanding during period (b)	$247,400	$253,000	$242,400
Weighted average interest rate during period (b)	7.85%	11.07%	12.46%

(a) Short-term borrowings outstanding at December 31, 1978 and 1979 and November 30, 1980, consisting entirely of commercial paper maturing at intervals up to 32, 45, and 39 days, respectively.

(b) Weighted averages are based upon daily amounts outstanding and equivalent annual interest thereon.

3. COMMON STOCK

The Company issued and sold shares of its authorized but unissued common stock during the years 1975 through 1979 and the eleven months ended November 30, 1980, as follows:

	Public Offering		Automatic Dividend Reinvestment and Common Stock Purchase Plan		Employees' Thrift Plan and Employee Stock Ownership Plan		Total	
Year	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
1975	—	$ —	—	$ —	—	$ —	—	$ —
1976	10,000,000	179,475,000	—	—	—	—	10,000,000	179,475,000
1977	5,000,000	94,075,000	—	—	—	—	5,000,000	94,075,000
1978	5,000,000	97,250,000	95,817	1,856,000	570,072	11,569,000	5,665,889	110,675,000
1979	5,000,000	94,750,000	1,091,137	19,689,000	1,228,072	22,846,000	7,319,209	137,285,000
1980	5,000,000	74,250,000	1,924,930	31,657,000	1,138,069	20,131,000	8,062,999	126,038,000

At November 30, 1980, 3,211,477 shares of the authorized but unissued common stock of the Company were reserved for issuance and sale pursuant to the above plans.

The Company has 50,000,000 authorized shares of serial preference stock having a par value of $25 a share, none of which has been issued.

4. Retained Earnings

The articles of incorporation, the mortgages, as supplemented, and the debenture agreements of the subsidiaries contain provisions which, under certain conditions, restrict distributions on or acquisitions of their common stocks. At December 31, 1979, and November 30, 1980, $47,716,000 and $57,670,000, respectively, of retained earnings of two subsidiaries was thus restricted as a result of the provisions of such articles of incorporation. Retained earnings (Company and consolidated) at both dates also included $331,243,000 representing the Company's equity in undistributed earnings since acquisition included in transfers by subsidiaries from their retained earnings to stated value of common stock, making a total of retained earnings which was restricted of $378,959,000 and $388,913,000, at December 31, 1979, and November 30, 1980, respectively.

5. Preferred Stocks of Subsidiaries (cumulative, without par value, entitled upon liquidation to $100 a share)

	Shares Outstanding	Amount: December 31, 1978	Amount: December 31, 1979	Amount: November 30, 1980	Redemption Price Per Share (before adding accumulated dividends): Current	Redemption Price Per Share (before adding accumulated dividends): Eventual Minimum
		Thousands of Dollars				
Dallas Power & Light Company						
$4.00 series	70,000	$ 7,049	$ 7,049	$ 7,049	$103.56	$103.56
4.24 series	100,000	10,081	10,081	10,081	103.50	103.50
4.50 series	74,430	7,443	7,443	7,443	110.00	110.00
4.80 series	100,000	10,009	10,009	10,009	102.79	102.79
6.84 series	200,000	20,022	20,022	20,022	106.47	103.05
7.20 series	200,000	20,044	20,044	20,044	105.01	103.21
7.48 series	300,000	30,073	30,073	30,073	106.69	102.95
Texas Electric Service Company						
$4.00 series	110,000	11,000	11,000	11,000	102.00	102.00
4.56 series	65,000	6,563	6,563	6,563	112.00	112.00
4.64 series	100,000	10,016	10,016	10,016	103.25	103.25
5.08 series	80,000	8,004	8,004	8,004	103.60	103.60
7.44 series	300,000	30,006	30,006	30,006	106.12	102.40
8.32 series	300,000	29,655	29,655	29,655	108.32*	101.00
8.44 series	300,000	30,046	30,046	30,046	107.40	103.18
8.92 series	200,000	20,076	20,076	20,076	105.83	103.60
9.36 series	300,000	29,625	29,625	29,625	107.02	102.34
10.12 series	350,000	—	—	34,615	110.12*	100.00
Texas Power & Light Company						
$4.00 series	70,000	7,000	7,000	7,000	102.00	102.00
4.44 series	150,000	15,061	15,061	15,061	102.61	102.61
4.56 series	133,786	13,379	13,379	13,379	112.00	112.00
4.76 series	100,000	10,000	10,000	10,000	102.00	102.00
4.84 series	70,000	7,000	7,000	7,000	101.79	101.79
7.24 series	250,000	25,113	25,113	25,113	107.04	103.42
7.80 series	300,000	30,030	30,030	30,030	105.20	103.25
8.16 series	300,000	29,655	29,655	29,655	108.16*	102.04
8.20 series	300,000	30,108	30,108	30,108	107.39	103.29
8.68 series	300,000	29,550	29,550	29,550	108.43*	101.92
8.84 series	300,000	—	29,591	29,591	108.17*	102.05
9.32 series	300,000	29,625	29,625	29,625	106.99	102.33
10.92 series	300,000	—	—	29,670	110.92*	102.73
Total	6,023,216	$506,233	$535,824	$600,109		

* Redemption may not be effected through certain refunding operations.

6. LONG-TERM DEBT OF SUBSIDIARIES (less amounts due currently)

Interest Rate Groups						Maturity Groups				
		December 31,						December 31,		
From	To	1978	1979	November 30, 1980		From	To	1978	1979	November 30, 1980
		Thousands of Dollars						Thousands of Dollars		
First mortgage bonds:										
2¾%	4⅛%	$ 159,000	$ 134,500	$ 123,000		1980	1986	$ 219,007	$ 194,500	$ 183,000
4⅜	5½	223,507	223,500	223,500		1987	1992	50,500	50,500	50,500
6⅛	7¾	368,000	368,000	368,000		1993	1998	231,000	231,000	231,000
8¼	9½	765,000	940,000	940,000		1999	2004	565,000	565,000	565,000
10⅛	14⅛	50,000	50,000	175,000		2005	2010	500,000	675,000	800,000
	Total	$1,565,507	$1,716,000	$1,829,500				$1,565,507	$1,716,000	$1,829,500
Other long-term debt:										
Sinking fund debentures										
3¼%	5¼%	$ 41,807	$ 34,283	$ 32,122		1980	1989	$ 41,807	$ 34,283	$ 32,122
6⅜	7¾	44,123	39,558	36,395		1993	1994	44,123	39,558	36,395
	Total	85,930	73,841	68,517				85,930	73,841	68,517
Pollution control revenue bonds—net										
5.70%	7⅜%	88,835	128,373	145,904		2004	2009	88,835	128,373	145,904
Senior notes										
8.50%	10.45%	300,000	334,120	489,710		1996	1999	300,000	334,120	489,710
Note payable		—	120,000	—		—	1980	—	120,000	—
	Total	$ 474,765	$ 656,334	$ 704,131				$ 474,765	$ 656,334	$ 704,131

Sinking fund and maturity requirements for the years 1981 through 1985 under long-term debt instruments in effect at November 30, 1980, were as follows:

Year	Sinking Fund(a)	Maturity	Minimum Cash Requirement(a)(b)
		Thousands of Dollars	
1981	$16,881	$11,500	$17,380
1982	17,307	22,000	28,016
1983	18,964	34,000	41,263
1984	33,331	45,000	65,680
1985	46,168	45,713	76,693

(a) Excluding requirements satisfied prior to November 30, 1980: $2,060,000 for 1981, $1,924,000 for 1982, $677,000 for 1983, $560,000 for 1984, and $320,000 for 1985.

(b) Other requirements may be satisfied by certification of property additions at the rate of 167% of such requirements, except for eleven issues at 100%.

Utility plant of the System companies is generally subject to the lien of the mortgages.

7. COMMITMENTS AND CONTINGENCIES

For major new construction work now in progress or contemplated by the subsidiaries, and commitments with respect thereto, see Construction Programs.

The three electric utility subsidiaries have entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and the subsidiaries have agreed, in effect, to guarantee the principal, $145,685,000 at December 31, 1979, and $154,920,000 at November 30, 1980, and interest on bonds issued to finance the reservoirs from which the water is supplied.

In April 1977, Texas Utilities Company entered into a surety agreement pursuant to which the Company has undertaken to assure the performance by Chaco Energy Company of a lease under which coal reserves will be acquired (see Fuel Supply).

Reference is made to Fuel Supply, Regulation and Rates, and Environmental Matters for information relating to legal and administrative proceedings. In the opinion of the Company, such legal and administrative proceedings are not expected to have a material effect upon the financial position or results of operations of the Company or the Company and its subsidiaries.

8. DALLAS FRANCHISE

In December 1977, the City of Dallas granted Dallas Power & Light Company a new franchise which conforms to the Public Utility Regulatory Act of the State of Texas.

The prior franchise from the City of Dallas provided for a surplus reserve created out of "net earnings." The surplus reserve was stated in the franchise to be "available for and may be used as an equalizing fund to promote the orderly and economical operation and development of the Grantee's business" and transfers were made to and from surplus reserve in accordance therewith. This provision is not contained in the new franchise.

9. FEDERAL INCOME TAXES

Federal income taxes were less than the amount computed by applying the federal statutory rate to pre-tax accounting income as follows:

	Twelve Months Ended					
	December 31,					November 30,
	1975	1976	1977	1978	1979	1980
	Thousands of Dollars					
Amount at statutory rate (48% prior to January 1, 1979; 46% thereafter)	$108,300	$132,285	$158,988	$188,554	$183,383	$252,989
Deductions for which no deferred taxes are provided:						
Certain capitalized construction costs, principally AFUDC and taxes	21,850	33,762	35,651	26,928	27,434	35,209
Miscellaneous	5,008	2,878	2,523	6,146	7,849	5,183
Total deductions	26,858	36,640	38,174	33,074	35,283	40,392
Total federal income taxes	$ 81,442	$ 95,645	$120,814	$155,480	$148,100	$212,597
Effective rate	36.1%	34.7%	36.5%	39.6%	37.1%	38.7%

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—(Concluded)

10. Supplementary Information

	Twelve Months Ended December 31, 1975	1976	1977	1978	1979	November 30, 1980
	Thousands of Dollars					
Provisions for depreciation of lignite fuel production facilities and transportation and other work equipment in addition to amounts set forth in the Statement of Consolidated Income, charged to various accounts	$ 6,220	$ 9,486	$ 15,711	$ 21,065	$ 22,062	$ 24,870
State, local and miscellaneous taxes:						
Ad valorem	$30,407	$ 34,453	$ 38,819	$ 42,498	$ 45,553	$ 47,532
Local gross receipts	21,055	25,456	30,772	37,564	41,167	47,997
State gross receipts	12,361	14,919	18,800	22,355	23,887	28,738
State franchise	5,894	6,640	8,280	9,569	10,660	11,422
Federal and state social security	7,[illegible]2	7,475	8,432	9,824	14,427	14,421
Miscellaneous	7,116	12,185	10,975	10,487	11,378	10,535
Total	$84,055	$101,128	$116,078	$132,297	$147,072	$160,645
Charged to:						
Operating expenses	$73,570	$ 84,165	$ 98,682	$114,989	$127,155	$142,365
Utility plant and sundry accounts	10,485	16,963	17,396	17,308	19,917	18,280

Maintenance and repairs, depletion, amortization, rents, lease commitments, royalties, research and development, and advertising, other than amounts set out separately in the Statement of Consolidated Income, are not significant.

11. Consolidated Financial Information (Unaudited)

In the opinion of the Company, the unaudited financial statements as of November 30, 1980 and for the twelve months then ended and the following information include all adjustments (constituting only normal recurring accruals) necessary to a fair statement of such financial statements and amounts; quarterly results are not necessarily indicative of expectations for a full year's operations because of seasonal and other factors, including rate increases and variations in fuel costs resulting from changes in generation mix:

Quarter Ended	Operating Revenues—Electric 1978	1979	1980	Consolidated Net Income 1978	1979	1980	Earnings Per Share of Common Stock 1978	1979	1980
	Thousands of Dollars			Thousands of Dollars					
March 31	$ 338,157	$ 382,978	$ 426,190	$ 32,570	$ 37,409	$ 37,296	$ 43	$0.44	$0.42
June 30	362,373	414,599	480,254	31,947	43,352	50,206	0.40	0.50	0.54
September 30	545,453	545,273	763,826	96,457	91,376	142,716	1.21	1.06	1.51
December 31	358,373	413,439	504,283	39,764	39,014	67,626	0.50	0.45	0.71
Total	$1,604,356	$1,756,289	$2,174,553	$200,738	$211,151	$297,844	$2.54	$2.45	$3.18

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

REPLACEMENT COST DATA (Unaudited)

Estimated replacement cost data is furnished in compliance with the reporting requirements of the Securities and Exchange Commission. The requirements, which apply to selected categories of assets and related depreciation, evolved because the impact of inflation in recent years has generally resulted in the replacement cost of electric plant in service being significantly higher than the historical cost of such assets as reported in the financial statements of the Company and subsidiaries.

The estimates conform to the SEC definitions of replacement cost and incorporate some reengineering of System facilities to recognize technological change, current legislation concerning the use of boiler fuels, environmental and similar considerations. The many assumptions and subjective decisions required cause the estimates to be imprecise in nature and place significant inherent limitations on the use of the data to evaluate the effect of inflation on System operations. The amounts furnished do not purport to represent the current value of the assets, the amounts for which the assets could be sold, or any intention to replace the assets, nor are they necessarily representative of the replacement cost that might be incurred in a future period.

Subject to the above qualifications, the System companies have compiled the following estimates of the required replacement cost data:

	December 31, 1978		December 31, 1979	
	Historical Cost	Estimated Replacement Cost	Historical Cost	Estimated Replacement Cost
	Thousands of Dollars			
Electric plant in service:				
Subject to replacement cost disclosure	$4,274,496	$8,692,136	$4,797,968	$10,182,243
Other assets—at original cost	152,859	152,859	175,540	175,540
Total	4,427,355	8,844,995	4,973,508	10,357,783
Less accumulated provisions for depreciation	1,057,068	2,068,380	1,213,927	2,480,582
Electric plant in service, less accumulated provisions for depreciation	$3,370,287	$6,776,615	$3,759,581	$ 7,877,201
Depreciation expense	$ 134,338	$ 275,155	$ 150,294	$ 311,282

The estimated replacement cost of electric plant in service of the System companies was determined as follows: for production facilities, an estimate of the cost per kilowatt for each type of recently constructed generating unit, including current requirements for pollution control facilities, trended to December 31, 1978 and December 31, 1979, respectively, was applied to the existing generating capacity adjusted as to fuel to recognize the effect of legislation restricting the use of natural gas as a boiler fuel; for transmission and distribution facilities, the Handy-Whitman Index of Public Utility Construction Costs for the South Central Region was applied to historical original cost by year of installation; and for general plant, an appropriate cost trend index was applied to historical original cost of the various types of assets by year of installation. Other assets shown at original cost include land and land rights, and oil and gas properties.

Accumulated provisions for depreciation based on estimated replacement cost was developed by applying the percentage relationship between the historical original cost of depreciable electric plant in service and the applicable accumulated provisions for depreciation by functional class of assets at December 31, 1978 and December 31, 1979, respectively, to the replacement cost of the assets by functional class.

Depreciation expense based on estimated replacement cost was developed by applying the appropriate functional class straight-line depreciation rates, based on service lives used for financial accounting purposes, to the respective functional class average replacement cost amounts.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION
CONCERNING EFFECTS OF CHANGING PRICES

Unaudited information furnished in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33, Financial Reporting and Changing Prices (FASB 33), follows. The Statement indicates the need for experimentation in providing information about the effects of changing prices. Such information is intended to help readers better understand the impact of inflation on the Company. Because the information is presented on an experimental basis, it should be viewed with caution. Calculation of the information inherently involves the use of assumptions, approximations, and estimates and, therefore, the resulting measurements should be considered in that context and not as precise indications of the effects of inflation. The effects of changing prices are not recognized for income tax or rate-making purposes, therefore the supplementary information should not be interpreted as adjustments to earnings reported in the Financial Statements.

Information concerning the effects of general inflation (constant dollar) is disclosed for the year 1979; disclosure of information concerning changes in specific prices (current cost) is not furnished pending study of the proper methods of establishing and reporting that information. (See Replacement Cost Data.)

The adjusted supplementary information was determined by converting historical cost amounts into dollars of equal purchasing power (constant dollar), as measured by the Consumer Price Index for All Urban Consumers.

Under the guidelines specified in FASB 33, only depreciation provisions are required to be adjusted in the determination of net income. As a result, the only income statement category that differs from a corresponding category in the Financial Statements is Operating Expenses. In compliance with FASB 33, no adjustment has been made to federal income taxes. Current year depreciation provisions on a constant dollar basis were determined by applying the System companies' straight-line depreciation rates used for financial accounting purposes to the appropriate constant dollar Utility Plant amounts.

Under rate-making rules prescribed by the Public Utility Commission of Texas, only the original cost of Utility Plant is recoverable through revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars over the original cost is not recoverable through rates as depreciation. The excess applicable to the current year is reflected as Unrealized Loss From Decline in Purchasing Power of Investment in Utility Plant (reduction to net recoverable cost as prescribed by FASB 33).

During periods of inflation, the holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The amount shown as Unrealized Gain From Decline in Purchasing Power of Net Amounts Owed reflects the net of these two items and is primarily attributable to the substantial amount of long-term debt which has been used to finance Utility Plant.

To reflect the results of rate regulation, Unrealized Gain From Decline in Purchasing Power of Net Amounts Owed is offset by the Unrealized Loss From Decline in Purchasing Power of Investment in Utility Plant.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

SUMMARY OF CONSOLIDATED NET INCOME ADJUSTED FOR EFFECTS OF GENERAL INFLATION

Year 1979	Historical Cost Reported in Financial Statements	As Adjusted For General Inflation (Average 1979 Dollars)
	Thousands of Dollars	
Operating Revenues—Electric	$1,756,289	$1,756,289
Operating Expenses*	1,376,393	1,499,473
Operating Income	379,896	256,816
Other Income	54,828	54,828
Total Income	434,724	311,644
Interest Charges	184,166	184,166
Preferred Stock Dividends of Subsidiaries	39,407	39,407
Consolidated Net Income	$ 211,151	$ 88,071
Unrealized Loss From Decline in Purchasing Power of Investment in Utility Plant		$ 514,873
Unrealized Gain From Decline in Purchasing Power of Net Amounts Owed		365,164
Net Loss in Purchasing Power		$ 149,709

* Historical cost depreciation provisions, including amounts in operating expense items other than depreciation provisions are $172,356,000; depreciation provisions adjusted for the effects of general inflation are $295,436,000.

COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR EFFECTS OF GENERAL INFLATION

(Average 1979 Dollars)	1975	1976	1977	1978	1979
			Thousands of Dollars		
Operating Revenues—Electric	$1,198,581	$1,380,050	$1,638,319	$1,784,990	$1,756,289
Consolidated Net Income					$88,071
Earnings per Share of Common Stock					$1.02
Net Assets at Year End at Original Cost Adjusted for Effects of Inflation					$2,250,151
Unrealized Gain From Decline in Purchasing Power of Net Amounts Owed					$365,164
Dividends Declared per Share of Common Stock	$1.67	$1.68	$1.68	$1.69	$1.64
Market Price per Share of Common Stock at Year End	$27.29	$27.13	$25.70	$20.22	$16.78
Consumer Price Index—Average	161.2	170.5	181.5	195.4	217.4

This Form 10-K of Texas Electric Service Company for the fiscal year ended December 31, 1980, is complete in all respects, except for the information contained herein in response to Item 10(a), which information is on file at the Securities and Exchange Commission.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended December 31, 1980 — **Commission File No. 0-1289**

Texas Electric Service Company

A Texas Corporation — I.R.S. Employer No. 75-0604000

Electric Service Building, 115 West Seventh Street, Fort Worth, Texas 76102
(817) 336-9411

Securities Registered Pursuant to Section 12(b) of the Act:	Securities Registered Pursuant to Section 12(g) of the Act:
None	Preferred Stock, without par value

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 ___

Aggregate market value of Common Stock held by non-affiliates: None

Common Stock outstanding at February 28, 1981: 27,000,000 shares, without par value

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

Item 1. BUSINESS.

THE COMPANY

Texas Electric Service Company (Company) was incorporated under the laws of the State of Texas in 1929 and has perpetual existence under the provisions of the Texas Business Corporation Act. The Company is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity wholly within the State of Texas. The Company possesses all of the necessary franchises required to enable it to conduct its business; such franchises are non-exclusive, expire at various dates or are without express limit as to time, and contain no unduly burdensome or restrictive provisions.

The Company is a wholly-owned subsidiary of Texas Utilities Company (Texas Utilities) which provides common stock capital and short-term financing to the Company. Dallas Power & Light Company (Dallas Power) and Texas Power & Light Company (Texas Power), whose respective systems are interconnected with that of the Company, are also subsidiaries of Texas Utilities. Texas Utilities has three other subsidiaries which perform specialized services, at cost, for the Texas Utilities Company System (System), including the Company: Texas Utilities Services Inc. (Service Company) furnishes engineering, financial and other services; Texas Utilities Fuel Company (Fuel Company) owns a natural gas pipeline system, acquires, stores and delivers fuel gas and oil and provides other fuel services for the generation of electric energy; and Texas Utilities Generating Company (Generating Company) operates the jointly owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for the surface mining and recovery of lignite for use as fuel at such stations.

The Company has a subsidiary, Old Ocean Fuel Company (Old Ocean), which owns and operates facilities for delivery and storage of fuel gas primarily for the Company.

The Company had 2,935 employees at December 31, 1980 and provides electric service in 48 counties of north central and west Texas, including the cities of Fort Worth, Wichita Falls, Midland, Odessa, Arlington, Grand Prairie and 72 other incorporated municipalities. The territory served has a population of approximately 1,400,000 and includes a major portion of the Permian Basin oil and gas area and other oil fields and substantial cattle and farm sections in west Texas. Automotive and aircraft assembly, petrochemical and specialized steel manufacturing are among the larger industrial activities. The service area of Fort Worth has a population of approximately 900,000 and is a center of banking, business and industry. The area served between Fort Worth and Dallas is a highly diversified complex of light industry, warehousing and commercial development and contains a variety of recreational attractions. During 1980, approximately 40% of operating revenues was derived from residential sales, 25% from commercial sales, 27% from industrial sales and 8% from other sources.

For energy sales and operating revenues contributed by each class of service, see Item 6, Selected Financial Data – Operating Statistics.

GENERAL PROBLEMS OF THE INDUSTRY

The electric utility industry in general is currently experiencing problems in a number of areas including the effects of inflation upon the cost of operations and upon construction expenditures, availability and increased cost of fuel for the generation of electric energy, the continued ability to fully recover increased fuel costs through automatic fuel adjustment clauses, supply and high cost of capital, difficulty in obtaining sufficient return on invested capital and in securing adequate rate increases when required, compliance with environmental and mining regulations, uncertainties regarding the construction and fueling of nuclear generating units, licensing and other delays affecting the construction of new facilities, and the effects of conservation in the use of electric energy. The Company has been experiencing certain of these problems in varying degrees (see Fuel Supply, Regulation and Rates, and Environmental Matters; Item 2, Properties – Construction Program; and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations). The Company is unable to predict the future effect of such factors upon its operations.

In addition, the National Energy Act (NEA), enacted in November 1978, seeks to promote conservation of energy and the development of more plentiful domestic energy sources through various regulatory and tax provisions. Among other things, NEA requires state regulatory authorities to give consideration to certain rate and other standards and load management techniques, and provides for compulsory interconnections and transmission of power under certain circumstances (see Regulation and Rates), and restricts the use of natural gas and oil (see Fuel Supply). The Company is unable to predict the future effect of this legislation upon its operations.

FUEL SUPPLY

Net input to the Company's system for 1980 was 21,835 million kilowatt-hours of which 21,721 was generated in Company stations. During this period, 240,065,093 million Btu of fuel was consumed for electric generation at an average cost of 84.4¢ per million Btu.

A comparison of the cost per million Btu of fuel consumed and the fuel mix for electric generation during the last three years is shown below:

	Fuel Cost Per Million Btu			Fuel Mix For Electric Generation		
	1980	1979	1978	1980	1979	1978
Gas	98.0¢	71.3¢	88.3¢	51.7%	51.5%	65.7%
Oil	233.9	177.3	174.4	0.2	2.8	1.1
Lignite*	69.1	62.0	49.1	48.1	45.7	33.2
Average/Total	84.4¢	70.0¢	76.2¢	100.0%	100.0%	100.0%

* Lignite cost per ton: $8.73 for 1980, $8.06 for 1979, and $6.56 for 1978.

The cost of fuel and increases therein are recoverable under the fuel cost factor referred to under Regulation and Rates.

Gas

Fuel gas for the Company's six generating stations (see Item 2, Properties) was provided by three major suppliers. During 1980, the operators of the Old Ocean Field in south Texas provided approximately 52% of the fuel gas under contracts which expired at the end of 1980 (see Item 3, Legal Proceedings). Fuel Company provided approximately 32% of the fuel gas and has begun supplying fuel gas previously provided under the expired contracts. Odessa Natural Corporation (Odessa) provided approximately 16% under a contract extending through December 1981. The remaining fuel gas was provided under minor contracts.

In June 1980, several Lone Star Gas Company (Lone Star) contracts held by the Company and Dallas Power were assigned to Fuel Company. Concurrently with these assignments, supplemental agreements between Fuel Company and Lone Star were signed which provide for (i) an increase in maximum daily and annual delivery obligations of Lone Star, (ii) an increase in the delivery points through which these supplies could flow to System generating stations, and (iii) an extension of the primary term through 1989 or 1990, with provision for year to year extension by mutual agreement. Additional fuel gas available to the System under these supplemental agreements will be used, together with other supplies, to meet the short-fall occasioned by the expiration of the contracts for fuel gas from the Old Ocean Field.

Item 1. BUSINESS (Continued).

Old Ocean owns and operates an underground gas storage reservoir with a usable capacity of 5.5 billion cubic feet. Gas from this facility is available to meet seasonal fluctuations to the extent of approximately 145 million cubic feet per day.

Fuel Company owns and operates an intrastate natural gas pipeline system which extends from the gas-producing area of the Permian Basin in west Texas to the Fort Worth-Dallas area and eastward to the gas fields of east Texas. This system includes a one-half interest in a natural gas pipeline which extends 395 miles from the Permian Basin area of west Texas to a point of termination south of the Fort Worth-Dallas area. This 36-inch line has a total initial capacity of 550 million cubic feet of gas per day which can be increased at additional cost to 1,300 million cubic feet per day by the installation of compression. Fuel Company also owns and operates an additional 1,303 miles of various smaller capacity lines which are used to gather and transport natural gas from other gas-producing areas, including the gas fields of east Texas. Pipeline facilities of Fuel Company are interconnected with similar facilities of Old Ocean to form an integrated network through which fuel gas is gathered and transported to certain of the generating stations of the Company, Dallas Power and Texas Power for use in the generation of electric energy.

Fuel Company has acquired under contracts expiring at intervals through 2000, principally with producers at the wellhead, supplies of gas which are generally expected to be produced over a ten to fifteen year period. As gas production declines and/or contracts expire, new contracts are negotiated to replenish or augment such supplies. During 1980, Fuel Company experienced no curtailments under these contracts.

Fuel Company also owns and operates underground gas storage facilities with a usable capacity of 22.4 billion cubic feet. Gas stored in these facilities is currently capable of being withdrawn at a rate of approximately 215 million cubic feet per day for use during periods of peak demand or curtailment of deliveries by other gas suppliers.

In September 1973, the Railroad Commission of Texas issued an interim order granting a rate increase to Lo-Vaca Gathering Company (Lo-Vaca), a purchaser and transporter of natural gas, a portion of which is ultimately purchased by the Company. In a proceeding before the Railroad Commission, Gulf Oil Corporation (Gulf), a purchaser, filed an application in late 1978 to pass through these costs to Odessa and Odessa filed a motion with the Railroad Commission to the effect that should Odessa be required to pay any additional amounts to Gulf, it should be allowed to pass these increased costs to the Company, which purchased the gas from Odessa. Although the Company cannot estimate the amount of costs at issue, such costs could be substantial and may involve retroactive charges which may not be recoverable by the Company. The Company, the Public Utility Commission of Texas, several municipalities served by the Company, and certain wholesale customers intervened in this matter in opposition to the motions of Gulf and Odessa. In December 1980, the Railroad Commission entered an order denying Gulf's claim. (See Item 3, Legal Proceedings.)

In November 1978, the Powerplant and Industrial Fuel Use Act of 1978 (Fuel Use Act), was enacted as part of the NEA. Among other things, the Fuel Use Act (i) generally prohibits the use of natural gas and/or oil as a primary energy source in any new electric power plants, (ii) limits the use of natural gas as a primary energy source in existing electric power plants in any calendar year before 1990 in a greater proportion than the average yearly proportion of natural gas used during 1974 through 1976, and (iii) requires that natural gas used in such facilities cease by 1990 unless specific exemptions can be obtained. The Economic Regulatory Administration of the Department of Energy (DOE) has issued regulations implementing this Act. (See Item 3, Legal Proceedings.)

Oil

During 1980, utilization by the Company of fuel oil as an alternate source of fuel amounted to 81,816 barrels or 0.2% of total fuel requirements. At December 31, 1980, the Company had approximately 3.1 million barrels of fuel oil storage capacity with approximately 2.0 million barrels of oil in inventory. It is anticipated that future oil requirements will be met with purchases in the open market or from Fuel Company.

Lignite

Two units in service at the Big Brown generating station, three units at the Martin Lake generating station, and three units at the Monticello generating station (see Item 2, Properties), having an aggregate net capability of 5,300 megawatts and providing 1,741 megawatts to the Company, use lignite as fuel; two other lignite-fueled units, with an aggregate net capability of 1,500 megawatts, now in design or under construction, will provide 806 megawatts to the Company (see Item 2, Properties – Construction Program). These lignite units, which will be base loaded to operate at the maximum practical load factor, have been or are being constructed adjacent to lignite reserves which will be surface mined. At the present time, the Company, Dallas Power and Texas Power, along with a large industrial customer who is a joint participant with Texas Power in the construction of a lignite-fueled generating station, own in fee or have under lease an estimated 820 million proven recoverable tons of such reserves. The Company, Dallas Power and Texas Power, through Fuel Company, are engaged in an active program of core drilling and/or acquiring additional reserves. Generating Company owns and operates equipment to remove the overburden and to recover lignite. For information concerning applicable air quality standards, see Environmental Matters.

Lignite production operations at the Big Brown, Martin Lake and Monticello generating stations are accompanied by an extensive reclamation program which returns the land to productive uses and includes a vegetation restoration program. Similar programs are planned for future lignite-fueled generating stations mentioned above. For information concerning federal and state legislation with respect to surface mining, see Environmental Matters.

Nuclear

Two nuclear-fueled units of 1,150 megawatts each under construction at the Comanche Peak generating station will provide 824 megawatts to the Company. The first of such units is scheduled for service in 1982 and the second in 1984 (see Item 2, Properties – Construction Program). Commitments have been obtained for anticipated uranium ore concentrate requirements and fabrication services for both units for the first 17 years of operation. Uranium hexafluoride conversion services have been contracted for through 1987, and uranium enrichment contracts, having a duration of approximately 30 years, have been made with the DOE. No arrangements have as yet been made for the reprocessing requirements for the Comanche Peak units and it is understood that at present there are no reprocessing plants in commercial operation in the United States. However, there will be on-site storage capacity for spent fuel sufficient to accommodate the operation of the units for approximately 17 years and this storage capacity can be increased. Additional contracts for uranium ore concentrates and nuclear fuel cycle services will be required in the future; however, it is not possible to predict the ultimate availability or cost thereof.

General

The Company is not able to state what problems may be encountered in the future in obtaining the fuel it will require for use in generating electric energy to serve its customers, or predict the effect upon its operations of any difficulty it may experience in protecting its rights to fuel now under contract or in acquiring fuel in the future, or the cost thereof, although the cost of fuel and increases therein are recoverable under the fuel cost factor referred to under Regulation and Rates.

Item 1. BUSINESS (Continued).

REGULATION AND RATES

Regulation

Texas Utilities and its subsidiaries, including the Company, are presently exempt from the provisions of the Public Utility Holding Company Act of 1935, except as to Section 9(a)(2) which relates to acquisition of securities of public utility companies.

At present, the Company does not transmit electric energy in interstate commerce or sell electric energy at wholesale in interstate commerce, or own or operate facilities therefor and is not connected directly or indirectly to other systems which are involved in such interstate activities, except during the continuance of emergencies permitting temporary or permanent connections which does not subject it to the jurisdiction of the Federal Energy Regulatory Commission (FERC), successor to the Federal Power Commission (FPC) under the Federal Power Act. In view thereof, the Company believes that it is not a public utility as defined in the Federal Power Act and has been advised by its counsel that it is not subject to regulation under such Act as to the issuance of securities or otherwise; however, should the Company become subject to the Federal Power Act, it would be subject to regulation by FERC with respect to rates for transmission and sale of electric energy at wholesale, the interconnection of facilities, the issuance of securities and to the extent FERC determines, accounting policies and practices.

The Public Utility Regulatory Policies Act of 1978 (PURPA), a constituent bill of the National Energy Act, grants power to FERC on its own authority or on application of any electric utility, cogenerator or state regulatory authority to order interconnections and transmission of power under certain circumstances. However, compliance with such an order involving interstate transmission of power would not subject the Company to the general jurisdiction of FERC. PURPA also requires state regulatory authorities to hold public hearings to consider the application of certain rate design and other standards and the mandatory use of loan management techniques. The Company is unable at this time to assess the full effect of these and other provisions upon the results of its operations or financial condition.

The Public Utility Commission of Texas (PUC) has original jurisdiction over electric rates and service in unincorporated areas and exclusive appellate jurisdiction to review the rate and service orders and ordinances of municipalities. Each municipality has original jurisdiction over the regulation of electric rates and service within its corporate limits unless such municipality elects to have the PUC exercise original jurisdiction. Approximately 29% of the Company's revenues are derived from electric energy sales to customers in unincorporated areas. (See also Fuel Supply and Environmental Matters for information relating to the Railroad Commission of Texas.)

Central and South West Corporation (CSW) is a holding company with electric utility subsidiaries operating in Arkansas, Louisiana, Oklahoma and Texas. For many years, CSW has operated two separate systems – one interstate and part of the Southwest Power Pool (SWPP), and the other, an intrastate system tied in with the Texas Interconnected Systems (TIS), an intrastate network of six major investor-owned and seven public entities. TIS includes Central Power and Light Company (CP&L), the southern part of West Texas Utilities Company (WTU), both of which are CSW subsidiaries, Houston Lighting & Power Company (HL&P), and the Company, Dallas Power and Texas Power, among others. On May 4, 1976, CSW put its Texas system into interstate commerce and by that act, also connected the other parties in TIS to Oklahoma through WTU. The Company promptly disconnected from WTU and returned to intrastate operation. Also, on that date, subsidiaries of CSW, asserting that the Company, Dallas Power and Texas Power were subject to jurisdiction of the FPC, petitioned the FPC to require them to reestablish connections with the interstate facilities of the CSW system. (See Item 3, Legal Proceedings.) In July 1976, the FPC issued an order finding that the Company, Dallas Power and Texas Power were not public utilities as defined in the Federal Power Act. On appeal, the United States Court of Appeals for the District of Columbia Circuit has remanded this order to FERC, as successor to the FPC, for further clarification.

Item 1. BUSINESS (Continued).

On May 2, 1977, in Docket No. 14, the PUC entered an interim order requiring WTU and CP&L in effect to return to their pre-May 4, 1976 mode of operation, and further requiring WTU to sever the interstate ties into Oklahoma. On May 4, 1977, after WTU had severed the interstate ties, interconnections were reestablished between its intrastate system and TIS. On June 2, 1977, the PUC entered a final order confirming its interim order and prohibiting any party operating a utility system connected with TIS from withdrawing from TIS or making connections with utility systems not so connected unless approved by the PUC or pursuant to judicial mandate or order of the FPC. (See Item 3, Legal Proceedings.)

In February 1979, certain subsidiaries of CSW filed an application with FERC under PURPA seeking generally to exempt CP&L and WTU from certain provisions of the PUC order in Docket No. 14 and to require the Company, Dallas Power and Texas Power to operate interconnected with facilities in the CSW system, including interstate facilities. In July 1979, FERC issued an order instituting an investigation in the matter, which is currently proceeding. (See Item 3, Legal Proceedings.) In October 1980, the Company, Dallas Power, Texas Power, HL&P and CSW filed an Offer of Settlement in this proceeding, which has the concurrence of the FERC staff, providing, among other matters, for the entry of an order requiring the establishment of two direct current asynchronous interconnections between SWPP and TIS and for the wheeling of power between such systems under specified terms and conditions. This offer is made on a basis which would not subject the Company, Dallas Power, Texas Power or HL&P to the jurisdiction of the FERC generally. In December 1980, FERC granted the motion of the Department of Justice for leave to intervene in this proceeding, which motion generally opposes the proposed settlement. As the result of the intervention by the Department of Justice, the Administrative Law Judge ruled in January 1981 that a hearing in this proceeding is necessary; however, this ruling will be reviewed by FERC. The settlement proposal of CSW, the Company, Dallas Power, Texas Power and HL&P would encompass the proceeding before FERC mentioned above and is also contingent upon the settlement and termination of the proceedings before the Securities and Exchange Commission (SEC) described below.

In August 1978, in connection with the application by Generating Company for an operating license for the Comanche Peak nuclear station, the Department of Justice indicated that the intrastate provisions of agreements among TIS members raise antitrust issues. The Nuclear Regulatory Commission (NRC) has ordered a hearing on this matter which is in progress. Proposed licensing conditions relating to the antitrust matters have been agreed to by the NRC staff, the Department of Justice and all parties to the Comanche Peak proceeding. There is also in progress a similar hearing before the NRC relating to an operating license in connection with the South Texas nuclear facility being constructed by HL&P and CP&L, among others. The City of Brownsville, Texas has intervened in this proceeding claiming that certain antitrust issues relating to HL&P should be considered, and asserted that similar issues affect the Company, Dallas Power and Texas Power and should be considered in connection with their license application.

In March 1974, a request was filed with the SEC by four Oklahoma municipalities and two cooperatives, asking, among other things, that the SEC undertake a review of the status of CSW and its subsidiaries under the Public Utility Holding Company Act of 1935; and that the SEC also review the exemption granted to Texas Utilities and its subsidiaries, including the Company, to determine if that exemption should be revoked. A hearing concerning the status of CSW under this Act has been in progress and is currently being held in abeyance pending resolution of the matters before FERC described above.

In December 1976, Tex-La Electric Cooperative of Texas, Inc. (Tex-La), a wholesale customer of Texas Power, requested an investigation by the PUC and the FPC to determine whether Texas Power engages in interstate commerce in connection with the transmission of energy generated by the Denison Dam plant located near the Texas/Oklahoma border and which of such agencies has jurisdiction over the wholesale sales of Texas Power. Subsequently, the PUC has established wholesale rates for sales by Texas Power to Tex-La but the matter is still pending before FERC. Several parties have intervened in the FERC proceeding including certain CSW subsidiaries, HL&P and the State of Texas. In addition, the United States Supreme Court has granted a petition from the State of Texas to determine the location of the Texas/Oklahoma boundary line in this area.

Rates

The Company applied new rates designed to increase operating revenues for the test year ended March 31, 1980 by approximately $69 million, or 10.1%, effective in October 1980. The new rates, which apply to all classes of service and include an adjustment (fuel cost factor) providing for the full current recovery of fuel costs, were placed into effect in all areas. Prior general rate levels were established in November 1979 by upward adjustment in electric service rates affecting all classes of service and designed to increase operating revenues for the test year ended March 31, 1979 by approximately $38 million, or 7.6%.

General

In an order issued in April 1979, following a hearing with respect to certain transactions, involving substantial amounts, among the subsidiaries of Texas Utilities, including the Company, Dallas Power and Texas Power, the PUC concluded that the transactions reviewed were generally in the public interest. Certain provisions of the order, however, required that prior PUC approval be obtained with respect to certain future transactions among the subsidiaries and required a $1.6 million refund to the customers of the Company. These provisions were appealed by the electric utility subsidiaries and other parties to the proceedings. On December 30, 1980, following oral argument before the 53rd Judicial District Court of Travis County, Texas, in the appeal of this matter, the Court announced its intention to enter an order remanding this matter to the PUC for further consideration in light of its conclusion that the provisions of the Texas Public Utility Regulatory Act required a prior determination by the PUC of the reasonableness of the charges involved in transactions among affiliated interests, which have been recovered by the Company under its fuel cost factor. The Court further indicated that it was not ordering refunds or requiring penalties to be levied but asked that these matters be further considered on remand by the PUC. The Company intends to appeal any adverse final order entered by the Court. The Company cannot predict the outcome of this proceeding.

ENVIRONMENTAL MATTERS

The Company is subject to federal, state and local regulations dealing with air and water quality and related environmental matters (see Item 2, Properties – Construction Program for scheduled expenditures).

Air

Under the Texas Clean Air Act, the Texas Air Control Board (TACB) has jurisdiction over the permissible level of air contaminant emissions from generating facilities located within the State of Texas. In addition, the new source performance standards of the United States Environmental Protection Agency (EPA) promulgated under the federal Clean Air Act, which have also been adopted by the TACB, are applicable to generating units, the construction of which commenced after March 5, 1972.

The Company's gas and oil-fueled generating units have been constructed to operate in compliance with regulations promulgated pursuant to these Acts. Particulate control devices have been installed at each of the Company's lignite-fueled units and sulfur dioxide control devices have also been installed on Unit 3 at the Monticello station and the three units in operation at the Martin Lake station in order to comply with applicable regulations under these Acts. Due to variations in the sulfur content of the lignite fuel, operation of certain of these generating units at reduced loads is required from time to time in order to maintain compliance with these standards. (See Item 3, Legal Proceedings.)

Generating facilities presently under construction are designed to comply with applicable statutes and regulations. To date, required construction permits have been obtained for Unit 4 at the Martin Lake station and Unit 1 at the Forest Grove station.

The federal Clean Air Act Amendments of 1977, among other things, require the Administrator of EPA to promulgate revised new source performance standards. The amendments also contain provisions relating to the prevention of significant deterioration of air quality pursuant to which regulations have been issued, and limit the maximum allowable increases in concentrations of sulfur oxides and particulates in various areas. The Company cannot presently determine the effect of these amendments and regulations upon its planned construction program, although it is not expected that the regulations relating to the prevention of significant deterioration of air quality will have a substantial impact on it. (See Item 3, Legal Proceedings.)

Water

The Texas Department of Water Resources (TDWR) and the EPA have jurisdiction over all water discharges from Company generating stations and mining areas. The Company has obtained all required liquid waste control orders from the Texas Water Quality Board, predecessor to the TDWR, for facilities in operation and has applied for or obtained all such orders for facilities under construction. The Company has received permits from the EPA under the National Pollutant Discharge Elimination System (NPDES) for the discharge of waters from units at the Company generating stations currently in operation. All NPDES permits required for units under construction and lignite mining areas have been applied for or obtained. Most of these permits expired in 1980; however, applications for new permits have been submitted while interim authorizations are in effect, and the Company believes it can satisfy the requirements necessary to obtain renewals thereof.

In June 1979, the EPA issued revised regulations for the issuance of NPDES permits, the validity of which is being challenged by various electric utility companies, including the Company, Dallas Power and Texas Power (see Item 3, Legal Proceedings). Also, it is anticipated that the EPA will issue new regulations relating to thermal discharges as a result of litigation setting aside certain of the thermal regulations initially adopted. The Company cannot presently determine what modifications might be necessary to obtain NPDES permits for future plants or to obtain renewals of existing permits, or to comply with future requirements pertaining to thermal limitations or standards, nor can any determination be made of the direct or indirect costs of any such modifications.

The Company generating stations presently in operation have been constructed to operate in compliance with applicable state and federal standards relating to the quality of discharges of water (see Item 3, Legal Proceedings).

Diversion of water by the Company for cooling and other purposes is subject to the jurisdiction of the Texas Water Commission, formerly the Texas Water Rights Commission, which is empowered to allocate such waters among users. The Company possesses all necessary permits from such Commission for the use of surface water required for its present operations and plants under construction.

Other

System lignite mining operations are currently regulated at the state level by the Railroad Commission of Texas. Surface mining permits in connection with the Big Brown, Martin Lake and Monticello stations have been issued. Federal legislation regulating surface mining was enacted in August 1977 and regulations implementing the law have been issued. (See Item 3, Legal Proceedings.)

Item 1. BUSINESS (Concluded).

Disposal of solid waste is regulated under the Texas Solid Waste Disposal Act and at the federal level under the Resource Conservation and Recovery Act of 1976 (RCRA). The EPA has issued regulations under RCRA and the TDWR has issued regulations under the Texas Act applicable to the Company generating stations. Said regulations have received interim approval from the EPA. The Company cannot presently determine the effect of these Acts upon its operations, but has submitted applications for the permits required by such regulations. (See Item 3, Legal Proceedings.)

Item 2. PROPERTIES.

The Company owns and operates six generating stations and is a joint owner with Dallas Power and Texas Power of the Big Brown, Martin Lake, and Monticello generating stations. At December 31, 1980, the Company's total net generating capability of 5,997 megawatts was comprised of 2,866 megawatts of gas-fueled generation (which is generally equipped to use fuel oil for short periods when the gas supply is interrupted or curtailed – see Item 1, Business – Fuel Supply), 1,390 megawatts of gas/oil-fueled generation and 1,741 megawatts of lignite-fueled generation.

The Company's ownership interest in jointly owned generating stations in service is as follows:

Station and Location*	Fuel	Unit No.	Percent Participation	Net Capability (Megawatts) Total	Net Capability (Megawatts) Company Participation	Company's Participation in Electric Plant in Service December 31, 1980 (Thousands of Dollars)
Big Brown — Freestone County	Lignite	1	33⅓	575	192	$ 55,093
		2	33⅓	575	191	
Martin Lake — Rusk County	Lignite	1	20	750	150	204,889
		2	20	750	150	
		3	45	750	338	
Monticello — Titus County	Lignite	1	30	575	173	201,987
		2	30	575	172	
		3	50	750	375	

*The Company's share of expenses for jointly owned facilities are included in applicable operating expense categories; depreciation is not maintained by individual generating station. The Company provides financing for its participation in each jointly owned generating station. (See Item 1, Business – The Company and Fuel Supply, Note 2 to Financial Statements and Construction Program regarding operation of the jointly owned generating stations and additional facilities in design or under construction.)

At December 31, 1980, the Company's electric transmission and distribution system included 236 substations and approximately 23,600 pole miles of transmission and distribution lines. The maximum hourly load on the system in 1980 occurred on July 2, 1980 and amounted to 4,251 megawatts. The interconnected electric systems of the Company, Dallas Power and Texas Power are connected by two 345,000 volt circuits to HL&P; by five 138,000 volt and eight 69,000 volt lines to WTU; by one 345,000 volt, four 138,000 volt and one 69,000 volt lines to Lower Colorado River Authority; and at several points with smaller systems operating wholly within Texas. The Company, along with Dallas Power and Texas Power, is a member of TIS (see Item 1, Business – Regulation and Rates), and of the Electric Reliability Council of Texas (ERCOT), the regional reliability coordinating organization for electric power systems in Texas.

The generating stations and other important units of property owned by the Company are located on lands owned primarily in fee simple. The greater portion of the transmission and distribution lines have been constructed over lands of others pursuant to easements or on public highways and streets as permitted by law. The rights of the Company in the realty on which its properties are located are considered by it to be adequate for its use in the conduct of its business. Minor defects and irregularities customarily found in titles to properties of like size and character may exist, but any such defects and irregularities do not materially impair the use of the properties affected thereby. Under the laws of the State of Texas, the Company has the right of eminent domain whereby, it may, if necessary, perfect or secure titles to privately-held land used or to be used in its operations. Substantially all of the properties of the Company are subject to the lien of the mortgage and deed of trust securing its first mortgage bonds.

CONSTRUCTION PROGRAM

The construction program of the Company and Old Ocean as estimated for 1981 through 1983 is as follows:

	1981	1982	1983
	Thousands of Dollars		
Production	$168,000	$150,000	$102,000
Transmission	36,000	23,000	22,000
Distribution	45,000	48,000	55,000
General	7,000	8,000	11,000
Total	$256,000	$229,000	$190,000
Such expenditures do not include nuclear fuel	$ 5,000	$ 19,000	$ 26,000

The Company is subject to federal, state and local regulations dealing with environmental protection (see Item 1, Business – Environmental Matters). Construction expenditures for lignite-fueled generating units are estimated to include $10,400,000 for 1981 and $3,400,000 for 1982, for additional items of equipment contributing to the protection of the environment. Similar expenditures approximated $7,400,000 for 1980, $3,000,000 for 1979 and $15,200,000 for 1978.

Additional generating units now in design or under construction, and the year each is scheduled for service, are as follows:

			Unit Net Capability (Megawatts)			Company Participation(b)		
Station and Location	Fuel	Unit No.	Total	Company Participation	Scheduled for Service(a)	Expenditures Through December 31, 1980	Estimated Completed Cost	Estimated Completed Cost per Megawatt(c)
						Thousands of Dollars		
Comanche Peak — Somervell County	Nuclear	1	1,150	412	1982	$547,153	$791,330	$ 972
		2	1,150	412	1984			
Forest Grove — Henderson County	Lignite	1	750	450	1989	59,380	482,393	1,072
Martin Lake — Rusk County	Lignite	4	750	356	1990	16,021	232,962	654

(a) Subject to approval of various regulatory agencies, including the NRC in the case of Comanche Peak.

(b) Company participation in net capability and cost of units jointly owned with Dallas Power and Texas Power: Comanche Peak – 35-5/6% (14⅓% owned by Texas Municipal Power Agency, Brazos Electric Power Cooperative, Inc. and Tex-La Electric Cooperative of Texas, Inc.); Forest Grove – 60%; Martin Lake No. 4 – 47½%.

(c) Except for Comanche Peak which reflects the total cost of the project for all participants.

Item 2. PROPERTIES (Concluded).

As a result of design changes and modifications required by the NRC and of delays in obtaining an operating license, in July 1980, the in-service dates of Units 1 and 2 at the Comanche Peak station were delayed from 1981 and 1983 to 1982 and 1984, respectively. In addition, as a result of the Company's continuing review of projected customer demand and cost of capital, the Company announced deferrals in the in-service dates of other units under construction as follows: Martin Lake Unit 4 from 1985 to 1990 and Forest Grove Unit 1 from 1987 to 1989. The above chart reflects the foregoing delays and the resulting increased construction costs.

Following an incident at the Three Mile Island nuclear power plant, the NRC staff issued an "Action Plan" in June 1980, designed to provide a comprehensive and integrated plan to improve safety at nuclear power reactors. Efforts are underway to comply with applicable requirements of the Action Plan. Since many of the improvements indicated by the Three Mile Island accident had already been incorporated in the design of Comanche Peak, the Company believes that the modifications presently underway will not significantly impact either the scheduled completion or the estimated completed cost of the two units at the Comanche Peak Station. However, if an operating license has not been issued by the time Unit No. 1 is ready for fuel loading, construction costs may increase and the in-service date may be delayed. It is not anticipated that any deferral of the Comanche Peak nuclear units will have a materially adverse effect upon the ability of the Company to provide adequate service or the results of its operations.

In decisions rendered in July 1976, the United States Court of Appeals for the District of Columbia Circuit, in two proceedings in which the Company was not a party, held that the NRC must, before granting construction permits or operating licenses, consider the environmental impact of reprocessing spent fuel and of waste disposal. In March 1977, the NRC adopted an interim rule with respect to such environmental impact and stated that all construction permits and operating licenses, including the construction permit for Comanche Peak, previously issued will remain in effect. In April 1978, the United States Supreme Court reversed the Circuit Court decisions, upheld the NRC review procedures and remanded one case to require the Circuit Court to determine if the NRC rule concerning such environmental impact was adequately supported by the rulemaking record. Before commencement of operations at Comanche Peak, an operating license must be obtained from the NRC for which application has been made (see Item 1, Business — Regulation and Rates). The Company cannot predict what effect this proceeding may have on its application for such operating license.

The effects of inflation on construction costs and reevaluation of growth expectations by the Company and other joint participants may require changes in estimated completed costs and completion dates for certain generating units in design or under construction. Actual expenditures and dates of completion may further vary because of other uncertain factors such as weather conditions, licensing delays, and availability of fuel, labor, materials and capital. At December 31, 1980, construction of the additional generating units and other major projects was on schedule for completion and testing prior to the planned in-service dates. Commitments in connection with the construction program, principally for generating plants and related facilities, are generally revocable by the Company subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties.

During the period from January 1, 1978, to December 31, 1980, the Company and Old Ocean made gross property additions of approximately \$682,000,000 and retirements of property of approximately \$24,000,000 resulting in net property additions of approximately \$658,000,000. Such gross additions approximated 31% of total electric plant at December 31, 1980.

Item 3. LEGAL PROCEEDINGS.

Fuel Supply

In September 1975 and April 1976, suits were filed in the 149th Judicial District Court of Brazoria County, Texas and the United States District Court for the Southern District of Texas, Galveston Division, respectively, involving claims of the First National Bank of Chicago, the University of Chicago, Mobil Oil Corporation, Texaco, Inc. and certain owners of carried working interests in the Old Ocean Field from which substantial supplies of gas were furnished to the Company under contracts which have expired. The claims involved an alleged failure to deliver gas and a substantial amount of unspecified damages. This litigation concerning the Company's right to receive gas from the Old Ocean Field terminated favorably to the Company in January 1981.

In January 1981, Gulf filed an appeal in the 250th Judicial District Court of Travis County, Texas, contesting the final order of the Railroad Commission denying Gulf the right to pass through increased costs of natural gas to Odessa which resulted from a rate increase granted Lo-Vaca by the Railroad Commission in September 1973. Also, the Company filed suit in the 53rd Judicial District Court of Travis County, Texas, contesting the jurisdiction of the Railroad Commission to grant Gulf its requested relief. A decision therein has been deferred until the determination of the appeal by Gulf from the final order of the Railroad Commission.

In October 1980, the Company, Dallas Power and Texas Power filed a petition in the United States Court of Appeals for the Fifth Circuit for review of regulations issued by the Economic Regulatory Administration of the DOE implementing the Fuel Use Act. Such petition has been transferred to the United States Court of Appeals for the Fourth Circuit. The Company is not able to state what impact this legislation or these regulations will have on its future operations.

Regulation and Rates

The Company and HL&P were named as defendants in a suit filed on May 3, 1976, in the United States District Court for the Northern District of Texas, Dallas Division, by WTU and CP&L. The suit generally sought to require the Company and HL&P to operate interconnected with the interstate facilities of WTU and CP&L. A trial on the merits in this matter has been held and in February 1979, the Court entered a judgment to the effect that it would not be in the public interest to force the defendants to interconnect in interstate commerce, finding, among other things, that the defendants had not violated the federal antitrust laws. An appeal to the United States Court of Appeals for the Fifth Circuit has been filed by WTU and CP&L, which have now requested that further action thereon be deferred pending resolution of the settlement arrangements undertaken in connection with the FERC proceeding previously described.

In July 1977, the Company, Dallas Power and Texas Power intervened in a suit filed by WTU and CP&L in the 53rd Judicial District Court of Travis County, Texas, challenging the validity of the final order issued by the PUC in Docket No. 14. In May 1978, the DOE and FERC intervened contending that the PUC violated the United States Constitution and the Federal Power Act by ordering CSW to cease and not renew interstate power sales. A decision in this suit is pending.

Environmental Matters

In July 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas, against Generating Company, Service Company, and the Company, Dallas Power and Texas Power, by the State of Texas on behalf of the TACB. The petition alleges that Generating Company and Service Company, acting as agents for the Company, Dallas Power and Texas Power, have violated regulations issued under the federal Clean Air Act, provisions of the Texas Clean Air Act, and permits issued by the TACB, in allowing the start-up of Unit 3 at the Martin Lake station before the completion and operation of its associated air pollution control equipment. The State seeks an injunction against further violation of the federal Clean Air Act and penalties from each of the defendants of $1,000 for

Item 3. LEGAL PROCEEDINGS (Concluded).

each day and each act of violation. The defendants are contesting this action. The Company does not expect that an adverse decision in this suit would have a material effect on its operations or financial condition.

In July 1979, Generating Company and various electric utilities filed suit in the United States Court of Appeals for the District of Columbia Circuit challenging the validity of regulations issued by the EPA pursuant to the federal Clean Air Act Amendments of 1977, relating to emissions of sulfur dioxide.

In June 1979, various electric utility companies, including the Company, Dallas Power and Texas Power, filed suits in the United States District Court for the Western District of Virginia and the United States Court of Appeals for the Fourth Circuit challenging the validity of the revised regulations issued by the EPA in 1979, pertaining to the issuance of NPDES permits. These suits have not yet been set for trial and the Company cannot predict the outcome of this matter.

In May 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas, against Generating Company by the State of Texas on behalf of the TDWR. The petition alleges that Generating Company has discharged contaminated water from the Martin Lake station into the adjacent lake in violation of provisions of the Texas Water Code and permits issued thereunder to Generating Company by the TDWR. In July 1979, the petition was amended to join a claim on behalf of the Texas Parks and Wildlife Department (TPWD) that as a result of such discharges fish have been killed, the State of Texas has suffered losses in the recreational value of its properties and the safety of the public has been endangered. In July 1980, TDWR and TPWD filed a second amended petition which names Texas Utilities and Service Company as defendants, in addition to Generating Company, alleges additional violations of permits, seeks an injunction against further violations and seeks penalties in the amount of $1,000 from each defendant for each day and each act of violation with a minimum of $281,000 from each defendant, damages in the amount of $1,450,314 in regard to state fish resources and at least $500,000 for lost recreation resources, as well as $5,000,000 in punitive damages. The Company does not expect that an adverse decision in this suit would have a material effect on its operations or financial condition.

In May 1979, Generating Company, along with various coal producers, filed suit in the United States District Court for the District of Columbia challenging the validity of certain of the final federal surface mining regulations implementing federal legislation passed in 1977. Judgments upholding certain of the challenged regulations, and remanding others for reconsideration have been appealed to the United States Court of Appeals for the District of Columbia Circuit. Enforcement of these regulations would increase the cost of producing lignite; however, the Company does not anticipate that the terms and conditions of permits issued thereunder will have a material adverse effect upon its future use of lignite as fuel for the generation of electricity.

In June 1980, Generating Company and various electric utility companies intervened in a suit pending in the United States District Court for the District of Columbia, challenging the validity of certain EPA regulations issued under the RCRA.

Item 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

(a) Security ownership of certain beneficial owners as of February 28, 1981:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common stock, without par value, of the Company	Texas Utilities Company 2001 Bryan Tower Dallas, Texas 75201	27,000,000 shares, sole voting and investment power	100%

(b) Security ownership of management as of February 28, 1981:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Preferred stock, without par value, of the Company	All Directors and Officers as a group	420 shares*	Less than 1% of outstanding shares
Common stock of Texas Utilities Company	All Directors and Officers as a group	95,814 shares*	Less than 1% of outstanding shares

*Amount of shares with respect to which such persons have the right to acquire beneficial ownership as specified in Rule 13d-3(d)(1) under the Securities Exchange Act of 1934: None

(c) Changes in control:

None

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS.

The Company's common stock is 100% owned by Texas Utilities Company.

Annual dividends per share of common stock of $2.20 for 1980 and $2.04 for 1979 were paid to the parent.

Reference is made to Note 4 to Financial Statements regarding limitations upon payment of dividends on common stock of the Company.

Item 6. SELECTED FINANCIAL DATA.

FINANCIAL STATISTICS

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Total Assets (thousands)	$1,924,006	$1,690,795	$1,529,979	$1,429,664	$1,218,217
Electric Plant (thousands)	$2,223,505	$1,978,389	$1,769,706	$1,565,829	$1,346,576
Accumulated depreciation	417,856	375,982	329,838	292,596	260,107
Construction expenditures (including allowance for funds used during construction)	245,106	206,346	200,541	220,204	224,426
Capitalization (thousands)					
Long-term debt	$ 678,137	$ 618,405	$ 545,525	$ 548,542	$ 532,835
Preferred stock	209,606	174,991	174,991	145,336	145,336
Common stock equity	698,011	600,402	553,850	477,953	410,704
Total	$1,585,754	$1,393,798	$1,274,366	$1,171,831	$1,088,875
Average Interest Cost on Long-term Debt	8.3%	7.6%	7.2%	7.2%	7.1%
Average Dividend Cost on Preferred Stock	8.1%	7.7%	7.7%	7.5%	7.5%
Net Income (thousands)	$121,217	$85,511	$85,179	$68,212	$67,918
Dividends Declared on Common Stock (thousands)	$58,320	$50,500	$46,080	$40,000	$34,500
Ratio of Earnings to Fixed Charges	4.3	3.8	4.1	3.2	3.6
Supplemental Ratio of Earnings to Fixed Charges*	3.6	3.4	3.8	3.[illegible]	3.6
Allowance for Funds Used During Construction as Percent of Earnings to Common Stock	25.2%	26.1%	27.5%	38.0%	31.3%
Return on Average Common Stock Equity	15.9%	12.3%	13.3%	12.5%	15.5%
Funds from Operations as Percent of Construction Expenditures (excluding allowance for funds used during construction)	49.5%	50.4%	47.1%	31.4%	26.9%

*The supplemental ratio of earnings to fixed charges includes the Company's allocable portion of interest on senior notes of affiliated companies which provide services to the Company.

Item 6. SELECTED FINANCIAL DATA (Concluded).

OPERATING STATISTICS

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Electric Energy Generated and Purchased (mwh)					
Generated — net station output	21,721,274	20,378,943	20,681,066	18,048,049	16,908,859
Purchased and net interchange	113,265	444,965	347,945	643,733	182,617
Total generated and purchased	21,834,539	20,823,908	21,029,011	18,691,782	17,091,476
Company use, losses and unaccounted for	1,641,934	1,534,200	1,459,322	1,316,432	1,241,503
Total electric energy sales	20,192,605	19,289,708	19,569,689	17,375,350	15,849,973
Fuel Mix for Electric Generation					
Gas	51.7%	51.5%	65.7%	70.9%	71.6%
Oil	0.2	2.8	1.1	1.3	0.1
Lignite	48.1	45.7	33.2	27.8	28.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Electric Energy Sales (mwh)					
Residential	6,513,255	5,758,252	5,868,457	5,424,924	4,671,725
Commercial	4,732,093	4,242,064	4,169,380	3,927,239	3,566,512
Industrial	7,155,624	6,989,265	6,772,579	6,670,004	6,376,247
Government and municipal	487,608	503,923	527,971	468,872	437,942
Total general business	18,888,580	17,493,504	17,338,387	16,491,039	15,052,426
Other electric utilities	1,304,025	1,796,204	2,231,302	884,311	797,547
Total electric energy sales	20,192,605	19,289,708	19,569,689	17,375,350	15,849,973
Operating Revenues (thousands)					
Residential	$264,920	$201,677	$189,450	$146,879	$120,206
Commercial	169,332	135,009	125,257	97,895	82,391
Industrial	178,836	151,807	142,251	111,122	92,605
Government and municipal	18,990	16,259	15,266	10,761	9,221
Total general business	632,078	504,752	472,224	366,657	304,423
Other electric utilities	30,648	26,748	27,932	13,674	10,452
Total from electric energy sales	662,726	531,500	500,156	380,331	314,875
Other operating revenues	2,992	2,514	2,092	3,691	2,462
Total operating revenues	$665,718	$534,014	$502,248	$384,022	$317,337
Electric Customers (end of year)					
Residential	460,227	437,484	416,889	396,480	383,970
Commercial	61,123	57,171	55,527	53,687	50,923
Industrial	10,238	9,727	9,497	9,189	8,903
Government and municipal	2,474	3,034	3,374	3,376	3,268
Total general business	534,062	507,416	485,287	462,732	447,064
Other electric utilities	37	37	34	35	33
Total electric customers	534,099	507,453	485,321	462,767	447,097
Residential classification includes indirect sales (apartments, etc.); dwelling units not included in number of customers	50,656	53,516	53,745	58,438	56,317

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Liquidity and Capital Resources

The primary capital requirements of the Company for 1980 and as estimated for 1981 through 1983 are as follows:

	1980	1981	1982	1983
		Thousands of Dollars		
Construction expenditures (excluding AFUDC)	$218,430	$219,000	$200,000	$171,000
Nuclear fuel	11,023	5,000	19,000	26,000
Maturities of long-term debt	–	12,000	8,000	–
Total	$229,453	$236,000	$227,000	$197,000

For detail concerning major new construction work now in progress or contemplated and commitments with respect thereto, see Item 2, Properties – Construction Program.

The Company generates funds from operations sufficient to meet operating needs, pay dividends on its capital stock and finance a significant portion of its capital requirements. These funds are derived from net income, depreciation, deferred taxes, and federal investment tax credits. Factors affecting the ability of the Company to fund a portion of its capital requirements from operations include adequate rate relief and regulatory practices allowing a significant portion of construction work in progress in rate base, adequate depreciation rates, normalization of federal income taxes, full current recovery of the cost of fuel used in the generation of electricity, and the opportunity to earn competitive rates of return required in the capital markets. For 1980, approximately 50% of the funds needed for construction was generated from operations.

External funds of a permanent or long-term nature are obtained through the sales of common stock to Texas Utilities, preferred stock and long-term debt. The capitalization ratios of the Company at December 31, 1980 consisted of approximately 43% long-term debt, 13% preferred stock and 44% common stock equity, and similar ratios are expected to be maintained in the future. To provide for immediate cash requirements during periods between long-term financings, the Company obtains short-term loans from Texas Utilities, which has lines of credit with commercial banks aggregating $300,000,000 at December 31, 1980. The Company does not maintain separate credit arrangements with banks or other lenders.

The Company expects to sell additional securities as needed, in amounts and of types presently undetermined. Although the Company cannot predict future regulatory practices and is to some degree exposed to fluctuating economic and security market conditions, it does not currently expect any changes in trends or commitments which might significantly alter its basic financial position or ability to finance capital requirements in the future.

See Item 6, Selected Financial Data – Financial Statistics for additional information.

Results of Operations

Increases in operating revenues include rate increases, recovery of higher fuel costs on a current basis, customer growth and increased energy consumption (see Item 1, Business – Fuel Supply and Regulation and Rates; and Item 6, Selected Financial Data – Operating Statistics). Energy consumption per customer is affected by material variations in weather conditions and was particularly impacted by the unusually hot and dry summer of 1980 compared to the relatively mild summer of 1979, and by warmer summer and colder winter weather in 1978. Customer consumption also reflects the effects of energy conservation on the part of some customers.

The increase in fuel expense for 1980 resulted from higher levels of generation and higher unit fuel cost, offset in part by greater utilization of lignite. The decrease for 1979 reflects the effect of

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Concluded).

the relatively mild summer on generation levels and by a substantially greater proportionate use of lower cost lignite. Fuel costs are expected to increase during 1981 and 1982 due to the expiration of contracts for fuel gas from the Old Ocean Field at the end of 1980, and expiration of the Odessa contract in December 1981. (See Item 1, Business – Fuel Supply and Regulation and Rates; and Item 6, Selected Financial Data – Operating Statistics.)

Operation and maintenance expenses have increased substantially as a result of continuing inflationary pressures on the cost of labor, materials and services and the additional lignite-fueled generating units placed in service during 1979 and 1978; operation and maintenance were also affected by the higher costs of operating and maintaining existing lignite-fueled generating units, including the additional costs of operating and maintaining the pollution control equipment required and unscheduled maintenance on several such units in 1979. Increases in taxes other than income resulted primarily from increases in revenue and property based taxes.

The increase in allowance for funds used during construction for 1980 is primarily attributable to an increase in the amount of construction work in progress not allowed in rate base by regulatory authorities and an increase in the AFUDC rate effective November 1979.

The Company expects to pursue adequate and timely rate relief to offset increases in the cost of providing electric service.

The Company has prepared supplementary information concerning the effects of changing prices in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33; such information is included in Item 8, Financial Statements and Supplementary Data.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

TEXAS ELECTRIC SERVICE COMPANY
and Subsidiary – Consolidated
STATEMENT OF INCOME

Schedule No.		Year Ended December 31, 1980	1979	1978
		Thousands of Dollars		
	Operating Revenues	$665,718	$534,014	$502,248
	Operating Expenses			
	Fuel	202,589	159,893	171,526
	Operation	99,988	85,850	70,330
	Maintenance	48,030	40,140	24,987
VI	Depreciation	51,453	49,281	42,947
	Federal income taxes (Note 7)	71,613	48,128	52,523
X	Taxes other than income	41,718	37,628	33,169
	Total operating expenses	515,391	420,920	395,462
	Operating Income	150,327	113,094	106,786
	Other Income			
	Allowance for equity funds used during construction	19,973	13,990	9,280
	Other income and deductions – net	3,374	3,488	6,958
	Federal income taxes	(1,552)	(1,605)	(3,340)
	Total other income	21,795	15,873	12,898
	Total Income	172,122	128,967	119,684
	Interest Charges			
	Interest on mortgage bonds	51,580	42,199	36,482
	Interest on other long-term debt	3,460	3,723	3,787
	Other interest	2,568	2,349	4,744
	Allowance for borrowed funds used during construction	(6,703)	(4,815)	(10,508)
	Total interest charges	50,905	43,456	34,505
	Net Income	121,217	85,511	85,179
	Preferred Stock Dividends	15,288	13,459	13,202
	Net Income After Preferred Stock Dividends	$105,929	$ 72,052	$ 71,977

See accompanying Notes to Financial Statements.

TEXAS ELECTRIC SERVICE COMPANY
and Subsidiary – Consolidated
STATEMENT OF SOURCE OF FUNDS FOR CONSTRUCTION

	Year Ended December 31,		
	1980	1979	1978
	Thousands of Dollars		
Funds from Operations			
Net income	$121,217	$ 85,511	$ 85,179
Depreciation	51,453	49,281	42,947
Deferred federal income taxes – net	16,467	15,698	12,972
Federal investment tax credits – net	19,237	26,759	23,131
Allowance for funds used during construction	(26,676)	(18,805)	(19,788)
Total funds from operations	181,698	158,444	144,441
Less – Dividends declared:			
Preferred stock	15,288	13,459	13,202
Common stock	58,320	50,500	46,080
Total dividends declared	73,608	63,959	59,282
Net funds from operations	108,090	94,485	85,159
Funds from Financing			
Sales of securities:			
First mortgage bonds	75,000	75,000	–
Other long-term debt	502	5,500	7,754
Preferred stock	34,615	–	29,655
Common stock	50,000	25,000	50,000
Retirement of long-term debt	(3,332)	(15,900)	(7,795)
Increase (decrease) in notes payable to Texas Utilities Company (parent)	(39,000)	17,000	(67,500)
Net funds from financing	117,785	106,600	12,114
Other Sources (Uses) of Funds			
Changes in working capital, excluding notes payable and long-term debt due currently:			
Cash in banks and temporary cash investments	1,391	(24)	(963)
Accounts receivable – net	(9,269)	(2,129)	(8,986)
Inventories	(21,356)	7,223	(1,337)
Accounts payable	(390)	(1,997)	11,436
Taxes accrued	27,638	(6,697)	15,346
Other – net	6,098	1,872	(180)
Net change	4,112	(1,752)	15,316
Investment advances to affiliates	–	–	78,785
Nuclear fuel	(11,023)	(6,447)	(9,915)
Other – net	(534)	(5,345)	(706)
Net other sources (uses) of funds	(7,445)	(13,544)	83,480
Total	$218,430	$187,541	$180,753
Construction Expenditures:			
Electric plant	$245,106	$206,346	$200,541
Allowance for funds used during construction	(26,676)	(18,805)	(19,788)
Construction Expenditures (excluding allowance for funds used during construction)	$218,430	$187,541	$180,753

See accompanying Notes to Financial Statements.

TEXAS ELECTRIC SERVICE COMPANY
and Subsidiary – Consolidated
BALANCE SHEET

ASSETS

Schedule No.		December 31, 1980	December 31, 1979
		Thousands of Dollars	
V	Electric Plant		
	In service:		
	Production	$ 854,174	$ 852,944
	Transmission	227,483	219,123
	Distribution	412,001	383,239
	General	37,855	30,739
	Total	1,531,513	1,486,045
	Construction work in progress	653,841	464,463
	Nuclear fuel	34,852	23,829
	Held for future use	3,299	4,052
	Total electric plant	2,223,505	1,978,389
VI	Less accumulated depreciation	417,856	375,982
	Electric plant, less accumulated depreciation	1,805,649	1,602,407
	Other Investments	1,266	1,337
	Current Assets		
	Cash in banks	4,834	5,425
	Special deposits	1,458	1,459
	Temporary cash investments – at cost	–	800
	Accounts receivable:		
	Customers	42,495	33,248
	Other	4,783	4,199
VIII	Allowance for uncollectible accounts	(2,049)	(1,487)
	Inventories – at average cost:		
	Materials and supplies	10,682	9,808
	Fuel stock	41,168	20,686
	Other current assets	9,780	8,207
	Total current assets	113,151	82,345
	Deferred Debits	3,940	4,706
	Total	$1,924,006	$1,690,795

See accompanying Notes to Financial Statements.

LIABILITIES

Schedule No.		December 31, 1980	December 31, 1979
		Thousands of Dollars	
	Capitalization		
	Common stock (Note 3)	$ 575,000	$ 525,000
	Retained earnings (Note 4)	123,011	75,402
	Total	698,011	600,402
	Preferred stock (Note 3)	209,606	174,991
	Long-term debt – less amounts due currently (Note 5):		
	First mortgage bonds	627,000	563,500
	Other long-term debt	53,815	56,645
	Unamortized premium and discount	(2,678)	(1,740)
	Total	678,137	618,405
	Total capitalization	1,585,754	1,393,798
	Current Liabilities		
	Notes payable – Texas Utilities Company (parent)	12,000	51,000
	Accounts payable:		
	Affiliates	20,986	13,860
	Other	28,363	35,879
	Dividends declared	4,250	3,365
	Long-term debt due currently	11,500	–
	Customers' deposits	4,898	3,265
	Taxes accrued	43,979	16,341
	Interest accrued	16,280	12,744
	Other current liabilities	2,285	669
	Total current liabilities	144,541	137,123
VIII	**Reserve for Insurance and Casualties**	2,450	1,586
	Accumulated Deferred Federal Income Taxes	81,770	65,303
	Unamortized Federal Investment Tax Credits	109,491	92,985
	Commitments and Contingencies (Note 6)		
	Total	$1,924,006	$1,690,795

See accompanying Notes to Financial Statements.

TEXAS ELECTRIC SERVICE COMPANY
and Subsidiary – Consolidated
STATEMENT OF RETAINED EARNINGS

	Year Ended December 31, 1980	1979	1978
	Thousands of Dollars		
Balance at Beginning of Year	$ 75,402	$103,850	$ 77,953
Add – Net income	121,217	85,511	85,179
Total	196,619	189,361	163,132
Deduct			
Dividends (cash):			
Preferred stock:			
$ 4 series ($ 4.00 per share per annum)	440	440	440
$ 4.56 series ($ 4.56 per share per annum)	296	296	296
$ 4.64 series ($ 4.64 per share per annum)	464	464	464
$ 5.08 series ($ 5.08 per share per annum)	407	407	407
$ 7.44 series ($ 7.44 per share per annum)	2,232	2,232	2,232
$ 8.32 series ($ 8.32 per share per annum)	2,496	2,496	2,239
$ 8.44 series ($ 8.44 per share per annum)	2,532	2,532	2,532
$ 8.92 series ($ 8.92 per share per annum)	1,784	1,784	1,784
$ 9.36 series ($ 9.36 per share per annum)	2,808	2,808	2,808
$10.12 series ($10.12 per share per annum)	1,829	–	–
Common stock (per share: 1980, $2.20, 1979, $2.04, 1978, $1.92)	58,320	50,500	46,080
Total dividends	73,608	63,959	59,282
Transfer to common stock account (Note 3)	–	50,000	–
Total deductions	73,608	113,959	59,282
Balance at End of Year (Note 4)	$123,011	$ 75,402	$103,850

See accompanying Notes to Financial Statements.

TEXAS ELECTRIC SERVICE COMPANY
and Subsidiary – Consolidated
NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Consolidation – The consolidated financial statements include the Company and its wholly-owned subsidiary, Old Ocean; all significant intercompany items and transactions have been eliminated in consolidation.

Electric Plant – Electric plant is stated at original cost. The cost of property additions charged to electric plant includes labor and materials, applicable overhead and payroll-related costs and an allowance for funds used during construction.

Allowance For Funds Used During Construction – Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on other capital used to finance construction are charged to electric plant. The accrual of AFUDC is in accord with established accounting practices of the industry, but does not represent current cash income. The Company has capitalized AFUDC at a net of tax rate of 8% compounded semi-annually of expenditures incurred, except for that portion of construction work in progress allowed in rate base by regulatory authorities. Prior to November 1979, a rate of 7% had been used. These rates were determined on the basis of, but are less than, the cost of capital used to finance the construction program. Effective January 1, 1981, a rate of 8½% was adopted.

Depreciation – Depreciation is based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties. Depreciation as a percent of average depreciable electric plant in service approximated 3.6% for 1980, 1979 and 1978.

Federal Income Taxes – The Company is included in the consolidated federal income tax return of Texas Utilities and subsidiary companies, and federal income taxes are allocated to all subsidiary companies based upon taxable income or loss. Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation and the class life depreciation system (ADR). Current federal income taxes have been reduced by amounts of investment tax credits allowable under the Internal Revenue Code; such credits are being amortized to income over the estimated service lives of the properties. (See Note 7.)

Reserve for Insurance and Casualties – The Company, as allowed by regulatory authorities, maintains a reserve for major uninsured losses and claims.

2. Affiliates

The Company is a wholly-owned subsidiary of Texas Utilities which provides common stock capital and short-term financing to the Company. Dallas Power and Texas Power, whose respective systems are interconnected with that of the Company, are also subsidiaries of Texas Utilities. Texas Utilities has three other subsidiaries which perform specialized services, at cost, for the System, including the Company: Service Company furnishes engineering, financial and other services; Fuel Company owns a natural gas pipeline system, acquires, stores and delivers fuel gas and oil and provides other fuel services for the generation of electric energy; and Generating Company operates the jointly owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for the surface mining and recovery of lignite for use as fuel at such stations.

The Company, jointly with Dallas Power and Texas Power, has entered into agreements with Fuel Company to procure certain fuels and related services and with Generating Company for the production of lignite fuel and the operation of electric generating stations; payments are at cost of the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Generating Company.

For information concerning jointly owned generating stations, see Item 2, Properties.

3. Common and Preferred Stocks

	December 31, 1980		December 31, 1979		Redemption Price Per Share (before adding accumulated dividends)	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Current	Eventual Minimum
		Thousands of Dollars		Thousands of Dollars		
Texas Electric Service Company						
Common stock — without par value; authorized 80,000,000 shares	27,000,000	$575,000	25,000,000	$525,000		
Preferred stock — cumulative, without par value; entitled upon liquidation to $100 a share; authorized 10,000,000 shares:						
$ 4 series	110,000	$ 11,000	110,000	$ 11,000	$102.00	$102.00
$ 4.56 series	65,000	6,563	65,000	6,563	112.00	112.00
$ 4.64 series	100,000	10,016	100,000	10,016	103.25	103.25
$ 5.08 series	80,000	8,004	80,000	8,004	103.60	103.60
$ 7.44 series	300,000	30,006	300,000	30,006	106.12	102.40
$ 8.32 series	300,000	29,655	300,000	29,655	108.32*	101.00
$ 8.44 series	300,000	30,046	300,000	30,046	107.40	103.18
$ 8.92 series	200,000	20,076	200,000	20,076	105.83	103.60
$ 9.36 series	300,000	29,625	300,000	29,625	107.02	102.34
$10.12 series	350,000	34,615	—	—	110.12*	100.00
	2,105,000	$209,606	1,755,000	$174,991		

*Redemption may not be effected currently through certain refunding operations.

The Company issued and sold shares of its authorized common stock to Texas Utilities as follows: February 1980, 2,000,000 shares for $50,000,000; February 1979, 1,000,000 shares for $25,000,000; and January 1978, 2,000,000 shares for $50,000,000.

The Company also issued and sold shares of its authorized preferred stock as follows: June 1980, 350,000 shares of $10.12 preferred stock for $34,615,000; and February 1978, 300,000 shares of $8.32 preferred stock for $29,655,000.

In December 1979, the Company transferred $50,000,000 from retained earnings to the common stock account.

No shares of the Company's common or preferred stock are held by or for account of the Company nor are any shares of such capital stocks reserved for officers and employees or for options, warrants, conversions and other rights in connection therewith.

4. Retained Earnings Restrictions

The Company's articles of incorporation, the mortgage, as supplemented, and the debenture agreements contain provisions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At December 31, 1980, $25,431,000 of retained earnings was thus restricted as a result of the provisions of the articles of incorporation.

The articles of incorporation restriction provides in effect that the Company shall not pay any common dividend which would reduce retained earnings to less than one and one-half times annual preferred dividend requirements. The mortgage restriction is based primarily on the replacement fund requirements of the mortgage. The restriction contained in the debenture agreements is designed to maintain the aggregate preferred and common stock equity at or above 33⅓% of total capitalization.

5. LONG-TERM DEBT (less amounts due currently)

	December 31, 1980	December 31, 1979
	Thousands of Dollars	
First mortgage bonds:		
3⅜% series due 1981	$ —	$ 11,500
3¼% series due 1982	8,000	8,000
3¼% series due 1985	17,000	17,000
3¼% series due 1986	10,000	10,000
4¾% series due 1987	16,000	16,000
4½% series due 1988	10,000	10,000
4⅜% series due 1993	22,000	22,000
4½% series due 1995	16,000	16,000
5⅛% series due 1996	15,000	15,000
6⅛% series due 1997	18,000	18,000
7⅝% series due 1999	15,000	15,000
8⅞% series due 2000	25,000	25,000
7½% series due 2001	25,000	25,000
7⅛% series due 2002	30,000	30,000
8⅝% series due 2004	40,000	40,000
9½% series due 2004	60,000	60,000
8⅞% series due 2005	50,000	50,000
8⅞% series due 2006	100,000	100,000
9½% series due 2009	75,000	75,000
14⅛% series due 2010	75,000	—
Total first mortgage bonds	627,000	563,500
Other long-term debt:		
Sinking fund debentures:		
5¼%, due 1985	3,610	4,957
6⅝%, due 1993	7,885	9,870
Total	11,495	14,827
Pollution control revenue bonds — net:		
Sabine River Authority of Texas		
6¼% series due 2006	19,025	19,025
5.70% series due 2007	21,640	21,640
6.60% series due 2008	3,085	3,085
Funds on deposit with trustee	(1,430)	(1,932)
Total	42,320	41,818
Total other long-term debt	53,815	56,645

	December 31, 1980	December 31, 1979
	Thousands of Dollars	
Unamortized premium and discount:		
Unamortized premium	$ 528	$ 549
Unamortized discount	(3,206)	(2,289)
Total unamortized premium and discount	(2,678)	(1,740)
Total long-term debt – less amounts due currently	$678,137	$618,405

Sinking fund and maturity requirements for the years 1981 through 1985 under long-term debt instruments in effect at December 31, 1980 are as follows:

Year	Sinking Fund(a)	Maturity (see above)	Minimum Cash Requirement(a)(b)
	Thousands of Dollars		
1981	$4,088	$11,500	$11,500
1982	3,988	8,000	8,000
1983	3,988	–	–
1984	3,988	–	–
1985	3,775	20,610	20,610

(a) Excluding $560,000 for each of the years 1981 through 1984 and $320,000 for 1985 satisfied prior to December 31, 1980.

(b) Other requirements may be satisfied by certification of property additions at the rate of 167% of such requirements.

The total amounts of Sinking Fund Debentures authorized in the debenture agreements have been issued. The Company's First Mortgage Bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings and other provisions of the mortgage. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Substantially all of the electric plant is subject to the lien of the mortgage.

6. Commitments and Contingencies

For major new construction work in progress or contemplated, and commitments with respect thereto, see Item 2, Properties – Construction Program.

The Company, along with Dallas Power and Texas Power, has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee its share of the principal, $53,779,000 at December 31, 1980, and interest on bonds issued to finance the reservoirs from which the water is supplied.

Reference is made to Item 1, Business – Fuel Supply, Regulation and Rates, and Environmental Matters; and Item 3, Legal Proceedings for legal and administrative proceedings. In the opinion of the Company, such legal and administrative proceedings are not expected to have a material effect upon the financial position or results of operations of the Company.

7. Federal Income Taxes

The details of federal income taxes are as follows:

	Year Ended December 31, 1980	1979	1978
	Thousands of Dollars		
Charged to operating expenses:			
Current federal income taxes	$35,909	$ 5,671	$16,420
Deferred federal income taxes – net:			
Differences between depreciation methods and lives	13,914	13,521	10,959
Certain capitalized construction costs	2,945	2,278	2,647
Other	(392)	(101)	(634)
Total	16,467	15,698	12,972
Investment tax credits – net	19,237	26,759	23,131
Total federal income taxes charged to operating expenses	71,613	48,128	52,523
Charged to other income	1,552	1,605	3,340
Total federal income taxes	$73,165	$49,733	$55,863

Federal income taxes were less than the amount computed by applying the federal statutory rate to pre-tax book income as follows:

	Year Ended December 31, 1980	1979	1978
	Thousands of Dollars		
Federal income taxes at statutory rate (46%; 48% prior to 1979)	$89,416	$62,212	$67,700
Reductions in federal income taxes resulting from:			
Allowance for funds used during construction	12,271	8,650	9,498
Depletion allowance	2,348	1,642	1,225
Amortization of investment tax credits	2,314	1,931	1,610
Other	(682)	256	(496)
Total reductions	16,251	12,479	11,837
Total federal income taxes	$73,165	$49,733	$55,863
Effective tax rate	37.6%	36.8%	39.6%

8. Retirement Plan

The Company has a retirement plan covering substantially all employees. The cost of the plan is determined by an independent actuary and is funded by the Company as accrued. The cost of the plan, including amounts capitalized, approximated $7,153,000 for 1980, $6,714,000 for 1979, and $5,153,000 for 1978. As of December 31, 1980 and 1979, accumulated benefits and net fund assets were as follows:

	1980	1979
	Thousands of Dollars	
Actuarial present value of accumulated benefits:		
Vested	$66,587	$62,595
Nonvested	7,142	6,908
Total	$73,729	$69,503
Net Fund Assets	$62,314	$45,685

An assumed rate of return of 5½% was used in determining the value of accumulated benefits.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TEXAS ELECTRIC SERVICE COMPANY:

We have examined the consolidated balance sheets of Texas Electric Service Company and subsidiary, Old Ocean Fuel Company, as of December 31, 1980 and 1979 and the related consolidated statements of income, retained earnings and source of funds for construction for each of the three years in the period ended December 31, 1980. 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 financial statements referred to above present fairly the financial position of the companies at December 31, 1980 and 1979 and the results of their operations and the source of their funds for construction for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations also comprehended the supplemental schedules listed in Park IV, Item 11(a)2. In our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

/s/ DELOITTE HASKINS & SELLS

Deloitte Haskins & Sells

Fort Worth, Texas
March 26, 1981

TEXAS ELECTRIC SERVICE COMPANY
and Subsidiary – Consolidated
SUPPLEMENTARY INFORMATION CONCERNING EFFECTS OF CHANGING PRICES

Unaudited information furnished in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33, Financial Reporting and Changing Prices (FASB 33), follows. The Statement indicates the need for experimentation in providing information about the effects of changing prices. Such information is intended to help readers better understand the impact of inflation on the Company. Because the information is presented on an experimental basis, it should be viewed with caution. Calculation of the information inherently involves the use of assumptions, approximations, and estimates and, therefore, the resulting measurements should be considered in that context and not as precise indications of the effects of inflation. The effects of changing prices are not recognized for income tax or rate-making purposes, therefore the supplementary information should not be interpreted as adjustments to earnings reported in the Financial Statements.

Information concerning the effects of general inflation (constant dollar) was determined by converting historical cost amounts into dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers.

Information concerning changes in specific prices (current cost) represent such changes in electric plant from the date costs were initially incurred to present, and differs from constant dollar information to the extent that the specific prices have increased at a rate different than the general rate of inflation. The current cost of electric plant was computed by indexing the existing historical cost of plant by the Handy-Whitman Index of Public Utility Construction Costs for the South Central Region and other appropriate indices. Such current costs are not necessarily representative of the replacement cost of the Company's productive capacity that might be incurred in a future period.

Depreciation on the constant dollar and current cost basis was determined by applying the Company's straight-line depreciation rates used for financial accounting purposes to the appropriate indexed electric plant amounts, and is the only income statement item (including depreciation charged to other operating expenses) that has been restated from the Financial Statements. In compliance with FASB 33, no adjustment has been made to federal income taxes.

Under rate-making rules prescribed by the Public Utility Commission of Texas, only the original cost of utility plant is recoverable through revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars and current cost over the original cost is not recoverable through rates as depreciation and is reflected as Reduction to Net Recoverable Cost of Electric Plant. The Company believes, based on past experiences, that it will be allowed to earn on the net investment in electric plant when replacement of facilities actually occurs.

During periods of inflation, the holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The amount shown as Unrealized Gain From Decline in Purchasing Power of Net Amounts Owed reflects the net of these two items and is primarily attributable to the substantial amount of long-term debt which has been used to finance electric plant. Since depreciation on this electric plant is limited by regulation to the recovery of historical costs, a holding gain on debt is not allowed and recovery is limited to only the embedded cost of debt capital.

To reflect the results of rate regulation, Unrealized Gain From Decline in Purchasing Power of Net Amounts Owed is offset by the Reduction to Net Recoverable Cost of Electric Plant.

SUMMARY OF NET INCOME ADJUSTED FOR EFFECTS OF CHANGING PRICES

	Year Ended December 31, 1980		
		Adjusted for Changing Prices	
(Thousands of Dollars)	Historical Cost Reported In Financial Statements	General Inflation (Constant Dollar)	Specific Prices (Current Cost)
		Average 1980 Dollars	
Operating revenues	$665,718	$ 665,718	$ 665,718
Operating expenses(a)	515,391	561,225	577,145
Operating income	150,327	104,493	88,573
Other income	21,795	21,795	21,795
Total income	172,122	126,288	110,368
Interest charges	50,905	50,905	50,905
Net income	$121,217	$ 75,383	$ 59,463
Increase in specific prices of electric plant held during the year(b)			$ 345,002
Reduction to net recoverable cost of electric plant		$(153,018)	(120,756)
Effect of general inflation on electric plant			(361,344)
Effect of general inflation in excess of increase in specific prices of electric plant after reduction to net recoverable cost			(137,098)
Gain from decline in purchasing power of net amounts owed		101,263	101,263
Net change in purchasing power		$ (51,755)	$ (35,835)

(a) Includes depreciation of $51,453,000 for historical cost, $97,287,000 for constant dollar and $113,207,000 for current cost.

(b) At December 31, 1980, electric plant, net of accumulated depreciation, was $3,353,892,000 for current cost and $1,805,649,000 for historical cost.

COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(Thousands of Dollars)	1980	1979	1978	1977	1976
	Average 1980 Dollars				
Operating revenues	$ 665,718	$ 606,231	$ 634,364	$ 522,185	$ 459,348
Constant Dollar Information					
Net income	75,383	52,053			
Net assets at year end at net recoverable cost	866,872	832,392			
Current Cost Information					
Net income	59,463	34,428			
Effect of general inflation in excess of increase in specific prices of electric plant after reduction to net recoverable cost	(137,098)	(153,074)			
Net assets at year end at net recoverable cost	866,872	832,392			
General Information					
Gain from decline in purchasing power of net amounts owed	101,263	108,928			
Consumer price index — average	246.8	217.4	195.4	181.5	170.5

PART III

Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

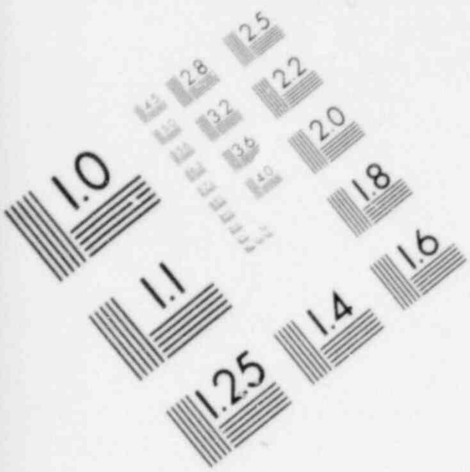
(a) and (e) Identification of directors, business experience and directorships:

Name of Director	Age	Other Positions and Offices with the Company Presently Held	Date First Elected (Current term expires May 14, 1981)	Present Principal Occupation or Employment and Principal Business (Preceding Five Years) and Other Directorships.
W. G. Marquardt	60	President and Chief Executive	11-14-74	President and Chief Executive of the Company, Fort Worth, Texas; and Director of Texas Utilities Company.
T. L. Austin, Jr.	62	None	8-16-73	Chairman of the Board and Chief Executive, Texas Utilities Company, Dallas, Texas; and Director of Dallas Power & Light Company and Texas Power & Light Company.
W. P. Bomar	94	None	3-10-36	Investments, Fort Worth, Texas; and Director of Katy Industries.
Jno. P. Butler	79	None	4-12-60	Senior Chairman of the Board, The First National Bank of Midland, Midland, Texas.
Ed. B. Collett	67	None	5-17-73	Investments, Fort Worth, Texas.
J. A. Gooch	77	None	5-17-51	Senior member of the firm of Cantey, Hanger, Gooch, Munn & Collins, Fort Worth, Texas.
Paul Leonard	54	None	5-16-63	Investments, Fort Worth, Texas; and Director of Texas American Bancshares, Inc. and Samarnan.
James M. Moudy	64	None	5-15-69	Chancellor Emeritus, Texas Christian University, Fort Worth, Texas.
Charles R. Perry	51	None	5-18-78	President and Chief Executive Officer, Perry Gas Companies Inc., Odessa, Texas.
E. Bruce Street	68	None	5-16-68	Investments, Graham, Texas.
W. K. Stripling, Jr.	69	None	5-19-66	Investments, Fort Worth, Texas.
Chas. C. Thompson	82	None	5-16-57	Chairman of the Board and President, City National Bank of Colorado City, Colorado City, Texas.

No arrangement or understanding between any director or executive officer existed pursuant to becoming a director of the Company, other than with directors or officers of the Company acting solely in their capacities as such.

(b) and (e) Identification of executive officers and business experience:

Name of Officer	Age	Positions and Offices Presently Held	Date Elected to Present Office(s) (Current term expires May 14, 1981)	Business Experience (Preceding Five Years)
W. G. Marquardt	60	President and Chief Executive and Director	11-14-74	Same.
D. E. Kelch	52	Vice President and Treasurer	8-16-79	Prior to August 16, 1979, served as Secretary and Treasurer of the Company.



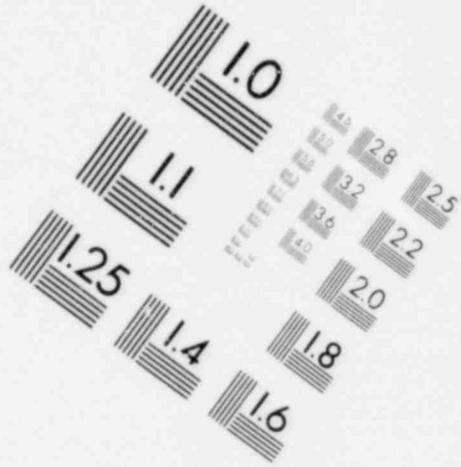
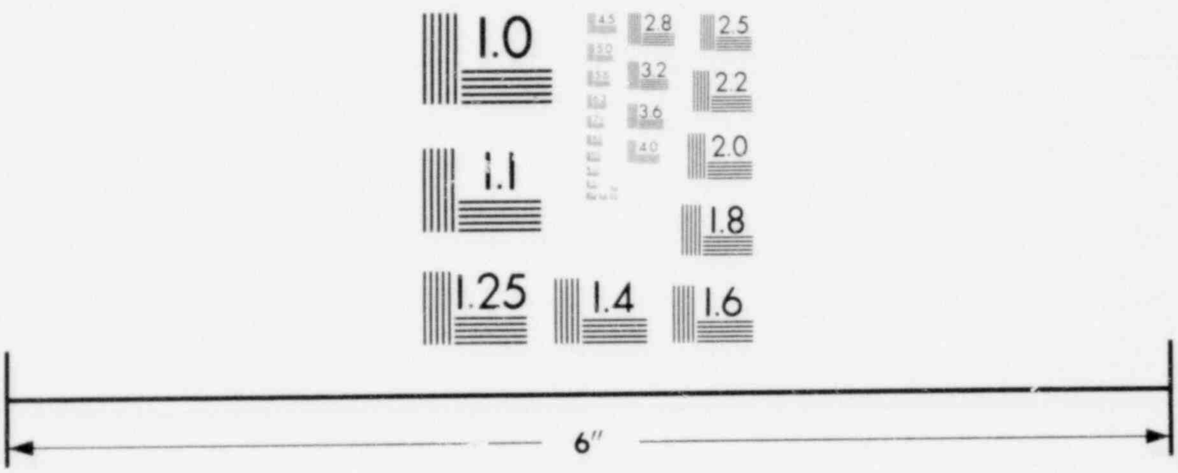
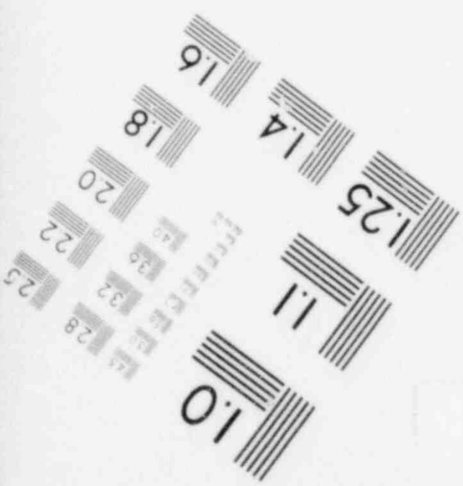


IMAGE EVALUATION TEST TARGET (MT-3)





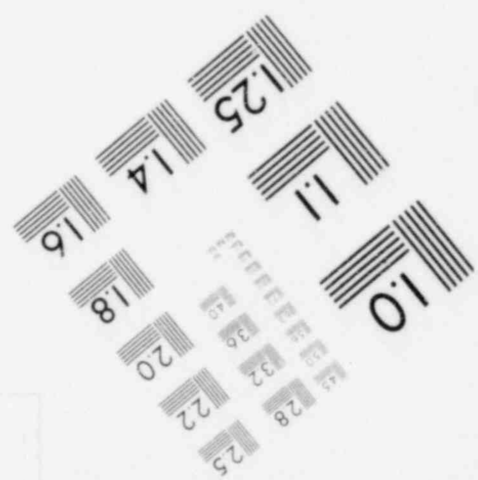


IMAGE EVALUATION
TEST TARGET (MT-3)

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Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (Concluded).

Name of Officer	Age	Positions and Offices Presently Held	Date Elected to Present Office(s) (Current term expires May 14, 1981)	Business Experience (Preceding Five Years)
R. T. Martin	55	Vice President	5-20-71	Same.
E. D. Scarth	54	Vice President	5-18-67	Same.
W. M. Taylor	38	Vice President	5-19-77	Prior to May 19, 1977, served in other management positions with the Company.
E. L. Watson	46	Vice President	5-20-76	Prior to May 20, 1976, served in other management positions with the Company.
C. E. Layton	51	Secretary	5-17-79	Prior to May 17, 1979, served in other management positions with the Company.

No arrangement or understanding between any director or executive officer existed pursuant to becoming an executive officer of the Company, other than with directors or officers of the Company acting solely in their capacities as such.

(c) Identification of certain significant employees:

None

(d) Family relationships:

None

(f) Involvement in certain legal proceedings:

None

Item 10. MANAGEMENT REMUNERATION AND TRANSACTIONS.

(a) Current remuneration:

Name of individual or number of persons in group	Positions and Offices in which served	Salaries, fees, directors' fees, commissions and bonuses	Securities or property, insurance benefits or reimbursement, personal benefits*
W. G. Marquardt	President and Chief Executive and Director		
E. D. Scarth	Vice President		
R. T. Martin	Vice President		
E. L. Watson	Vice President		
W. M. Taylor	Vice President		
All Directors and Officers as a group (22, including those named above)	Directors and Officers	$717,450	$43,091

* Represents vested employer contributions under the Employee Stock Ownership Plan and Employee's Thrift Plan of the Texas Utilities Company System which are generally available to all employees including officers (but not directors who are not also salaried officers). Personal benefits which cannot be specifically determined, do not exceed $10,000 for each person and are not included.

Item 10. MANAGEMENT REMUNERATION AND TRANSACTIONS (Continued).

(b) Proposed remuneration:

Retirement Plan. The Company has a non-contributory defined benefit retirement plan covering substantially all employees including officers but not directors who are not also salaried officers. The Company funds the plan with amounts determined annually by the plan's actuary, however, the amounts contributed are not determined by individual account. Eligible employees receive monthly pension benefits upon retirement with the annual normal retirement benefit equal to 1.3% of the first $7,800 plus 1.5% of the excess over $7,800 of average annual regular earnings received by the participants during their three years of highest earnings, multiplied by the number of years of accredited service. Retirement benefits under the plan are not subject to reduction for Social Security benefits, or other offset amounts.

The estimated annual benefits payable upon retirement at age 65 to persons in specified average salary and accredited years-of-service classifications are set forth in the table below.

Three Year Average Annual Salary	Annual Retirement Benefits 20-Years Accredited Service	30-Years Accredited Service	40-Years Accredited Service
$ 70,000	$20,700	$31,000	$ 41,400
100,000	29,700	44,500	59,400
130,000	38,700	58,000	77,400
160,000	47,700	71,500	95,400
190,000	56,700	85,000	113,400

The accredited years-of-service as of December 31, 1980, for the officers of the Company named in the remuneration table above are as follows: Mr. Marquardt, 35 years; Mr. Scarth, 29 years; Mr. Martin, 21 years; Mr. Watson, 21 years; and Mr. Taylor, 13 years.

Thrift Plan. Under the Employees' Thrift Plan of the Texas Utilities Company System, employees of the Company may save, by payroll deductions, up to 6% of their regular salary or wages. Employer-corporation makes a contribution to each participant's account of 40%, 50%, or 60% of the employee's savings depending upon his length of service. Employer's contributions are invested in common stock of Texas Utilities.

Employee Stock Ownership Plan. Under the Employee Stock Ownership Plan of the Texas Utilities Company System, the Company contributes each year to a trustee amounts up to the additional 1% and ½% investment tax credit allowed under the Internal Revenue Code. Such contributions are invested in common stock of Texas Utilities for the account of participating employees of the Company in proportion to their compensation. The amounts contributed based upon the ½% credit are conditioned upon a matching contribution by the participant. Shares allocated to a participant's account may not be withdrawn except under certain limited conditions or upon termination of service with the Company.

(c) Remuneration of directors.

Each director of the Company (excluding salaried employees of the System) is paid $1,600 annually, plus $300 for each board meeting attended and $100 for each committee meeting attended. Amounts paid to directors during 1980 are included in Item 10(a).

(d) Options, warrants, or rights.

None

Item 10. MANAGEMENT REMUNERATION AND TRANSACTIONS (Concluded).

(e) Indebtedness of management.

None

(f) Transactions with management.

The Company in 1980 paid fees of $593,000 to Cantey, Hanger, Gooch, Munn & Collins (General Counsel for the Company), of which firm Mr. J. A. Gooch (a director of the Company) is a partner.

The Company leases a major portion of an office building for its general offices and Fort Worth business office from State Reserve Life Insurance Company at an annual rate of approximately $827,000. Mr. Paul Leonard (a director of the Company) is a stockholder and director of State Reserve Life Insurance Company.

Fuel Company (see Item 1, Business – The Company and Fuel Supply) and Petroleum Company of Texas (PETCO) entered into an agreement in 1974 for acquisition, development, and operation of a waterflood project for production of crude oil in Stephens County, Texas. Fuel Company and PETCO share all costs and oil produced at 60% and 40%, respectively. The agreement also provides that Fuel Company will pay its share of production payments, development costs, and operating expenses (60% of the estimated total cost of $10,000,000, $3,600,000 and $5,300,000 respectively) during the estimated 22-year life. Certain of these costs are contingent upon the continued successful development and operation of the project. Mr. E. Bruce Street (a director of the Company) is a director of PETCO.

(g) Transactions with pensions or similar plans.

None

(h) Termination of employment.

None

PART IV

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Documents Filed as Part of this Report:

Individual financial statements of the Company (primarily an operating company) and the following financial statement 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 or notes thereto: I, II, III, IV, VII, IX, XI, XII, and XIII.

3. Exhibits:

*3(a) – Restated Articles of Incorporation, as amended, filed as Exhibit 2(b), File No. 2-67976.

*3(b) – Bylaws filed as Exhibit 2(a)-3, File No. 2-60449.

*4(a) – Mortgage and Deed of Trust, dated as of March 1, 1945, between the Company and The Fort Worth National Bank, as Trustee, filed as Exhibit 7(b), File No. 2-5609.

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (Concluded).

*4(b) – Supplemental Indentures to Mortgage and Deed of Trust:

Number	Dated	File Reference	Exhibit
First	October 1, 1947	2-7186	7(b)
Second	April 1, 1948	2-7423	7(c)
Third	April 1, 1949	2-7894	7(d)
Fourth	June 1, 1951	2-8982	7(e)
Fifth	May 1, 1952	2-9547	4(c)
Sixth	April 1, 1953	2-10118	4(c)
Seventh	March 1, 1955	2-12227	2(c)
Eighth	March 1, 1956	2-60449	2(b)-1
Ninth	July 1, 1957	2-60449	2(b)-1
Tenth	November 1, 1958	2-60449	2(b)-1
Eleventh	April 1, 1963	2-21105	2(b)
Twelfth	February 1, 1965	2-23056	2(b)
Thirteenth	February 1, 1966	2-24384	2(c)
Fourteenth	May 1, 1967	2-26297	2(c)
Fifteenth	March 1, 1969	2-31474	2(c)
Sixteenth	October 1, 1970	2-38358	2(c)
Seventeenth	April 1, 1971	2-39627	2(c)
Eighteenth	January 1, 1972	2-42552	2(c)
Nineteenth	April 1, 1974	2-60449	2(b)-1
Twentieth	December 1, 1974	2-60449	2(b)-1
Twenty-first	June 1, 1975	2-60449	2(b)-1
Twenty-second	March 1, 1976	2-60449	2(b)-1
Twenty-third	February 1, 1979	2-63425	2(c)
Twenty-fourth	March 1, 1980	2-66633	2(c)

*4(c) – Debenture Agreements between the Company and the First National Bank of Fort Worth, as Trustee:

Dated	File Reference	Exhibit
February 1, 1960	2-16003	2(c)
February 1, 1968	2-27908	2(d)

4(d) – Agreement with Respect to Long-term Debt.

12(a) – Computation of Ratio of Earnings to Fixed Charges.

12(b) – Computation of Supplemental Ratio of Earnings to Fixed Charges.

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*Incorporated herein by reference

(b) Reports on Form 8-K:

The Company filed a Form 8-K during the quarter ended December 31, 1980 as follows:

November 5, 1980 — Item 5. OTHER MATERIALLY IMPORTANT EVENTS. The Public Utility Commission of Texas issued an order on October 3, 1980, which recognized a revenue deficiency of approximately \$69 million, or 10.1%.

TEXAS ELECTRIC SERVICE COMPANY
and Subsidiary – Consolidated

SCHEDULE V – ELECTRIC PLANT

For the Three Years Ended December 31, 1980

Year	Description	Balance at Beginning of Year	Additions at Cost	Retirements	Other Changes Add (Deduct)	Balance at End of Year
		Thousands of Dollars				
1980	Electric plant in service:					
	Production	$ 852,944	$ 6,916	$ 5,686	—	$ 854,174
	Transmission	219,123	8,493	133	—	227,483
	Distribution	383,239	33,535	4,773	—	412,001
	General	30,739	8,325	1,209	—	37,855
	Total electric plant in service	1,486,045	57,269	11,801	—	1,531,513
	Construction work in progress	464,463	189,399	—	$ (21)*	653,841
	Nuclear fuel	23,829	11,023	—	—	34,852
	Electric plant held for future use	4,052	(426)	—	(327)*	3,299
	Total electric plant	$1,978,389	$257,265	$11,801	$(348)	$2,223,505
1979	Electric plant in service:					
	Production	$ 738,356	$115,519	$ 931	—	$ 852,944
	Transmission	208,724	10,622	223	—	219,123
	Distribution	355,090	31,159	3,010	—	383,239
	General	28,737	2,758	756	—	30,739
	Total electric plant in service	1,330,907	160,058	4,920	—	1,486,045
	Construction work in progress	417,699	46,764	—	—	464,463
	Nuclear fuel	17,382	6,447	—	—	23,829
	Electric plant held for future use	3,718	334	—	—	4,052
	Total electric plant	$1,769,706	$213,603	$ 4,920	—	$1,978,389
1978	Electric plant in service:					
	Production	$ 590,440	$151,406	$ 3,490	—	$ 738,356
	Transmission	200,011	8,844	131	—	208,724
	Distribution	328,795	29,110	2,815	—	355,090
	General	24,708	4,944	915	—	28,737
	Total electric plant in service	1,143,954	194,304	7,351	—	1,330,907
	Construction work in progress	411,502	6,157	—	$ 40	417,699
	Nuclear fuel	7,467	9,915	—	—	17,382
	Electric plant held for future use	2,906	852	—	(40)**	3,718
	Total electric plant	$1,565,829	$211,228	$ 7,351	—	$1,769,706

*Transfers to other investments.

**Transfers to/from construction work in progress.

TEXAS ELECTRIC SERVICE COMPANY
and Subsidiary – Consolidated

SCHEDULE VI – ACCUMULATED DEPRECIATION

For the Three Years Ended December 31, 1980

Year	Description	Balance at Beginning of Year	Additions Charged To Costs and Expenses	Retirements	Other Changes Add (Deduct)*	Balance at End of Year
		Thousands of Dollars				
1980	Accumulated depreciation	$375,982	$51,453	$10,992	$1,413	$417,856
1979	Accumulated depreciation	$329,838	$49,281	$ 4,110	$ 973	$375,982
1978	Accumulated depreciation	$292,596	$42,947	$ 6,546	$ 841	$329,838

* Depreciation of transportation and work equipment, based on the estimated lives thereof, is charged to a clearing account and allocated on the basis of the use of such equipment; and depletion of lignite is charged to other operating expenses.

SCHEDULE VIII – VALUATION AND QUALIFYING ACCOUNTS

For the Three Years Ended December 31, 1980

			Additions			
Year	Description	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Year
		Thousands of Dollars				
	Allowance Deducted from Related Assets on the Balance Sheet –					
1980	Allowance for uncollectible accounts	$1,487	$3,165	–	$2,603*	$2,049
1979	Allowance for uncollectible accounts	$1,340	$1,919	–	$1,772*	$1,487
1978	Allowance for uncollectible accounts	$ 952	$1,880	–	$1,492*	$1,340

*Deductions from the allowance represent uncollectible accounts written off less recoveries of amounts previously written off.

	Balance Sheet Reserve –					
1980	Reserve for insurance and casualties	$1,586	$1,740	–	$ 876*	$2,450
1979	Reserve for insurance and casualties	$2,242	$1,320	–	$1,976*	$1,586
1978	Reserve for insurance and casualties	$ 921	$1,320	–	$ (1)*	$2,242

*Deductions from the reserve represent major uninsured losses.

TEXAS ELECTRIC SEF ' ICE COMPANY
and Subsidiary – Consolidated

SCHEDULE X – SUPPLEMENTARY INFORMATION

For the Three Years Ended December 31, 1980

	Year Ended December 31,		
	1980	1979	1978
	Thousands of Dollars		
Taxes other than income:			
Ad valorem	$15,777	$15,205	$14,419
Local gross receipts	11,970	10,606	8,897
State gross receipts	8,199	6,688	6,245
State franchise	3,615	3,237	2,751
Federal and state payroll	3,663	3,188	2,589
Miscellaneous	83	74	105
Total	$43,307	$38,998	$35,006
Charged to:			
Operating expenses	$41,718	$37,628	$33,169
Electric plant and sundry accounts	1,589	1,370	1,837

Maintenance and repairs, depreciation, depletion, amortization, rents and lease commitments, royalties, advertising, and research and development, other than amounts set out separately in the consolidated statement of income, are not significant.

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.

TEXAS ELECTRIC SERVICE COMPANY

Date: March 27, 1981

By W. G. MARQUARDT
W. G. Marquardt (President)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
W. G. MARQUARDT W. G. Marquardt (President)	Principal Executive Officer and Director	March 27, 1981
D. E. KELCH D. E. Kelch (Vice President and Treasurer)	Principal Financial and Accounting Officer	
T. L. AUSTIN, JR. T. L. Austin, Jr.	Director	
W. P. Bomar	Director	
JNO. P. BUTLER Jno. P. Butler	Director	
ED B. COLLETT Ed. B. Collett	Director	
J. A. GOOCH J. A. Gooch	Director	
PAUL LEONARD Paul Leonard	Director	
JAMES M. MOUDY James M. Moudy	Director	
CHARLES R. PERRY Charles R. Perry	Director	
E. BRUCE STREET E. Bruce Street	Director	
W. K. STRIPLING, JR. W. K. Stripling, Jr.	Director	
CHAS. C. THOMPSON Chas. C. Thompson	Director	

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended December 31, 1980 **Commission File Number 0-381**

Texas Power & Light Company

A Texas Corporation **I.R.S. Employer No. 75-0606380**

1511 Bryan Street, Dallas, Texas 75201
(214) 748-5411

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

None

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

Preferred Stock, without par value

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 ___

Aggregate market value of Common Stock held by nonaffiliates: None

Common Stock outstanding at February 28, 1981: 34,350,000 shares (without par value)

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

ITEM 1. BUSINESS.

THE COMPANY

Texas Power & Light Company (Company) was incorporated under the laws of the State of Texas in 1912 and has perpetual existence under the provisions of the Texas Business Corporation Act. The Company is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity wholly within the State of Texas. The Company possesses all of the necessary franchises and certificates required to enable it to conduct its business. Such franchises and certificates are non-exclusive, expire at various dates or are without express limit as to time, and contain no unduly burdensome or restrictive provisions.

The Company is a subsidiary of Texas Utilities Company (Texas Utilities) which provides common stock capital and short-term financing to the Company as required. Dallas Power & Light Company (Dallas Power) and Texas Electric Service Company (Texas Electric), whose respective systems are interconnected with that of the Company, are also subsidiaries of Texas Utilities. Texas Utilities has three other subsidiaries which perform specialized services, at cost, for the Texas Utilities Company System (System), including the Company: Texas Utilities Services Inc. (Service Company) furnishes engineering, financial and other services; Texas Utilities Fuel Company (Fuel Company) owns a natural gas pipeline system, acquires, stores and delivers fuel gas and oil and provides other fuel services for the generation of electric energy; and Texas Utilities Generating Company (Generating Company) acts in operating the jointly-owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for the surface mining and recovery of lignite for use as fuel at such stations (see Note 2 to Financial Statements).

The Company had 4,834 full-time employees at December 31, 1980, and provides electric service in 51 counties of north central and east Texas, including the cities of Irving, Waco, Richardson, Mesquite, Tyler, Plano, Killeen, Temple and Carrollton which have populations in excess of 50,000, 34 cities which have populations in excess of 10,000 and 221 other incorporated municipalities. The territory served has an estimated population of 2,538,000 and includes the rich agricultural blacklands of central Texas, the farming and ranching sections north and east of Dallas, part of the oil and gas fields of east Texas and the Dallas-Fort Worth Airport. The area has a highly diversified industrial base of light and heavy manufacturing, including electronics, oil field equipment, aluminum smelting, tires and air conditioning equipment, and oil and gas production. During 1980, approximately 38% of operating revenues were derived from residential sales, 23% from commercial sales, 24% from industrial sales, and 15% from other sources.

For energy sales and operating revenues contributed by each class of service, see Item 6, Selected Financial Data.

GENERAL PROBLEMS OF THE INDUSTRY

The electric utility industry, in general, is currently experiencing problems in a number of areas, including the effects of inflation upon the cost of operations and upon construction expenditures, availability and increased cost of fuel for the generation of electric energy, the ability to fully recover increases in fuel costs through automatic fuel adjustment clauses, supply and high cost of capital, difficulty in obtaining sufficient return on invested capital and in securing adequate rate increases when required, compliance with environmental and mining regulations, uncertainties regarding the construction and fueling of nuclear generating units, licensing and other delays affecting the construction of new facilities, and the effects of conservation in the use of electric energy. The Company has been experiencing certain of these problems in varying degrees (see Fuel Supply, Regulation and Rates and Environmental Matters; Item 2, Properties – Construction Program; Item 3, Legal Proceedings and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations). The Company is unable to predict the future effect of such factors upon its operations.

ITEM 1. BUSINESS (Continued).

In addition, the National Energy Act (NEA), enacted in November 1978, seeks to promote conservation of energy and the development of more plentiful domestic energy sources through various regulatory and tax provisions. Among other things, NEA requires state regulatory authorities to give consideration to certain rate and other standards and load management techniques, and provides for compulsory interconnections and transmission of power under certain circumstances (see Regulation and Rates), and restricts the use of natural gas and oil (see Fuel Supply). The Company is unable to predict the future effect of this legislation upon its operations.

FUEL SUPPLY

Net input to the Company's system for 1980 was 28,650 million kilowatt-hours of which 28,431 million was generated in Company stations. During this period, 310,438,225 million Btu's of fuel were consumed for electric generation at an average cost of 131.2¢ per million Btu.

A comparison of the cost per million Btu of fuel consumed and the fuel mix for electric generation during the last three years is shown below:

	Cost Per Million Btu			Fuel Mix For Electric Generation		
	1980	1979	1978	1980	1979	1978
Gas	199.1¢	169.8¢	160.6¢	47.3%	46.4%	53.0%
Oil	407.1	230.9	292.8	0.1	0.5	0.2
Lignite*	69.8	63.4	47.3	52.6	53.1	46.8
Average/Total	131.2¢	113.6¢	107.8¢	100.0%	100.0%	100.0%

* Lignite cost per ton: $8.84 for 1980; $8.26 for 1979; and $6.34 for 1978.

The cost of fuel and increases therein are generally recoverable under the fuel cost factor tariff schedule referred to under Regulation and Rates.

Gas

Fuel gas for the Company's eight principal gas and gas/oil-fueled generating stations (see Item 2, Properties) is provided under contracts with three major suppliers, including Fuel Company which supplied approximately 55% of the Company's fuel gas requirements for 1980. Lone Star Gas Company (Lone Star), supplier of approximately 32% of the fuel gas requirements of the Company during the year, under contracts expiring through 1991, made short-term curtailments of gas deliveries during certain periods of peak demand on its system supply because of limitations on the capacity of its delivery system. Such curtailments have had no material impact on Company operations. The Company experienced no curtailment from a supplier which provided the remaining 13% of fuel gas requirements in 1980 under a contract expiring in 1983.

Fuel Company owns and operates an intrastate natural gas pipeline system which extends from the gas-producing area of the Permian Basin in west Texas to the Fort Worth-Dallas area and eastward to the gas fields of east Texas. This system includes a one-half interest in a natural gas pipeline which extends 395 miles from the Permian Basin area of west Texas to a point of termination south of the Fort Worth-Dallas area. This 36-inch line has a total initial capacity of 550 million cubic feet of gas per day which can be increased at additional cost to 1,300 million cubic feet per day by the installation of compression. Fuel Company also owns and operates an additional 1,303 miles of various smaller capacity lines which are used to gather and transport natural gas from other gas-producing areas, including the gas fields of east Texas. Pipeline facilities of Fuel Company are interconnected with similar facilities of Old Ocean Fuel Company, a subsidiary of Texas Electric, to form an integrated network through which fuel gas is gathered and transported to certain of the generating stations of the Company, Dallas Power and Texas Electric for use in the generation of electric energy.

Fuel Company has acquired under contracts expiring at intervals through 2000, principally with producers at the wellhead, supplies of gas which are generally expected to be produced over a ten to fifteen year period. As gas production declines and/or contracts expire, new contracts are negotiated to replenish or augment such supplies. During 1980, no curtailments were experienced under these contracts.

In June 1980, several Lone Star gas contracts held by Dallas Power and Texas Electric were assigned to Fuel Company. Concurrently with these assignments, supplemental agreements between Fuel Company and Lone Star were signed which provide for (i) an increase in maximum daily and annual delivery obligations of Lone Star, (ii) an increase in the delivery points through which these supplies could flow to System generating stations, and (iii) an extension of the primary term through 1989 or 1990, with provision for year to year extension by mutual agreement.

Fuel Company also owns and operates underground gas storage facilities with a usable capacity of 22.4 billion cubic feet. Gas stored in these facilities is currently capable of being withdrawn at a rate of approximately 215 million cubic feet per day for use during periods of peak demand or curtailment of deliveries by other gas suppliers.

In November 1978, the Powerplant and Industrial Fuel Use Act of 1978 (Fuel Use Act), was enacted as part of the NEA. Among other things, the Fuel Use Act (i) generally prohibits the use of natural gas and/or oil as a primary energy source in any new electric power plant, (ii) limits the use of natural gas as a primary energy source in existing electric power plants in any calendar year before 1990 in a greater proportion than the average yearly proportion of natural gas used during 1974 through 1976, and (iii) requires that natural gas used in such facilities cease by 1990 unless specific exemptions can be obtained. The Economic Regulatory Administration of the Department of Energy has issued regulations implementing this Act. The Company is not able to state what impact this legislation or these regulations will have on future operations. (See Item 3, Legal Proceedings.)

Oil

During 1980, dependence by the Company upon fuel oil as an alternate source of boiler fuel amounted to 40,237 barrels of oil or 0.1% of total fuel requirements. Fuel oil is stored at all of the Company's principal gas-fueled and gas/oil-fueled generating stations. At December 31, 1980, the Company had fuel oil storage capacity sufficient to accommodate the storage of approximately 2.0 million barrels of oil, with approximately 1.5 million barrels of oil in inventory. It is anticipated that oil required to replenish that removed from storage and consumed for the generation of electric energy will be met primarily from purchases in the open market or from Fuel Company. Fuel Company has access to an oil pipeline and owns terminal facilities to provide for more dependable and efficient movement of oil.

Lignite

Two units in service at the Big Brown generating station, three units at the Martin Lake generating station, and three units at the Monticello generating station (see Item 2, Properties), having an aggregate net capability of 5,300 megawatts, and providing 2,458 megawatts to the Company, use lignite as fuel; five other lignite-fueled units, with an aggregate net capability to the System of 3,170 megawatts, now in design or under construction, will provide 2,064 megawatts to the Company (see Item 2, Properties — Construction Program). These lignite units, which will be base loaded to operate at the maximum practical load factor, have been or are being constructed adjacent to lignite reserves which will be surface mined. At the present time, the Company, Dallas Power and Texas Electric, along with Aluminum Company of America (Alcoa) which is a joint-participant with the Company in the construction of the Twin Oak generating station (see Item 2, Properties — Construction Program), own in fee or have under lease an estimated 820 million proven recoverable tons of such reserves. The Company, Dallas Power and Texas Electric, through Fuel Company, are engaged in an active program of core drilling and/or acquiring additional reserves. Generating Company owns and operates equipment to remove the overburden and to recover lignite. One lignite unit, Sandow No. 4 (see Item 2, Properties — Construction Program), will be owned by the Company and will be fueled from lignite reserves owned by Alcoa. For information concerning applicable air quality standards, see Environmental Matters.

Lignite production operations at the Big Brown, Martin Lake and Monticello generating stations are accompanied by an extensive reclamation program which returns the land to productive uses and includes a vegetation restoration program. Similar programs are planned for future lignite-fueled generating stations mentioned above. For information concerning federal and state legislation with respect to surface mining, see Environmental Matters.

Nuclear

Two nuclear-fueled units of 1,150 megawatts each, under construction at the Comanche Peak station, will provide 724 megawatts aggregate net capability to the Company. The first of such units is scheduled for service in 1982 and the second in 1984 (see Item 2, Properties — Construction Program). Commitments have been obtained for anticipated uranium ore concentrate requirements and fabrication services for both units for the first 17 years of operations. Uranium hexafluoride conversion services have been contracted for through 1987, and uranium enrichment contracts, having a duration of approximately 30 years, have been made with the Department of Energy. No arrangements have as yet been made for the reprocessing requirements for the Comanche Peak units and it is understood that at present there are no reprocessing plants in commercial operation in the United States. However, there will be on-site storage capacity for spent fuel sufficient to accommodate the operation of the units for approximately 17 years and this storage capacity can be increased. Additional contracts for uranium ore concentrates and nuclear fuel cycle services will be required in the future; however, it is not possible to predict the ultimate availability or cost thereof.

General

The Company is not able to state what problems may be encountered in the future in obtaining the fuel it will require for use in generating electric energy to serve its customers, or predict the effect upon its operations of any difficulty it may experience in protecting its rights to fuel now under contract or in acquiring fuel in the future, or the cost thereof, although the cost of fuel is generally recoverable under the fuel cost factor tariff schedule referred to under Regulation and Rates.

REGULATION AND RATES

Regulation

Texas Utilities and its subsidiaries, including the Company, are presently exempt from the provisions of the Public Utility Holding Company Act of 1935, except as to Section 9(a)(2) which relates to acquisition of securities of public utility companies.

At present, the Company does not transmit electric energy in interstate commerce or sell electric energy at wholesale in interstate commerce, or own or operate facilities therefor, and is not connected directly or indirectly to other systems which are involved in such interstate activities, except during the continuance of emergencies permitting temporary or permanent connections which do not subject it to the jurisdiction of the Federal Energy Regulatory Commission (FERC), successor to the Federal Power Commission (FPC) under the Federal Power Act. In view thereof,

ITEM 1. BUSINESS (Continued).

the Company believes that it is not a public utility as defined in the Federal Power Act and has been advised by its counsel that it is not subject to regulation under such Act as to the issuance of securities or otherwise; however, should the Company become subject to the Federal Power Act, it would be subject to regulation by FERC with respect to rates for transmission and sale of electric energy at wholesale, the interconnection of facilities, the issuance of securities and to the extent the FERC determines, accounting policies and practices.

The Public Utility Regulatory Policies Act of 1978 (PURPA), a constituent bill of the National Energy Act, grants power to FERC on its own authority or on application of any electric utility, cogenerator or state regulatory authority to order interconnections and transmission of power under certain circumstances. However, compliance with such an order involving interstate transmission of power would not subject the Company to the general jurisdiction of FERC. PURPA also requires state regulatory authorities to hold public hearings to consider the application of certain rate design and other standards and the mandatory use of load management techniques. The Company is unable at this time to assess the full effect of these and other provisions upon the results of its operations or financial condition.

The Public Utility Commission of Texas (PUC) has original jurisdiction over electric rates and service in unincorporated areas and exclusive appellate jurisdiction to review the rate and service orders and ordinances of municipalities. Each municipality has original jurisdiction over the regulation of electric rates and service within its corporate limits until such time that any such municipality may elect to have the PUC exercise original jurisdiction. As of December 31, 1980, 73 of the 264 municipalities served by the Company have ceded original jurisdiction to the PUC. Approximately 25% of the Company's revenues for 1980 were derived from electric energy sales to customers in unincorporated areas and municipalities that have ceded original jurisdiction. (See also Environmental Matters for information relating to the Railroad Commission of Texas.)

Central and South West Corporation (CSW) is a holding company with electric utility subsidiaries operating in Arkansas, Louisiana, Oklahoma and Texas. For many years, CSW has operated two separate systems – one interstate and part of the Southwest Power Pool (SWPP), and the other an intrastate system tied in with the Texas Interconnected System (TIS), an intrastate network of six major investor-owned and seven public entities. TIS includes Central Power & Light Company (CP&L), the southern part of West Texas Utilities Company (WTU), both of which are CSW subsidiaries, Houston Lighting & Power Company (HL&P), and the Company, Dallas Power and Texas Electric, among others. On May 4, 1976, CSW put its Texas system into interstate commerce, and by that act also connected the other parties in TIS to Oklahoma through WTU. Texas Electric promptly disconnected from WTU and returned to intrastate operation. Also, on that date subsidiaries of CSW, asserting that the Company, Dallas Power and Texas Electric were subject to the jurisdiction of the FPC, petitioned the FPC to require them to reestablish connections with the interstate facilities of the CSW system. (See Item 3, Legal Proceedings.) In July 1976, the FPC issued an order finding that the Company, Dallas Power and Texas Electric were not public utilities as defined in the Federal Power Act. On appeal, the United States Court of Appeals for the District of Columbia Circuit has remanded this order to FERC, as successor to the FPC, for further clarification.

On May 2, 1977, in Docket No. 14, the PUC entered an interim order requiring WTU and CP&L, in effect, to return to their pre-May 4, 1976 mode of operation, and further requiring WTU to sever the interstate ties into Oklahoma. On May 4, 1977, after WTU had severed the interstate ties, interconnections were reestablished between its intrastate system and TIS. On June 2, 1977, the PUC entered a final order confirming its interim order and prohibiting any party operating a utility system connected with TIS from withdrawing from TIS or making connections with utility systems not so connected unless approved by the PUC or pursuant to judicial mandate or order of the FPC. (See Item 3, Legal Proceedings.)

ITEM 1. BUSINESS (Continued).

In February 1979, certain subsidiaries of CSW filed an application with FERC under PURPA seeking generally to exempt CP&L and WTU from certain provisions of the PUC order in Docket No. 14 and to require the Company, Dallas Power and Texas Electric to operate interconnected with facilities in the CSW system, including interstate facilities. In July 1979, FERC issued an order instituting an investigation in the matter, which is currently proceeding. (See Item 3, Legal Proceedings.) In October 1980, the Company, Dallas Power, Texas Electric, HL&P and CSW filed an Offer of Settlement in this proceeding, which has the concurrence of the FERC staff, providing, among other matters, for the entry of an order requiring the establishment of two direct current asynchronous interconnections between SWPP and TIS and for the wheeling of power between such systems under specified terms and conditions. This offer is made on a basis which would not generally subject the Company, Dallas Power, Texas Electric and HL&P to the jurisdiction of the FERC. In December 1980, FERC granted the motion of the Department of Justice for leave to intervene in this proceeding, which motion generally opposes the proposed settlement. As the result of the intervention by the Department of Justice, the Administrative Law Judge ruled in January 1981 that a hearing in this proceeding is necessary; however, this ruling will be reviewed by FERC. The settlement proposal of CSW, the Company, Dallas Power, Texas Electric and HL&P would encompass the proceeding before FERC mentioned hereinabove and is also contingent upon the settlement and termination of the proceedings before the Securities and Exchange Commission (SEC) described hereinafter.

In August 1978, in connection with the application by Generating Company for an operating license for the Comanche Peak nuclear station, the Department of Justice indicated that the intrastate provisions of agreements among TIS members raise antitrust issues. The Nuclear Regulatory Commission (NRC) has ordered a hearing on this matter which is in progress. Proposed licensing conditions relating to the antitrust matters have been agreed to by the NRC staff, the Department of Justice and all parties to the Comanche Peak proceeding. There is also in progress a similar hearing before the NRC relating to an operating license in connection with the South Texas nuclear facility being constructed by HL&P and CP&L, among others. The City of Brownsville, Texas has intervened in this proceeding claiming that certain antitrust issues relating to HL&P should be considered, and asserted that similar issues affect the Company, Dallas Power and Texas Electric and should be considered in connection with their license application.

In March 1974, a request was filed with the SEC by four Oklahoma municipalities and two cooperatives, asking, among other things, that the SEC undertake a review of the status of CSW and its subsidiaries under the Public Utility Holding Company Act of 1935, and that the SEC also review the exemption granted to Texas Utilities and its subsidiaries, including the Company, to determine if that exemption should be revoked. A hearing concerning the status of CSW under this Act has been in progress and is currently being held in abeyance pending resolution of the matters before FERC described hereinbefore.

In December 1976, Tex-La Electric Cooperative of Texas, Inc. (Tex-La), a wholesale customer of the Company, requested an investigation by the PUC and the FPC to determine whether the Company engages in interstate commerce in connection with the transmission of energy generated by the Denison Dam plant located near the Texas/Oklahoma border and which of such agencies has jurisdiction over the wholesale sales of the Company. Subsequently, the PUC has established wholesale rates for sales by the Company to Tex-La but the matter is still pending before FERC. Several parties have intervened in the FERC proceeding including certain CSW subsidiaries, HL&P and the State of Texas. In addition, the United States Supreme Court has granted a petition from the State of Texas to determine the location of the Texas/Oklahoma boundary line in this area.

Rates

In April 1980, the Company received a rate order from the PUC which recognized a revenue deficiency for the test year ended September 30, 1979, of approximately $81.9 million, or about 10%.

The new rate schedules, including the fuel cost factor tariff schedule which permitted a continuation of current recovery of the cost of fuel consumed in the generation of electric energy, were effective in all areas with consumption after May 26, 1980 (see Item 3, Legal Proceedings).

Prior general rate levels were established commencing at various dates between May and August 1978, by upward adjustments in electric service rates for all classes of service designed to increase operating revenues for the test year ended September 30, 1977, by approximately $41 million, or 7% (see Item 3, Legal Proceedings).

In March 1981, the Company made applications to the PUC and to all of the incorporated municipalities in its service area for upward adjustments in electric service rates. The proposed rate adjustments affecting all classes of service, are estimated to increase operating revenues by approximately $198 million, or 20.3%, for the test year ended December 31, 1980. The Company is unable to predict the extent, if any, to which this rate increase request will be granted.

General

In an order issued in April 1979, following a hearing with respect to certain transactions, involving substantial amounts, among the subsidiaries of Texas Utilities, including the Company, Texas Electric and Dallas Power, the PUC concluded that the transactions reviewed were generally in the public interest. Certain provisions of the order, however, required that prior PUC approval be obtained with respect to certain future transactions among the subsidiaries and required a $1.2 million refund to the customers of the Company. These provisions were appealed by the electric utility subsidiaries of Texas Utilities and other parties to the proceedings. On December 30, 1980, following oral argument before the 53rd Judicial District Court of Travis County, Texas in the appeal of this matter, the Court announced its intention to enter an order remanding this matter to the PUC for further consideration in light of its conclusion that the provisions of the Texas Public Utility Regulatory Act require a prior determination by the PUC of the reasonableness of the charges involved in transactions among affiliated interests recovered by the Company under its fuel adjustment clause. The Court further indicated that it was not ordering additional refunds or requiring penalties to be levied but asked that these matters be further considered on remand by the PUC The Company intends to appeal any adverse final order entered by the Court. The Company cann predict the outcome of this proceeding. (See Item 3, Legal Proceedings.)

ENVIRONMENTAL MATTERS

The Company is subject to various federal, state and local regulations dealing with air and water quality and related environmental matters (see Item 2, Properties — Construction Program for scheduled expenditures and Item 3, Legal Proceedings).

Air

Under the Texas Clean Air Act, the Texas Air Control Board (TACB) has jurisdiction over the permissible level of air contaminant emissions from generating facilities located within the State of Texas. In addition, the new source performance standards of the United States Environmental Protection Agency (EPA) promulgated under the federal Clean Air Act, which have also been adopted by the TACB, are applicable to generating units, the construction of which commenced after March 5, 1972.

The Company's gas and oil-fueled generating units have been constructed to operate in compliance with regulations promulgated pursuant to these Acts. Particulate control devices have been installed at each of the Company's lignite-fueled units and sulfur dioxide control devices have also been installed on Unit 3 at the Monticello station and the three units in operation at the Martin Lake station in order to comply with applicable regulations under these Acts. Due to variations in the sulfur content of the lignite fuel, operation of certain of these generating units at reduced loads is required from time to time in order to maintain compliance with these standards. (See Item 3, Legal Proceedings.)

Generating facilities presently under construction are designed to comply with applicable statutes and regulations. To date, required construction permits have been obtained for Unit 4 at the Martin Lake station, Unit 1 at the Forest Grove station, Unit 4 at the Sandow station and Units 1 and 2 at the Twin Oak station.

The federal Clean Air Act Amendments of 1977, among other things, require the Administrator of EPA to promulgate revised new source performance standards. The amendments also contain provisions relating to the prevention of significant deterioration of air quality pursuant to which regulations have been issued, and limit the maximum allowable increases in concentrations of sulfur oxides and particulates in various areas. The Company cannot presently determine the effect of these amendments and regulations upon its planned construction program, although it is not expected that the regulations relating to the prevention of significant deterioration of air quality will have a substantial impact on it. (See Item 3, Legal Proceedings.)

Water

The Texas Department of Water Resources (TDWR) and the EPA have jurisdiction over all water discharges from Company generating stations and mining areas. The Company has obtained all required liquid waste control orders from the Texas Water Quality Board, predecessor to the TDWR, for facilities in operation and has applied for or obtained all such orders for facilities under construction. The Company has received permits from the EPA under the National Pollutant Discharge Elimination System (NPDES) for the discharge of waters from units at the Company generating stations currently in operation. All NPDES permits required for units under construction and lignite mining areas have been applied for or obtained. Most of these permits expired in 1980; however, applications for new permits have been submitted while interim authorizations are in effect, and the Company believes it can satisfy the requirements necessary to obtain renewals thereof.

In June 1979, the EPA issued revised regulations for the issuance of NPDES permits. The validity of which is being challenged by various electric utility companies, including the Company (see Item 3, Legal Proceedings). Also, it is anticipated that the EPA will issue new regulations relating to thermal discharges as a result of litigation setting aside certain of the thermal regulations initially adopted. The Company cannot presently determine what modifications might be necessary to obtain NPDES permits for future plants or to obtain renewals of existing permits, or to comply with future requirements pertaining to thermal limitations or standards, nor can any determination be made of the direct or indirect costs of any such modifications.

The Company generating stations presently in operation have been constructed to operate in compliance with applicable state and federal standards relating to the quality of discharges of water. (See Item 3, Legal Proceedings.)

Diversion of water by the Company for cooling and other purposes is subject to the jurisdiction of the Texas Water Commission, formerly the Texas Water Rights Commission, which is empowered to allocate such waters among users. The Company possesses all necessary permits from such Commission for the use of surface water required for its present operations and plants under construction.

Other

System lignite mining operations are currently regulated at the state level by the Railroad Commission of Texas. Surface mining permits in connection with the Big Brown, Martin Lake and Monticello stations have been issued. Federal legislation regulating surface mining was enacted in August 1977 and regulations implementing the law have been issued. (See Item 3, Legal Proceedings.)

ITEM 1. BUSINESS (Concluded).

Disposal of solid waste is regulated under the Texas Solid Waste Disposal Act and at the federal level under the Resource Conservation and Recovery Act of 1976 (RCRA). The EPA has issued regulations under RCRA and the TDWR has issued regulations under the Texas act applicable to the Company generating stations. The Company cannot presently determine the effect of these Acts upon its plant operations, but has submitted applications for the permits required by such regulations. (See Item 3, Legal Proceedings.)

ITEM 2. PROPERTIES.

The Company owns and operates eight principal generating stations and is a joint owner with Dallas Power and Texas Electric of the Big Brown, Martin Lake and Monticello generating stations. At December 31, 1980, the Company's total net generating capability of 7,264 megawatts was comprised of 4,025 megawatts of gas-fueled generation (which is generally equipped to use fuel oil for short periods when the gas supply is interrupted or curtailed – see Item 1, Business – Fuel Supply), 781 megawatts of gas/oil-fueled generation and 2,458 megawatts of lignite-fueled generation.

The Company's ownership interest in jointly-owned stations in service is as follows:

Station and Location*	Fuel	Unit No.	Percent Participation	Net Capability (Megawatts) Total	Net Capability (Megawatts) Company Participation	Company's Participation in Electric Plant in Service December 31, 1980 (Thousands of Dollars)
Big Brown – Freestone County	Lignite	1	33⅓	575	191	$ 51,420
		2	33⅓	575	192	
Monticello – Titus County	Lignite	1	50	575	287	243,490
		2	50	575	288	
		3	50	750	375	
Martin Lake – Rusk County	Lignite	1	60	750	450	317,776
		2	60	750	450	
		3	30	750	225	

* The Company's share of direct expenses for jointly-owned facilities are included in the applicable operating expense categories; depreciation is not maintained by individual generating station. The Company provides financing for its participation in each jointly-owned generating station. See Item 1, Business – The Company and Fuel Supply, Note 2 to Financial Statements and Construction Program regarding operation of the jointly-owned generating stations and additional facilities in design or under construction.

At December 31, 1980, the Company's electric transmission and distribution system included 357 substations and approximately 33,679 pole miles of transmission and distribution lines. The maximum hourly load on the Company's system in 1980 occurred on August 21, 1980, and amounted to 5,861 megawatts (including 275 megawatts of interruptible power to Alcoa, a large industrial customer), of which 5,814 megawatts was generated by the Company.

The interconnected electric systems of the Company, Dallas Power, and Texas Electric are connected by two 345,000 volt circuits to HL&P; by five 138,000 volt and eight 69,000 volt lines to

ITEM 2. PROPERTIES (Continued).

WTU; by one 345,000 volt, four 138,000 volt and one 69,000 volt lines to Lower Colorado River Authority; and at several points with smaller systems operating wholly within Texas. The Company, along with Dallas Power and Texas Electric, is a member of TIS (see Item 1, Business – Regulation and Rates) and of the Electric Reliability Council of Texas (ERCOT), the regional reliability coordinating organization for electric power systems in Texas.

The property owned by the Company is situated generally on land owned in fee by the Company, or on property upon which valid leases have been obtained, or on customer's premises under appropriate agreements. Practically all of the Company's transmission and distribution lines, not within corporate limits, have been constructed on lands of others, under easements from property owners. A portion of such lines are on streets or highways or across, or on, the rights-of-way of other companies under standard written agreements. Under the laws of Texas, the Company has the right of eminent domain whereby it may, if necessary, perfect or secure title to real estate or rights-of-way for use in its operations. The Company's titles to some of its properties may be subject to minor defects and encumbrances customarily found in properties of like size and character, none of which, in the opinion of its counsel, impairs the use of the property in the operation of the business of the Company. Substantially all of the property of the Company is subject to the lien of its Mortgage and Deed of Trust, dated as of May 1, 1945, as supplemented, securing its First Mortgage Bonds.

CONSTRUCTION PROGRAM

The construction program of the Company, including allowance for funds used during construction, as estimated for 1981 through 1983 is as follows:

	1981	1982	1983
	(Thousands of Dollars)		
Production	$246,000	$265,000	$293,000
Transmission	54,000	73,000	91,000
Distribution	61,000	68,000	77,000
General	10,000	11,000	12,000
Total	$371,000	$417,000	$473,000
Such expenditures do not include nuclear fuel	$ 5,000	$ 17,000	$ 23,000

The Company is subject to federal, state and local regulations dealing with environmental protection (see Item 1, Business – Environmental Matters). The Company's portion of construction expenditures for lignite-fueled generating units (production plant) is estimated to include $18,300,000 for 1981, $6,700,000 for 1982 and $26,100,000 for 1983 for additional items of equipment contributing to the protection of the environment. The Company's portion of such expenditures approximated $32,500,000 for 1980, $27,200,000 for 1979 and $21,800,000 for 1978.

ITEM 2. PROPERTIES (Continued).

Additional generating units now in design or under construction are as follows:

Station and Location	Fuel	Unit No.	Net Capability (Megawatts) Total	Company Partici-pation(b)	Sched-uled for Service (a)	Company Participation Expenditures Through December 31, 1980	Estimated Completed Cost(b)	Estimated Completed Cost per Megawatt(c)
						(Thousands of Dollars)		
Sandow – Milam County	Lignite	4	545	545	1981	$233,323	$243,940	$ 448
Comanche Peak – Somervell County	Nuclear	1	1,150	362	1982	552,920	694,693	972
		2	1,150	362	1984			
Twin Oak – Robertson County	Lignite	1	750	562	1986	60,223	892,095	793
		2	750	563	1988			
Forest Grove – Henderson County	Lignite	1	750	150	1989	20,268	161,132	1,074
Martin Lake – Rusk County	Lignite	4	750	244	1990	11,410	159,659	654

(a) Subject to approval of various regulatory agencies, including the NRC in the case of Comanche Peak.

(b) Company participation in net capability and cost of units jointly-owned with Dallas Power and Texas Electric: Martin Lake No. 4 – 32½%; Forest Grove – 20%. Company participation in net capability and cost of units jointly-owned with Dallas Power, Texas Electric, Texas Municipal Power Agency, Tex-La Electric Cooperative of Texas, Inc. (Tex-La) and Brazos Electric Power Cooperative, Inc.: Comanche Peak – 31½% (Company participation recognizes a 2½% undivided interest purchased from Dallas Power, and the anticipated sale of a 4⅓% undivided interest to Tex-La, subject to approval by the NRC). Company participation in net capability and cost of units jointly-owned with Alcoa: Twin Oak – 75% of net capability and 70% of cost.

(c) Except for Comanche Peak which reflects the total cost of the project for all participants. (Estimated completed cost per megawatt for Company participation – $959,000.)

In January 1981 the Company completed an agreement, which is subject to approval of the NRC, for Tex-La to purchase a 4⅓% undivided interest in the Comanche Peak nuclear project including nuclear fuel and associated transmission facilities. The Company received approximately $90 million for that portion of the plant and related facilities, completed through December 31, 1980, to be acquired by Tex-La.

As a result of design changes and modifications required by the NRC and of delays in obtaining an operating license, in July 1980, the in-service dates of Units 1 and 2 at the Comanche Peak station were delayed from 1981 and 1983 to 1982 and 1984, respectively. In addition, as a result of the Company's continuing review of projected customer demand and the cost of financial resources, the Company announced deferrals in the in-service dates of other units under construction as follows: Twin Oak Unit 1 from 1985 to 1986, Twin Oak Unit 2 from 1986 to 1988, Martin Lake Unit 4 from 1985 to 1990 and Forest Grove Unit 1 from 1987 to 1989. The above chart reflects the foregoing delays and the resulting increased construction costs.

Following an incident at the Three Mile Island nuclear power plant, the NRC staff issued an "Action Plan" in June 1980, designed to provide a comprehensive and integrated plan to improve safety at nuclear power reactors. Efforts are underway to comply with applicable requirements of the

Action Plan. Since many of the improvements indicated by the Three Mile Island accident had already been incorporated in the design of Comanche Peak, the Company believes that the modifications presently underway will not significantly impact either the scheduled completion or the estimated completed cost of the two units at the Comanche Peak station. However, if an operating license has not been issued by the time Unit No. 1 is ready for fuel loading, construction costs may increase and the in-service date may be delayed. It is not anticipated that any deferral of the Comanche Peak nuclear units will have a materially adverse effect upon the Company's ability to provide adequate service.

In decisions rendered in July 1976, the United States Court of Appeals for the District of Columbia Circuit, in two proceedings in which the Company was not a party, held that the NRC must, before granting construction permits or operating licenses, consider the environmental impact of reprocessing spent fuel and of waste disposal. In March 1977, the NRC adopted an interim rule with respect to such environmental impact and stated that all construction permits and operating licenses, including the construction permit for Comanche Peak, previously issued will remain in effect. In April 1978, the United States Supreme Court reversed the Circuit Court decisions, upheld the NRC review procedures and remanded one case to require the Circuit Court to determine if the NRC rule concerning such environmental impact was adequately supported by the rulemaking record. Before commencement of operations at Comanche Peak, an operating license must be obtained from the NRC for which application has been made (see Item 1, Business – Regulation and Rates). The Company cannot predict what effect the above proceedings may have on its application for such operating license.

The effects of inflation on construction costs and reevaluation of growth expectations by the Company and other joint participants may require changes in estimated completed costs and completion dates for certain generating units in design or under construction. Actual expenditures and dates of completion may further vary because of other uncertain factors such as weather conditions, licensing delays, and availability of fuel, labor, materials and capital. At the end of 1980, construction of the additional generating units and other major projects was on schedule for completion and testing prior to the planned in-service dates. Commitments in connection with the construction program, principally for generating plants and related facilities, are generally revocable by the Company subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties.

During the period from January 1, 1978 to December 31, 1980, the Company made gross property additions of approximately $1,099,400,000 and retirements of property of approximately $37,500,000 resulting in net property additions of approximately $1,061,900,000. Such gross additions approximated 35% of total electric plant at December 31, 1980.

ITEM 3. LEGAL PROCEEDINGS.

Fuel Supply

In October 1980, the Company, Dallas Power and Texas Electric filed a petition in the United States Court of Appeals for the Fifth Circuit for review of regulations issued by the Economic Regulatory Administration of the Department of Energy implementing the Fuel Use Act (see Item 1, Business – Fuel Supply). Such petition has been transferred to the United States Court of Appeals for the Fourth Circuit.

Regulation and Rates

Texas Electric and HL&P were named as defendants in a suit filed against them on May 3, 1976, in the United States District Court for the Northern District of Texas, Dallas Division, by WTU and CP&L (see Item 1, Business – Regulation and Rates). The suit generally sought to require Texas Electric and HL&P to operate interconnected with the interstate facilities of WTU and CP&L. A trial on the merits in this matter has been held and in February 1979, the Court entered a judgment to the effect that it would not be in the public interest to force the defendants to interconnect in interstate commerce, finding among other things that the defendants had not violated the federal antitrust laws. An appeal to the United States Court of Appeals for the Fifth Circuit has been filed by WTU and CP&L, which have now requested that further action thereon be deferred pending resolution of the settlement arrangements undertaken in connection with the FERC proceeding described in Item 1, Business – Regulation and Rates.

In July 1977, the Company, Dallas Power and Texas Electric intervened in a suit filed by WTU and CP&L in the 53rd Judicial District Court of Travis County, Texas, challenging the validity of the final order issued by the PUC in Docket No. 14. In May 1978, the Department of Energy and FERC intervened contending that the PUC violated the United States Constitution and the Federal Power Act by ordering CSW to cease and not renew interstate power sales. A decision in this suit is pending. (See Item 1, Business – Regulation and Rates.)

In July 1980, Tex-La filed suit in the 126th Judicial District Court of Travis County, Texas and the Community Center of Stafford-Armstrong Addition of the City of Seagoville, Texas, et al, filed suit in the 53rd Judicial District Court of Travis County, Texas, for review of the April 1980 PUC order granting the Company its most recent rate increase (see Item 1, Business – Regulation and Rates). Each of the suits seeks a reversal of the order and a refund of all payments made by the plaintiffs thereunder.

In July 1978, Tex-La filed suit in the 53rd Judicial District Court of Travis County, Texas, for review of the PUC order of May 1978 granting the Company an increase in rates (see Item 1, Business – Regulation and Rates). This suit seeks a reversal of the order and a refund of all payments made by Tex-La thereunder. Subsequently, the McLennan County Consumers Association intervened, and the suit was remanded to the PUC for consideration of certain transactions among subsidiaries of Texas Utilities. The PUC entered an order regarding these transactions (see Item 1, Business – Regulation and Rates – General) and the rate appeal suit is currently pending in the District Court wherein the Court has announced its intention to affirm the rate increase.

Environmental Matters

In July 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas, against Generating Company, Service Company, and the Company, Dallas Power and Texas Electric, by the State of Texas on behalf of the TACB. The petition alleges that Generating Company and Service Company, acting as agents for the Company, Dallas Power and Texas Electric, have violated regulations issued under the federal Clean Air Act, provisions of the Texas Clean Air Act, and permits issued by the TACB, in allowing the start-up of Unit 3 at the Martin Lake station before the completion and operation of its associated air pollution control equipment. The State seeks an injunction against further violation of the federal Clean Air Act and penalties from each of the defendants of $1,000 for each day and each act of violation. The defendants are contesting this action and the Company does not expect that an adverse decision in this suit would have a material effect on its operations or financial condition. (See Item 1, Business – Environmental Matters.)

In July 1979, Generating Company and various electric utilities filed suit in the United States Court of Appeals for the District of Columbia Circuit challenging the validity of regulations issued by the EPA pursuant to the federal Clean Air Act Amendments of 1977, relating to emissions of sulfur dioxide. (See Item 1, Business – Environmental Matters.)

In June 1979, various electric utility companies, including the Company, Dallas Power and Texas Electric filed suits in the United States District Court for the Western District of Virginia and

ITEM 3. LEGAL PROCEEDINGS (Concluded).

the United States Court of Appeals for the Fourth Circuit challenging the validity of revised regulations issued by the EPA in 1979, pertaining to the issuance of NPDES permits. These suits have not yet been set for trial and the Company cannot predict the outcome of this matter. (See Item 1, Business – Environmental Matters.)

In May 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas, against Generating Company by the State of Texas on behalf of the TDWR. The petition alleges that Generating Company has discharged contaminated water from the Martin Lake station into the adjacent lake in violation of provisions of the Texas Water Code and permits issued thereunder to Generating Company by the TDWR. In July 1979, the petition was amended to include a claim on behalf of the Texas Parks and Wildlife Department (TPWD) stating that as a result of such discharges fish have been killed, the State of Texas has suffered losses in the recreational value of its properties and the safety of the public has been endangered. In July 1980, TDWR and TPWD filed a second amended petition which names Texas Utilities and Service Company as defendants, in addition to Generating Company, and which alleges additional violations of permits, seeks an injunction against further violations and penalties in the amount of $1,000 from each defendant for each day and each act of violation with a minimum of $281,000 from each defendant, damages in the amount of $1,450,314 in regard to state fish resources and at least $500,000 for lost recreation resources, as well as $5,000,000 in punitive damages. The Company does not expect that an adverse decision in this suit would have a material effect on its operations or financial condition. (See Item 1, Business – Environmental Matters.)

In May 1979, Generating Company, along with various coal producers, filed suit in the United States District Court for the District of Columbia challenging the validity of certain of the final federal surface mining regulations implementing federal legislation passed in 1977. Judgments upholding certain of the challenged regulations and remanding others for reconsideration have been appealed to the United States Court of Appeals for the District of Columbia Circuit. Enforcement of these regulations would increase the cost of producing lignite; however, the Company does not anticipate that the terms and conditions of permits issued thereunder will have a material adverse effect upon its future use of lignite as fuel for the generation of electricity. (See Item 1, Business – Fuel Supply and Environmental Matters.)

In June 1980, various electric utility companies, and Generating Company, intervened in a suit in the United States District Court for the District of Columbia, challenging the validity of certain EPA regulations issued under RCRA. (See Item 1, Business – Environmental Matters.)

ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

(a) Security ownership of certain beneficial owners of voting securities as of February 28, 1981:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock, without par value	Texas Utilities Company 2001 Bryan Tower Dallas, Texas 75201	34,350,000 shares, sole voting and investment power	100%

(b) Security ownership of management as of February 28, 1981:

Title of Class	Number of Shares Beneficially Owned*	Percent of Class
Preferred Stock, without par value, of the Company	75	Less than 1%
Common Stock of Texas Utilities Company	56,402	Less than 1%

* Amount of shares with respect to which such persons have the right to acquire beneficial ownership as specified in Rule 13d-3(d)(1) under the Securities Exchange Act of 1934: None.

(c) Changes in control: None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS.

All of the Company's common stock is owned by Texas Utilities Company.

Annual dividends per share of common stock of the Company of $2.24 for 1980 and $2.04 for 1979 were paid to the parent.

Reference is made to Note 4 to Financial Statements regarding limitations upon payment of dividends on common stock of the Company.

ITEM 6. SELECTED FINANCIAL DATA.

FINANCIAL STATISTICS

	1980	1979	1978	1977	1976
Total Assets end of year (thousands)	$2,790,527	$2,416,820	$2,107,413	$1,976,081	$1,684,806
Electric Plant end of year (thousands)	$3,140,209	$2,729,803	$2,376,985	$2,078,257	$1,815,570
Accumulated depreciation	494,911	433,158	377,346	325,776	290,873
Construction expenditures (including allowance for funds used during construction)	409,806	356,603	295,180	275,966	257,942
Capitalization end of year (thousands)					
Long-term debt	$1,015,522	$ 949,644	$ 820,113	$ 815,047	$ 695,709
Preferred stock	285,782	256,112	226,521	226,521	196,866
Common stock equity	920,355	806,334	722,263	675,046	590,576
Total	$2,221,659	$2,012,090	$1,768,897	$1,716,614	$1,483,151
Average Interest Rate on Long-Term Debt end of year	8.0%	7.8%	7.6%	7.6%	7.5%
Average Dividend Rate on Preferred Stock end of year	8.0%	7.6%	7.4%	7.4%	7.3%
Net Income (thousands)	$ 161,623	$ 128,642	$ 123,086	$ 105,335	$ 82,503
Dividends Declared on Common Stock (thousands)	75,864	65,194	59,040	54,050	48,300
Ratio of Earnings to Fixed Charges	3.9	3.8	4.1	3.7	3.2
Supplemental Ratio of Earnings to Fixed Charges*	3.3	3.3	3.8	3.6	3.2
Allowance for Funds Used During Construction as Percent of Earnings to Common Stock	27.0%	21.8%	17.1%	23.3%	28.1%
Return on Average Common Stock Equity	16.2%	14.3%	15.2%	14.0%	12.4%
Funds from Operations as Percent of Construction Expenditures (excluding allowance for funds used during construction)	44.0%	46.4%	51.0%	42.0%	31.5%

* The supplemental ratio of earnings to fixed charges includes the Company's allocable portion of interest on Senior Notes of affiliated companies which provide services to the Company.

ITEM 6. SELECTED FINANCIAL DATA (Concluded).

OPERATING STATISTICS

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Electric Energy Generated and Purchased (MWh)					
Generated — net station output	28,431,111	25,952,023	24,503,681	22 [illegible]19,340	19,141,490
Purchased and net interchange	218,847	729,425	1,412,136	59,767	1,166,547
Total generated and purchased	28,649,958	26,681,448	25,915,817	23[illegible]479,107	20,308,037
Company use, losses, and unaccounted for	2,[illegible]2,539	1,881,667	1,930,139	[illegible],670,311	1,536,641
Total electric energy sales	26,467,419	24,799,781	23,985,678	21,808,796	18,771,396
Fuel Mix for Electric Generation					
Gas	47.3%	46.4%	53.0%	62.6%	66.9%
Oil	0.1	0.5	0.2	2.0	0.2
Lignite	52.6	53.1	46.8	35.4	32.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Electric Energy Sales (MWh)					
Residential	8,451,010	7,334,355	7,520,665	6,921,676	6,048,260
Commercial	4,975,135	4,451,990	4,338,257	4,045,638	3,624,348
Industrial	8,583,227	8,512,728	8,000,546	7,391,531	6,000,781
Government and municipal	943,792	845,800	880,988	809,213	746,488
Total general business	22,953,164	21,144,873	20,740,456	19,168,058	16,419,877
Other electric utilities	3,514,255	3,654,908	3,245,222	2,640,738	2,351,519
Total electric energy sales	26,467,419	24,799,781	23,985,678	21,808,796	18,771,396
Operating Revenues (thousands)					
Residential	$ 380,564	$ 293,489	$ 285,748	$ 256,624	$ 204,114
Commercial	224,116	185,750	168,904	144,185	112,077
Industrial	238,898	211,085	184,091	156,093	110,734
Government and municipal	35,983	28,587	26,902	23,208	18,703
Total general business	879,561	718,911	665,645	580,110	445,628
Other electric utilities	96,882	82,715	70,828	58,075	43,534
Total from electric energy sales	976,443	801,626	736,473	638,185	489,162
Other operating revenues	15,712	7,991	6,835	7,019	4,882
Total operating revenues	$ 992,155	$ 809,617	$ 743,308	$ 645,204	$ 494,044
Electric Customers (end of year)					
Residential	623,077	595,631	563,378	535,012	514,041
Commercial	80,517	78,553	77,371	74,327	70,510
Industrial	6,990	6,599	6,257	5,919	5,749
Government and municipal	7,619	7,346	7,061	7,121	7,110
Total general business	718,203	688,129	654,067	622,379	597,410
Other electric utilities	35	35	30	29	28
Total electric customers	718,238	688,164	654,097	622,408	597,438
Residential classification includes indirect sales (apartments, etc.); dwelling units not included in number of customers	42,523	43,560	47,656	52,585	53,076
Industrial classification includes interruptible sales to Alcoa:					
Electric energy sales (MWh)	2,918,794	3,076,399	2,891,259	2,786,027	1,822,488
Operating revenues (thousands)	$ 48,813	$ 48,400	$ 41,572	$ 36,878	$ 20,052

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Liquidity and Capital Resources

The primary capital requirements of the Company for 1980 and as estimated for 1981 through 1983 are as follows:

	1980	1981	1982	1983
		(Thousands of Dollars)		
Construction expenditures (excluding AFUDC)	$372,000	$336,000	$387,000	$446,000
Nuclear fuel	11,000	5,000	17,000	23,000
Maturities of long-term debt and sinking fund requirements	2,000	—	14,000	1,000
Total	$385,000	$341,000	$418,000	$470,000

For detail concerning major new construction work now in progress or contemplated by the Company and commitments with respect thereto, see Item 2, Properties – Construction Program.

The Company generates funds from operations sufficient to meet operating needs, pay dividends on capital stock and finance a significant portion of capital requirements. These funds are derived from net income, depreciation, deferred taxes, and federal investment tax credits. Factors affecting the ability of the Company to fund a portion of its capital requirements from operations include adequate rate relief and regulatory practices allowing a substantial portion of construction work in progress in rate base, adequate depreciation rates, normalization of federal income taxes, current recovery of the cost of fuel used in the generation of electricity and the opportunity to earn competitive rates of return required in the capital markets. For 1980, 44% of the funds needed for construction was generated from operations.

External funds of a permanent or long-term nature are obtained by the Company through the sale of common and preferred stocks, first mortgage bonds, and pollution control revenue bonds. The capitalization ratios of the Company at December 31, 1980 consisted of 46% long-term debt, 13% preferred stock, and 41% common stock equity, and similar ratios are expected to be maintained in the future. To provide for immediate cash requirements during periods between long-term financings, the Company obtains short-term loans from Texas Utilities, which has lines of credit with commercial banks aggregating $300,000,000 at December 31, 1980. The Company does not maintain separate credit arrangements with banks or other lenders.

The Company expects to sell additional securities as needed, in amounts and of types presently undetermined. Although the Company cannot predict future regulatory practices and is to some degree exposed to fluctuating economic and securities market conditions, it does not currently expect any changes in trends or commitments which might significantly alter its basic financial position or ability to finance capital requirements in the future. (See Item 1, Business – Regulation and Rates.)

Results of Operations

Increases in operating revenues include rate increases granted the Company and recovery of higher fuel costs on a current basis, customer growth, and increased energy consumption by customers (see Item 1, Business – Fuel Supply and Regulation and Rates and Item 6, Selected Financial Data – Operating Statistics). Energy consumption per customer is affected by material variations in weather conditions and was particularly impacted by the unusually hot and dry summer of 1980 compared to the relatively mild summer of 1979 and by warmer summer and colder winter weather in 1978. Customer consumption also reflects the effects of energy conservation on the part of some customers.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Concluded).

Operation and maintenance expenses have increased substantially as a result of continuing inflationary pressures on the cost of labor, materials and services and the additional lignite-fueled generating units placed in service during 1978 and 1979; such expenses were also affected by the higher costs of operating and maintaining existing lignite-fueled generating units, including the additional costs of operating and maintaining the pollution control equipment required in connection therewith and unscheduled maintenance on several such units in 1979. Increases in taxes other than income resulted primarily from increases in revenue and property based taxes.

Increases in allowance for funds used during construction are primarily attributable to increases in the amount of construction work in progress of the Company not allowed in rate base by regulatory authorities, and for 1980, an increase in the AFUDC rate effective November 1979, accompanied by the commencement of semi-annual compounding. The decrease in other income and deductions — net for 1980 reflects decreased interest income on temporary cash investments while the increase for 1979 resulted from increased income from Alcoa for construction of generating facilities.

The Company expects to pursue adequate and timely rate relief in the future to offset the effects of increases in the costs of providing electric service.

The Company has prepared supplementary information concerning the effects of changing prices in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33; such information is included in Item 8, Financial Statements and Supplementary Data following the notes to financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

TEXAS POWER & LIGHT COMPANY

STATEMENT OF INCOME

Schedule No.		Year Ended December 31, 1980	1979	1978
		(Thousands of Dollars)		
	OPERATING REVENUES	$992,155	$809,617	$743,308
	OPERATING EXPENSES			
	Fuel	407,636	323,539	288,557
	Operation	110,391	91,988	82,592
	Maintenance	69,796	55,002	39,657
VI	Depreciation	69,881	64,152	56,312
	Federal income taxes (Note 7)	84,408	65,974	75,561
X	Taxes other than income	49,818	42,411	39,187
	Total operating expenses	791,930	643,066	581,866
	OPERATING INCOME	200,225	166,551	161,442
	OTHER INCOME			
	Allowance for equity funds used during construction	27,788	17,499	11,093
	Other income and deductions – net	19,403	19,569	18,195
	Federal income taxes	(9,071)	(9,091)	(8,751)
	Total other income	38,120	27,977	20,537
	TOTAL INCOME	238,345	194,528	181,979
	INTEREST CHARGES			
	Interest on mortgage bonds	70,503	65,924	57,684
	Interest on other long-term debt	8,889	5,356	4,891
	Other interest	7,287	932	3,345
	Allowance for borrowed funds used during construction	(9,957)	(6,326)	(7,027)
	Total interest charges	76,722	65,886	58,893
	NET INCOME	161,623	128,642	123,086
	PREFERRED STOCK DIVIDENDS	21,738	19,377	16,829
	NET INCOME AFTER PREFERRED STOCK DIVIDENDS	$139,885	$109,265	$106,257

See accompanying Notes to Financial Statements.

TEXAS POWER & LIGHT COMPANY

STATEMENT OF SOURCE OF FUNDS FOR CONSTRUCTION

	Year Ended December 31, 1980	1979	1978
	(Thousands of Dollars)		
Funds From Operations			
Net income	$161,623	$128,642	$123,086
Depreciation	69,881	64,152	56,312
Deferred federal income taxes – net	33,552	27,164	20,827
Federal investment tax credits – net	34,062	42,994	35,021
Allowance for funds used during construction	(37,745)	(23,825)	(18,120)
Total funds from operations	261,373	239,127	217,126
Less – Dividends declared:			
Preferred stock	21,738	19,377	16,829
Common stock	75,864	65,194	59,040
Total dividends declared	97,602	84,571	75,869
Net funds from operations	163,771	154,556	141,257
Funds From Financing			
Sales of securities:			
First mortgage bonds	50,000	100,000	–
Other long-term debt	18,096	31,288	5,600
Preferred stock	29,670	29,591	–
Common stock	50,000	40,000	–
Retirement of long-term debt	(1,603)	(841)	(4,073)
Increase (decrease) in notes payable to Texas Utilities Company (parent)	64,500	5,500	–
Net funds from financing	210,663	205,538	1,527
Other Sources (Uses) of Funds			
Changes in working capital, excluding notes payable and long-term debt due currently:			
Cash in banks and temporary cash investments	1,559	2,559	24,667
Accounts receivable – net	(9,321)	(7,219)	(9,021)
Inventories	(6,498)	(1,716)	2,285
Accounts payable	8,614	12,025	17,102
Taxes accrued	27,710	(18,022)	10,718
Other – net	(9,335)	(1,158)	(43)
Net change	12,729	(13,531)	45,708
Investment advances to affiliates	(1,800)	(800)	99,575
Nuclear fuel	(11,023)	(6,447)	(9,915)
Other – net	(2,279)	(6,538)	(1,092)
Net other sources (uses) of funds	(2,373)	(27,316)	134,276
Total	$372,061	$332,778	$277,060
Construction Expenditures:			
Electric plant	$409,806	$356,603	$295,180
Allowance for funds used during construction	(37,745)	(23,825)	(18,120)
Construction Expenditures (excluding allowance for funds used during construction)	$372,061	$332,778	$277,060

See accompanying Notes to Financial Statements.

TEXAS POWER & LIGHT COMPANY

BALANCE SHEET

ASSETS

Schedule No.		December 31, 1980	December 31, 1979
		(Thousands of Dollars)	
V	ELECTRIC PLANT		
	In service:		
	Production	$ 951,311	$ 940,328
	Transmission	444,481	398,027
	Distribution	699,564	647,394
	General	67,684	55,914
	Total	2,163,040	2,041,663
	Construction work in progress	938,997	659,522
	Nuclear fuel	34,852	23,829
	Held for future use	3,320	4,789
	Total electric plant	3,140,209	2,729,803
VI	Less accumulated depreciation	494,911	433,158
	Electric plant, less accumulated depreciation	2,645,298	2,296,645
	OTHER INVESTMENTS	4,297	2,406
	CURRENT ASSETS		
	Cash in banks	6,175	7,734
	Special deposits	6,180	6,539
	Accounts receivable:		
	Customers	50,476	45,211
	Other	10,627	5,773
VIII	Allowance for uncollectible accounts	(2,449)	(1,651)
	Inventories – at average cost:		
	Materials and supplies	17,169	13,760
	Fuel stock	21,111	18,022
	Other current assets	26,090	15,686
	Total current assets	135,379	111,074
	DEFERRED DEBITS	5,553	6,695
	TOTAL	$2,790,527	$2,416,820

See accompanying Notes to Financial Statements.

TEXAS POWER & LIGHT COMPANY

BALANCE SHEET

LIABILITIES

Schedule No.		December 31, 1980	December 31, 1979
		(Thousands of Dollars)	
	CAPITALIZATION		
	Common stock (Note 3)	$ 660,000	$ 610,000
	Retained earnings (Note 4)	260,355	196,334
	Total	920,355	806,334
	Preferred stock (Note 3)	285,782	256,112
	Long-term debt – less amounts due currently (Note 5):		
	First mortgage bonds	897,500	847,500
	Other long-term debt	121,781	105,288
	Unamortized discount	(3,759)	(3,144)
	Total	1,015,522	949,644
	Total capitalization	2,221,659	2,012,090
	CURRENT LIABILITIES		
	Notes payable – Texas Utilities Company (parent)	70,000	5,500
	Accounts payable:		
	Affiliates	35,009	26,967
	Other	55,849	55,277
	Dividends declared	5,689	4,870
	Customers' deposits	7,223	6,565
	Taxes accrued	47,176	19,466
	Interest accrued	28,285	27,349
	Other current liabilities	6,522	8,225
	Total current liabilities	255,753	154,219
VIII	RESERVE FOR INSURANCE AND CASUALTIES	1,621	1,703
	ACCUMULATED DEFERRED FEDERAL INCOME TAXES	141,849	108,297
	UNAMORTIZED FEDERAL INVESTMENT TAX CREDITS	169,645	140,511
	COMMITMENTS AND CONTINGENCIES (Notes 2 and 6)		
	TOTAL	$2,790,527	$2,416,820

See accompanying Notes to Financial Statements.

TEXAS POWER & LIGHT COMPANY

STATEMENT OF RETAINED EARNINGS

	Year Ended December 31,		
	1980	1979	1978
	(Thousands of Dollars)		
BALANCE AT BEGINNING OF YEAR	$196,334	$152,263	$105,046
ADD – Net income	161,623	128,642	123,086
Total	357,957	280,905	228,132
DEDUCT			
Dividends (cash)			
Preferred stock:			
$ 4 series ($ 4.00 per share per annum)	280	280	280
$ 4.44 series ($ 4.44 per share per annum)	666	666	666
$ 4.56 series ($ 4.56 per share per annum)	610	610	610
$ 4.76 series ($ 4.76 per share per annum)	476	476	476
$ 4.84 series ($ 4.84 per share per annum)	339	339	339
$ 7.24 series ($ 7.24 per share per annum)	1,810	1,810	1,810
$ 7.80 series ($ 7.80 per share per annum)	2,340	2,340	2,340
$ 8.16 series ($ 8.16 per share per annum)	2,448	2,448	2,448
$ 8.20 series ($ 8.20 per share per annum)	2,460	2,460	2,460
$ 8.68 series ($ 8.68 per share per annum)	2,604	2,604	2,604
$ 8.84 series ($ 8.84 per share per annum)	2,652	2,548	–
$ 9.32 series ($ 9.32 per share per annum)	2,796	2,796	2,796
$10.92 series ($10.92 per share per annum)	2,257	–	–
Common stock (per share: 1980, $2.24; 1979, $2.04; 1978, $1.92)	75,864	65,194	59,040
Total dividends	97,602	84,571	75,869
BALANCE AT END OF YEAR (Note 4)	$260,355	$196,334	$152,263

See accompanying Notes to Financial Statements.

TEXAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Electric Plant — Electric plant is stated at original cost. The cost of property additions charged to electric plant includes labor and materials, applicable overhead and payroll-related costs and an allowance for funds used during construction.

Allowance For Funds Used During Construction — Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on other capital used to finance construction are charged to electric plant. The accrual of AFUDC is in accord with established accounting practices of the industry, but does not represent current cash income. The Company has capitalized AFUDC at a net of tax rate of 8% compounded semi-annually of expenditures incurred, except for that portion of construction work in progress allowed in rate base by regulatory authorities. Prior to November 1979, a rate of 7% had been used. These rates were determined on the basis of, but are less than, the cost of capital used to finance the construction program. Effective January 1, 1981, a rate of 8½% was adopted.

Depreciation — Depreciation is based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties. Depreciation as a percent of average depreciable electric plant in service approximated 3.5% for 1980 and 3.4% for 1979 and 1978.

Federal Income Taxes — The Company is included in the consolidated federal income tax return of Texas Utilities Company and subsidiary companies, and federal income taxes are allocated to all subsidiary companies based upon taxable income or loss. Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation and the class life depreciation system (ADR). Current federal income taxes have been reduced by amounts of investment tax credits allowable under the Internal Revenue Code; such credits are being amortized to income over the estimated service lives of the properties. (See Note 7.)

Reserve For Insurance and Casualties — The Company, as allowed by regulatory authorities, maintains a reserve for major uninsured losses and claims.

2. Affiliates

The Company is a subsidiary of Texas Utilities which provides common stock capital and short-term financing to the Company. Dallas Power and Texas Electric, whose respective systems are interconnected with that of the Company, are also subsidiaries of Texas Utilities. Texas Utilities has three other subsidiaries which perform specialized services, at cost, for the System, including the Company; Service Company furnishes engineering, financial and other services; Fuel Company owns a natural gas pipeline system, acquires, stores and delivers fuel gas and oil and provides other fuel services for the generation of electric energy; and Generating Company operates the jointly-owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for the surface mining and recovery of lignite for use as fuel at such stations.

The Company, jointly with Dallas Power and Texas Electric, has entered into agreements with Fuel Company to procure certain fuels and related services and with Generating Company for the production of lignite fuel and the operation of electric generating stations; payments are at cost of the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Generating Company.

For information concerning jointly-owned generating stations, see Item 2, Properties.

3. Common and Preferred Stocks

	Shares Outstanding December 31,		Amount December 31,		Redemption Price Per Share (before adding accumulated dividends)	
	1980	1979	1980	1979	Current	Eventual Minimum
			(Thousands of Dollars)			
Common stock – without par value; authorized 80,000,000 shares	34,350,000	32,350,000	$660,000	$610,000		
Preferred stock – cumulative, without par value; entitled upon liquidation to $100 a share; authorized 5,000,000 shares:						
$ 4 series	70,000	70,000	$ 7,000	$ 7,000	$102.00	$102.00
$ 4.44 series	150,000	150,000	15,061	15,061	102.61	102.61
$ 4.56 series	133,786	133,786	13,379	13,379	112.00	112.00
$ 4.76 series	100,000	100,000	10,000	10,000	102.00	102.00
$ 4.84 series	70,000	70,000	7,000	7,000	101.79	101.79
$ 7.24 series	250,000	250,000	25,113	25,113	107.04	103.42
$ 7.80 series	300,000	300,000	30,030	30,030	105.20	103.25
$ 8.16 series	300,000	300,000	29,655	29,655	108.16*	102.04
$ 8.20 series	300,000	300,000	30,108	30,108	107.39	103.29
$ 8.68 series	300,000	300,000	29,550	29,550	108.43	101.92
$ 8.84 series	300,000	300,000	29,591	29,591	108.17*	102.05
$ 9.32 series	300,000	300,000	29,625	29,625	106.99	102.33
$10.92 series	300,000	–	29,670	–	110.92*	102.73
Total	2,873,786	2,573,786	$285,782	$256,112		

* Redemption may not be effected currently through certain refunding operations.

The Company issued and sold shares of its authorized common stock to Texas Utilities as follows: February 1980, 2,000,000 shares for $50,000,000; and February 1979, 1,600,000 shares for $40,000,000. In March 1981, the Company issued and sold an additional 3,000,000 shares of its authorized common stock to Texas Utilities for $85,500,000.

The Company also issued and sold shares of its authorized preferred stock as follows: May 1980, 300,000 shares of $10.92 preferred stock for $29,670,000; and February 1979, 300,000 shares of $8.84 preferred stock for $29,591,400.

No shares of the Company's common or preferred stock are held by or for account of the Company, nor are any shares of such capital stocks reserved for officers and employees or for options, warrants, conversions and other rights in connection therewith.

4. Retained Earnings Restrictions

The Company's articles of incorporation, the mortgage, as supplemented, and the debenture agreements contain provisions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At December 31, 1980, $32,239,000 of retained earnings was thus restricted as a result of the provisions of the articles of incorporation.

The articles of incorporation restriction provides in effect that the Company shall not pay any common dividend which would reduce retained earnings to less than one and one-half times annual preferred dividend requirements. The mortgage restriction is based primarily on the replacement fund requirements of the mortgage. The restriction contained in the debenture agreements is designed to maintain the aggregate preferred and common stock equity at or above 33⅓% of total capitalization.

5. Long-Term Debt (less amounts due currently)

	December 31, 1980	December 31, 1979
	(Thousands of Dollars)	
First mortgage bonds:		
3¼% series due 1982	$ 14,000	$ 14,000
3⅛% series due 1984	20,000	20,000
4⅜% series due 1986	10,000	10,000
4½% series due 1988	12,500	12,500
4½% series due 1991	12,000	12,000
4⅜% series due 1993	10,000	10,000
4½% series due 1995	14,000	14,000
5 % series due 1996	20,000	20,000
5½% series due 1997	30,000	30,000
6⅝% series due 1998	25,000	25,000
8⅝% series due 2000	30,000	30,000
8⅞% series due 2000	30,000	30,000
7⅛% series due 2001	30,000	30,000
7½% series due 2002	40,000	40,000
7½% series due 2003	50,000	50,000
8¼% series due 2004	50,000	50,000
10⅛% series due 2004	50,000	50,000
9½% series due 2005	100,000	100,000
8.60% series due 2006	100,000	100,000
8¼% series due 2007	100,000	100,000
9⅜% series due 2009	100,000	100,000
11⅜% series due 2010	50,000	–
Total first mortgage bonds	897,500	847,500
Other long-term debt:		
Sinking fund debentures		
4⅝%, due 1987	6,711	6,976
4½%, due 1988	10,773	11,251
7¾%, due 1994	16,228	17,088
Total	33,712	35,315
Pollution control revenue bonds – net		
7½% series due 2004	15,000	15,000
6¼% series due 2006	32,385	32,385
5.70% series due 2007	11,235	11,235
6.60% series due 2008	4,890	4,890
7⅝% series due 2009	35,000	35,000
Funds on deposit with trustee	(10,441)	(28,537)
Total	88,069	69,973
Total other long-term debt	121,781	105,288
Unamortized discount	(3,759)	(3,144)
Total long-term debt (less amounts due currently)	$1,015,522	$949,644

NOTES TO FINANCIAL STATEMENTS — (Continued)

Sinking fund and maturity requirements for the years 1981 through 1985 under long-term debt instruments in effect at December 31, 1980 were as follows:

Year	Sinking Fund(a)	Maturity (see above)	Minimum Cash Requirement(a)(b)
		(Thousands of Dollars)	
1981	$3,863	$ —	$ —
1982	4,253	14,000	14,000
1983	5,615	—	612
1984	7,103	20,000	20,900
1985	7,103	—	900

(a) Excluding amounts satisfied prior to December 31, 1980: $900,000 for 1981, $900,000 for 1982 and $288,000 for 1983.

(b) Other requirements may be satisfied by certification of property additions at the rate of 167% of such requirements.

The total amounts of Sinking Fund Debentures authorized in the debenture agreements have been issued. The Company's First Mortgage Bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings and other provisions of the mortgage. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Substantially all of the electric plant is subject to the lien of the mortgage.

6. Commitments and Contingencies

For major new construction work now in progress or contemplated, and commitments with respect thereto, see Item 2, Properties — Construction Program.

The Company, along with Dallas Power and Texas Electric, has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee its share of the principal, $53,779,000 at December 31, 1980, and interest on bonds issued to finance the reservoirs from which the water is supplied.

Reference is made to Item 1, Business — Fuel Supply, Regulation and Rates, and Environmental Matters and Item 3, Legal Proceedings for information relating to legal and administrative proceedings. While the Company cannot predict the final results, such proceedings, in the opinion of the Company, are not expected to have a material effect upon the financial position or results of operations of the Company.

7. Federal Income Taxes

The details of federal income taxes are as follows:

	Year Ended December 31,		
	1980	1979	1978
	(Thousands of Dollars)		
Charged to operating expenses:			
Current federal income taxes	$18,510	$(3,669)	$18,676
Deferred federal income taxes – net:			
Differences between depreciation methods and lives	26,706	22,328	16,978
Certain capitalized construction costs	5,301	4,646	4,814
Other	(171)	(325)	72
Total	31,836	26,649	21,864
Investment tax credits – net	34,062	42,994	35,021
Total federal income taxes charged to operating expenses	84,408	65,974	75,561
Charged to other income	9,071	9,091	8,751
Total federal income taxes	$93,479	$75,065	$84,312

Federal income taxes were less than the amount computed by applying the federal statutory rate to pre-tax book income as follows:

	Year Ended December 31,		
	1980	1979	1978
	(Thousands of Dollars)		
Federal income taxes at statutory rate (46%; 48% prior to 1979)	$117,347	$93,705	$99,551
Reductions in federal income taxes resulting from:			
Allowance for funds used during construction	17,363	10,959	8,697
Depletion allowance	3,482	2,859	2,421
Amortization of investment tax credits	3,698	3,145	2,414
Other	675	1,677	1,707
Total reductions	23,868	18,640	15,239
Total federal income taxes	$ 93,479	$75,065	$84,312
Effective tax rate	36.6%	36.9%	40.7%

8. Retirement Plans

The Company has uniform retirement plans covering substantially all employees. The costs of the plans are determined by independent actuaries and are funded by the Company as accrued. The costs of the plans, including amounts capitalized, approximated $8,628,000 for 1980, $7,038,000 for 1979 and $5,821,000 for 1978. As of the latest annual valuations in 1980 and 1979, accumulated benefits and net fund assets were as follows:

	1980	1979
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits:		
Vested	$83,050	$66,778
Nonvested	8,181	6,875
Total	$91,231	$73,653
Net fund assets	$70,130	$52,168

An assumed rate of return of 5½% was used in determining the value of accumulated benefits.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Texas Power & Light Company:

We have examined the balance sheet of Texas Power & Light Company as of December 31, 1980 and 1979 and the related statements of income, retained earnings, and source of funds for construction for each of the three years in the period ended December 31, 1980. 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 financial statements referred to above present fairly the financial position of the Company at December 31, 1980 and 1979 and the results of its operations and the source of its funds for construction for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations also comprehended the supplemental schedules listed in Part IV, Item 11(a)2. In our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

Deloitte Haskins & Sells

Dallas, Texas
February 27, 1981

SUPPLEMENTARY INFORMATION
CONCERNING EFFECTS OF CHANGING PRICES

Unaudited information furnished in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33, Financial Reporting and Changing Prices (FASB 33), follows. The Statement indicates the need for experimentation in providing information about the effects of changing prices. Such information is intended to help readers better understand the impact of inflation on the Company. Because the information is presented on an experimental basis, it should be viewed with caution. Calculation of the information inherently involves the use of assumptions, approximations, and estimates and, therefore, the resulting measurements should be considered in that context and not as precise indications of the effects of inflation. The effects of changing prices are not recognized for income tax or rate-making purposes, therefore the supplementary information should not be interpreted as adjustments to earnings reported in the Financial Statements.

Information concerning the effects of general inflation (constant dollar) was determined by converting historical cost amounts into dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers.

Information concerning changes in specific prices (current cost) represent such changes in electric plant from the date costs were initially incurred to present, and differs from constant dollar information to the extent that the specific prices have increased at a rate different than the general rate of inflation. The current cost of electric plant was computed by indexing the existing historical cost of plant by the Handy-Whitman Index of Public Utility Construction Costs for the South Central Region and other appropriate indices. Such current costs are not necessarily representative of the replacement cost of the Company's productive capacity that might be incurred in a future period.

Depreciation on the constant dollar and current cost basis was determined by applying the Company's straight-line depreciation rates used for financial accounting purposes to the appropriate indexed electric plant amounts, and is the only income statement item that has been restated from the Financial Statements. In compliance with FASB 33, no adjustment has been made to federal income taxes.

Under rate-making rules prescribed by the Public Utility Commission of Texas, only the original cost of electric plant is recoverable through revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars and current cost over the original cost is not recoverable through rates as depreciation and is reflected as Reduction to Net Recoverable Cost of Electric Plant. The Company believes, based on past experiences, that it will be allowed to earn on the net investment in electric plant when replacement of facilities actually occurs.

During periods of inflation, the holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The amount shown as Gain From Decline in Purchasing Power of Net Amounts Owed reflects the net of these two items and is primarily attributable to the substantial amount of long-term debt which has been used to finance electric plant. Since depreciation on this electric plant is limited by regulations to the recovery of historical costs, a holding gain on debt is not allowed and recovery is limited to only the embedded cost of debt capital.

To reflect the results of rate regulation, Gain From Decline in Purchasing Power of Net Amounts Owed is offset by the Reduction to Net Recoverable Cost of Electric Plant.

SUPPLEMENTARY INFORMATION
CONCERNING EFFECTS OF CHANGING PRICES – (Continued)
For The Year Ended December 31, 1980
(Thousands of Dollars)

	Historical Cost Reported In Financial Statements	Adjusted for Changing Prices: General Inflation (Constant Dollar)	Adjusted for Changing Prices: Specific Prices (Current Cost)
		(Average 1980 Dollars)	
Operating revenues	$992,155	$ 992,155	$ 992,155
Operating expenses(a)	791,930	854,214	865,168
Operating income	200,225	137,941	126,987
Other income	38,120	38,120	38,120
Total income	238,345	176,061	165,107
Interest charges	76,722	76,722	76,722
Net income	$161,623	$ 99,339	$ 88,385
Increase in specific prices of electric plant held during the year(b)			$ 389,991
Reduction to net recoverable cost of electric plant		$(225,294)	(105,828)
Effect of general inflation on electric plant			(498,503)
Effect of general inflation in excess of increase in specific prices of electric plant after reduction to net recoverable cost			(214,340)
Gain from decline in purchasing power of net amounts owed		155,702	155,702
Net change in purchasing power		$ (69,592)	$ (58,638)

(a) Includes depreciation amounts of $69,881,000 for historical cost, $132,165,000 for constant dollar, and $143,119,000 for current cost.

(b) At December 31, 1980, electric plant, net of accumulated depreciation, was $4,623,384,000 for current cost and $2,645,298,000 for historical cost.

SUPPLEMENTARY INFORMATION
CONCERNING EFFECTS OF CHANGING PRICES – (Concluded)

COMPARISON OF SELECTED FINANCIAL DATA
ADJUSTED FOR EFFECTS OF CHANGING PRICES

	1980	1979	1978	1977	1976
		(Thousands of Average 1980 Dollars)			
Operating revenues	$ 992,155	$ 919,105	$ 938,836	$ 877,335	$ 715,132
Constant Dollar Information					
Net income	$ 99,339	$ 93,158			
Net assets at year end at net recoverable cost	$1,151,992	$1,140,547			
Current Cost Information					
Net income	$ 88,385	$ 77,073			
Effect of general inflation in excess of increase in specific prices of electric plant after reduction to net recoverable cost	$ (214,340)	$ (235,021)			
Net assets at year end at net recoverable cost	$1,151,992	$1,140,547			
General Information					
Gain from decline in purchasing power of net amounts owed	$ 155,702	$ 161,713			
Consumer Price Index – average	246.8	217.4	195.4	181.5	170.5

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

(a) and (e) Identification of directors and business experience:

Name of Director	Age	Other Positions and Offices Held with the Company	Date Originally Elected as Director (Current term expires May 13, 1981)	Present Principal Occupation or Employment and Principal Business and Other Directorships*
J. F. Skelton	66	Chairman of the Board	5-17-72	Chairman of the Board of the Company, Dallas, Texas
R. K. Campbell	54	President and Chief Executive	5-18-77	President and Chief Executive of the Company, Dallas, Texas; also a director of Texas Utilities Company
Thomas E. Blakey	48	Vice President	5-17-78	Vice President of the Company, Dallas, Texas
K. A. Anderson	74	None	5-15-56	Owner, The "K" Way Equipment Company, Palestine, Texas
E. L. Ashcroft, Jr.	70	None	6-15-49	Owner, Ashcroft Motor-Investment Company, Sulphur Springs, Texas
T. L. Austin, Jr.	62	None	5-18-66	Chairman of the Board and Chief Executive and a director, Texas Utilities Company, Dallas, Texas; also a director of Dallas Power & Light Company and Texas Electric Service Company
Thomas W. Baker	72	None	5-16-62	Chairman of the Board, Commercial National Bank, Nacogdoches, Texas
Frank A. Blankenbeckler, Jr.	62	None	5-16-73	Chairman of the Board, Ellis County Savings Association, Waxahachie, Texas
Ben H. Carpenter	57	None	2-16-66	President and Chief Executive Officer and a director, Southland Financial Corporation, Dallas, Texas; also a director of Republic of Texas Corporation

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (Continued).

Name of Director	Age	Other Positions and Offices Held with the Company	Date Originally Elected as Director (Current term expires May 13, 1981)	Present Principal Occupation or Employment and Principal Business and Other Directorships*
Marvin Gibbs	68	None	5-17-72	President, Fry & Gibbs Funeral Home, Paris, Texas
John M. Griffith	77	None	8-19-59	Chairman of the Board, City National Bank, Taylor, Texas
Charles F. Hawn	73	None	2-13-57	President, Hawn Lumber Company, Inc., Athens, Texas; also a director of Southland Financial Corporation
R. L. Poland	61	None	5-16-79	President and Chief Executive Officer, Lufkin Industries, Inc., Lufkin, Texas
James A. Ratteree	60	None	5-19-71	Investments; prior to March 1, 1979 was President, Ratteree Building Materials, Inc., Irving, Texas; also a director of Southwest Bank & Trust Company, Irving
R. E. Roberts	65	None	5-17-72	Chairman of the Board and Chief Executive Officer and a director, Rangaire Corporation, Cleburne, Texas; also a director of Ennis Business Forms, Inc.
B. Lynn Sanders, Jr.	61	None	5-15-74	President, Corsicana Grain and Elevator Company, Inc., Corsicana, Texas; also a director of Southland Financial Corporation and First Bancorp Inc.
C. Truett Smith	63	None	11-17-65	President, First State Bank, Wylie, Texas
John A. Warner	57	None	11-14-79	President and Chief Executive Officer, Tyler Pipe Industries, Inc., Tyler, Texas; also a director of Tyler Corporation and The Peoples National Bank, Tyler
Joe N. Weatherby	71	None	5-19-54	President and Manager, Weatherby Motor Company, Inc., Brownwood, Texas

* Principal occupation or employment has been the same for the last five years, except see part (b) for Messrs. Skelton, Campbell and Blakey.

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (Continued).

There were no arrangements or understandings between any director and any other person pursuant to which he was selected as director, other than with directors or officers of the Company acting solely in their capacities as such.

(b) and (e) Identification of executive officers and business experience:

Name of Officer	Age	Positions and Offices Held	Date Elected to Present Office(s) (Current term expires May 13, 1981)	Business Experience (Preceding Five Years)
J. F. Skelton	66	Chairman of the Board and a Director	5-17-78	Prior to 5-17-78 served in other management positions with the Company for more than 5 years.
R. K. Campbell	54	President, Chief Executive and a Director	5-17-78	Prior to 5-17-78 served in other management positions with the Company for more than 5 years.
Thomas E. Blakey	48	Vice President and a Director	8-18-76	Prior to 8-18-76 served in other management positions with the Company for more than 5 years.
Gerson Berman	59	Vice President	5-17-78	Prior to 5-17-78 served in other management positions with the Company for more than 5 years.
W. H. Goodenough	41	Vice President	2-18-81	Prior to 2-18-81 served in other management positions with the Company for more than 5 years.
Louis W. Howard	54	Vice President	5-19-76	Prior to 5-19-76 served in other management positions with the Company for more than 5 years.
Leon Loveless	53	Vice President	11-17-76	Prior to 11-17-76 served in other management positions with the Company for more than 5 years.
Joe M. Nelson	42	Vice President	5-17-78	Prior to 5-17-78 served in other management positions with the Company for more than 5 years.
Michael D. Spence	39	Vice President	5-16-79	Prior to 5-16-79 served in other management positions with the Company for more than 5 years.

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (Concluded).

Name of Officer	Age	Positions and Offices Held	Date Elected to Present Office(s) (Current term expires May 13, 1981)	Business Experience (Preceding Five Years)
Charles V. McCarter	55	Secretary and Assistant Treasurer	5-19-72	Same.
Gary L. Price	36	Treasurer and Assistant Secretary	11-19-80	Prior to 11-19-80 served in other management positions with the Company for more than 5 years.
W. M. McDonough, Jr.	33	Assistant Treasurer	11-19-80	Prior to 11-19-80 served in other management positions with the Company for more than 5 years.

There were no arrangements or understandings between any executive officer and any other person pursuant to which he was selected as officer, other than with officers or directors of the Company acting solely in their capacities as such.

(c) Identification of certain significant employees:

None.

(d) Family relationships:

None.

(f) Involvement in certain legal proceedings:

None.

ITEM 10. MANAGEMENT REMUNERATION AND TRANSACTIONS.

(a) Current remuneration.

Name of individual or number of persons in group	Positions and Offices in which served	Salaries, fees, directors' fees, commissions and bonuses	Securities or property, insurance benefits or reimbursement, personal benefits*
J. F. Skelton	Chairman of the Board and Director	$ 96,250	$ 6,987
R. K. Campbell	President, Chief Executive and Director	153,833	8,137
Thomas E. Blakey	Vice President and Director	86,667	4,919
H. O. Weatherbee, Jr.**	Vice President	76,333	5,026
Gerson Berman	Vice President	65,917	4,298
28 (including individuals named above)	Directors and Officers	$937,830	$55,439

* Represents vested employer contributions under the Employee Stock Ownership Plan (established pursuant to the Tax Reduction Act of 1975, as amended) and the Employees' Thrift Plan of the

Texas Utilities Company System which are generally available to all employees including officers but not directors who are not also salaried officers. Personal benefits, which cannot be specifically determined, do not exceed $10,000 for each person and are not included.

** Retired from the Company March 1, 1981.

(b) Proposed Remuneration.

Retirement Plan. The Company has non-contributory defined benefit retirement plans covering substantially all employees including officers but not directors who are not also salaried officers. The Company funds the plans with amounts determined annually by the plans' actuary; however, the amounts contributed are not determined by individual account. Eligible employees receive monthly pension benefits upon retirement with the annual normal retirement benefit equal to 1.3% of the first $7,800 plus 1.5% of the excess over $7,800 of average annual earnings received by the participants during their three years of highest earnings multiplied by the number of years of accredited service. Earnings are defined as total annual remuneration paid to an employee for services rendered exclusive of overtime earnings or any special or extra compensation. Retirement benefits under the plans are not subject to reduction for Social Security benefits or other offset amounts.

The estimated annual benefits payable upon retirement at age 65 to persons in specified average salary and accredited years-of-service classifications are set forth in the table below.

	Annual Retirement Benefits		
3-Year Average Annual Salary	20-Years Accredited Service	30-Years Accredited Service	40-Years Accredited Service
$ 50,000	$14,688	$22,032	$29,376
70,000	20,688	31,032	41,376
90,000	26,688	40,032	53,376
110,000	32,688	49,032	65,376
130,000	38,688	58,032	77,376
150,000	44,688	67,032	89,376
170,000	50,688	76,032	101,376
190,000	56,688	85,032	113,376

The accredited years of service as of December 31, 1980, for the officers of the Company named in the remuneration table above are as follows: Mr. J. F. Skelton, 40 years; Mr. R. K. Campbell, 21 years; Mr. Thomas E. Blakey, 19 years; Mr. H. O. Weatherbee, Jr., 37 years; and Mr. Gerson Berman, 33 years.

Thrift Plan. Under the Employees' Thrift Plan of the Texas Utilities Company System, employees of the Company may save, by payroll deductions, up to 6% of their regular salary or wages. Employer-corporation makes a contribution to each participant's account of 40%, 50% or 60% of the employee's savings depending upon his length of service. Employer contributions are invested in common stock of Texas Utilities.

Employee Stock Ownership Plan. Under the Employee Stock Ownership Plan of the Texas Utilities Company System, the Company contributes each year to a trustee amounts up to the additional 1% and ½% investment tax credit allowed under the Internal Revenue Code. Such contributions are invested in common stock of Texas Utilities for the account of participating employees of the Company in proportion to their compensation. The amounts contributed based upon the ½% credit are conditioned upon a matching contribution by the participant. Shares allocated to a participant's account may not be withdrawn except under certain limited conditions or upon termination of service with the Company.

ITEM 10. MANAGEMENT REMUNERATION AND TRANSACTIONS (Concluded).

(c) Remuneration of directors.

The Company's standard arrangement for compensating directors, other than directors who are also salaried officers of the Company or its parent, for services is as follows:

Annual Retainer	$1,600
Each Regular or Special Meeting Attended	300
Each Committee Meeting Attended	100
Reimbursement for Transportation Costs and other Expenses incurred in Attending Meetings	

(d) Options, warrants, or rights.

None.

(e) Indebtedness of management.

None.

(f) Transactions with management.

None.

(g) Transactions with pension or similar plans.

None.

(h) Termination of employment.

None.

PART IV

ITEM 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

The following financial statement 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 or notes thereto:

I, II, III, IV, VII, IX, XI, XII, and XIII.

3. Exhibits:

3(a)1* – Restated Articles of Incorporation filed as Exhibit 6 of Form 8-K dated November, 1976.

3(a)2* – Statement of Resolution Establishing Eleventh Series of Preferred Stock of the Company, filed as Exhibit 2(e), File No. 2-57962.

3(a)3* – Articles of Amendment to the Restated Articles of Incorporation as amended, filed as Exhibit 3 to Form 10-Q for the quarter ended June 30, 1977.

3(a)4* – Statement of Resolution Establishing Twelfth Series of Preferred Stock of the Company, filed as Exhibit 2(g), File No. 2-63370.

3(a)5* – Form of Statement of Resolution Establishing Thirteenth Series of Preferred Stock of the Company, filed as Exhibit (b)(2)-7, File No. 2-67593.

3(b)* – Bylaws, as amended, filed as Exhibit 5 in Form 10-Q for the quarter ended September 30, 1978.

ITEM 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Continued).

4(a)* – Mortgage and Deed of Trust, dated as of May 1, 1945, between the Company and Republic National Bank of Dallas, as trustee, filed as Exhibit 7(c), File No. 2-5718.

4(b)* – Supplemental Indentures to Mortgage and Deed of Trust:

Number	Dated	File Reference	Exhibit
First	October 1, 1947	2-7204	7(a)
Second	April 1, 1948	2-7446	7(a)
Third	April 1, 1952	2-9474	4(c)
Fourth	May 1, 1953	2-10204	4(c)
Fifth	October 1, 1954	2-11162	2(b)
Sixth	November 1, 1956	2-12856	4(c)
Seventh	December 1, 1958	2-14553	2(b)
Eighth	January 1, 1961	2-19452	2(b)-1
Ninth	February 1, 1963	2-21028	2(b)
Tenth	January 1, 1965	2-24326	2(c)
Eleventh	February 1, 1966	2-24326	2(d)
Twelfth	February 1, 1967	2-25885	2(c)
Thirteenth	January 1, 1968	2-27853	2(c)
Fourteenth	February 1, 1970	2-35941	2(c)
Fifteenth	September 1, 1970	2-38171	2(c)
Sixteenth	February 1, 1971	2-39083	2(c)
Seventeenth	February 1, 1972	2-42763	2(c)
Eighteenth	February 1, 1973	2-46740	2(c)
Nineteenth	February 1, 1974	Form 8-K February, 1974	(1)
Twentieth	October 1, 1974	Form 8-K October, 1974	(1)
Twenty-first	April 1, 1975	2-52865	2(c)
Twenty-second	January 1, 1976	2-55210	2(c)
Twenty-third	February 1, 1977	2-57963	2(c)
Twenty-fourth	February 1, 1979	2-63369	2(c)
Twenty-fifth	May 1, 1980	2-67594	(b)(2)-2

4(c)* – Debenture Agreements between the Company and First National Bank of Dallas, Trustee:

Dated	File Reference	Exhibit
January 1, 1962	2-19452	2(c)-2
January 1, 1964	2-21962	2(c)-3
April 1, 1969	2-31966	4(c)

4(d) – Agreement to furnish certain debt instruments

12(a) – Computation of Ratio of Earnings to Fixed Charges

12(b) – Computation of Supplemental Ratio of Earnings to Fixed Charges

* Incorporated herein by reference

(b) Reports on Form 8-K:

None.

TEXAS POWER & LIGHT COMPANY

SCHEDULE V – ELECTRIC PLANT

	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Year Ended December 31,	Classification	Balance at beginning of year	Additions at cost	Retirements	Other Changes add (deduct) — describe	Balance at end of year
			(Thousands of Dollars)			
1980	ELECTRIC PLANT					
	In service:					
	Production	$ 940,328	$ 11,615	$ 632	$ –	$ 951,311
	Transmission	398,027	47,452	998	–	444,481
	Distribution	647,394	60,912	8,742	–	699,564
	General	55,914	14,591	2,821	–	67,684
	Total electric plant in service	2,041,663	134,570	13,193	–	2,163,040
	Construction work in progress	659,522	279,475	–	–	938,997
	Nuclear fuel	23,829	11,023	–	–	34,852
	Held for future use	4,789	(1,469)	–	–	3,320
	Total electric plant	$2,729,803	$423,599	$13,193	$ –	$3,140,209
1979	ELECTRIC PLANT					
	In service:					
	Production	$ 846,066	$ 95,213	$ 951	$ –	$ 940,328
	Transmission	370,350	29,503	1,826	–	398,027
	Distribution	592,694	62,254	7,554	–	647,394
	General	51,021	7,993	3,100	–	55,914
	Total electric plant in service	1,860,131	194,963	13,431	–	2,041,663
	Construction work in progress	495,320	164,202	–	–	659,522
	Nuclear fuel	17,382	6,447	–	–	23,829
	Held for future use	4,152	637	–	–	4,789
	Total electric plant	$2,376,985	$366,249	$13,431	$ –	$2,729,803
1978	ELECTRIC PLANT					
	In service:					
	Production	$ 632,202	$214,303	$ 439	$ –	$ 846,066
	Transmission	352,486	18,814	950	–	370,350
	Distribution	553,738	46,602	7,646	–	592,694
	General	44,758	8,098	1,835	–	51,021
	Total electric plant in service	1,583,184	287,817	10,870	–	1,860,131
	Construction work in progress	485,118	10,202	–	–	495,320
	Nuclear fuel	7,467	9,915			17,382
	Held for future use	2,488	1,664	–	–	4,152
	Total electric plant	$2,078,257	$309,598	$10,870	$ –	$2,376,985

TEXAS POWER & LIGHT COMPANY

SCHEDULE VI – ACCUMULATED DEPRECIATION

COLUMN A		COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Year Ended December 31,	Description	Balance at beginning of year	Additions charged to costs and expenses	Retirements	Other Changes add (deduct) — describe*	Balance at end of year
				(Thousands of Dollars)		
1980	Accumulated depreciation	$433,158	$69,881	$10,423	$2,295	$494,911
1979	Accumulated depreciation	$377,346	$64,152	$10,232	$1,892	$433,158
1978	Accumulated depreciation	$325,776	$56,312	$ 6,367	$1,625	$377,346

* Depreciation of transportation and work equipment, based on the estimated lives thereof, is charged to a clearing account and allocated on the basis of the use of such equipment, and depletion of lignite is charged to other operating expenses.

TEXAS POWER & LIGHT COMPANY

SCHEDULE VIII – VALUATION AND QUALIFYING ACCOUNTS

COLUMN A		COLUMN B	COLUMN C		COLUMN D	COLUMN E
			Additions			
Year Ended December 31,	Description	Balance at beginning of year	Charged to Costs and Expenses	Charged to other accounts — describe	Deductions — describe	Balance at end of year
		(Thousands of Dollars)				
1980	Allowance for uncollectible accounts	$1,651	$3,293	–	$2,495 (a)	$2,449
	Reserve for insurance and casualties	$1,703	$ 418	–	$ 500 (b)	$1,621
1979	Allowance for uncollectible accounts	$1,728	$1 984	–	$2,061 (a)	$1,651
	Reserve for insurance and casualties	$2,794	$ 586	–	$1,677 (b)	$1,703
1978	Allowance for uncollectible accounts	$1,533	$2,301	–	$2,106 (a)	$1,728
	Reserve for insurance and casualties	$2,662	$ (227)	–	$ (359)(b)	$2,794

Notes:

(a) Deductions from the allowance represent uncollectible accounts written off less recoveries of amounts previously written off.

(b) Deductions from the reserve for 1980 and 1979 represent major uninsured losses. Deductions from the reserve for 1978 represent a partial recovery of a major uninsured loss that occurred in 1977.

TEXAS POWER & LIGHT COMPANY

SCHEDULE X – SUPPLEMENTARY INFORMATION

	Year Ended December 31,		
	1980	1979	1978
	(Thousands of Dollars)		
Taxes other than income:			
Ad valorem	$15,792	$12,498	$11,309
Local gross receipts	16,574	14,646	14,532
State gross receipts	10,588	8,792	8,201
State franchise	4,908	4,373	3,951
Federal and state payroll	5,147	4,431	3,573
Miscellaneous	6,501	6,164	5,917
Total	$59,510	$50,904	$47,483
Charged to:			
Operating expenses	$49,818	$42,411	$39,187
Electric plant and sundry accounts	9,692	8,493	8,296

Maintenance and repairs, depreciation, depletion, amortization, rents, lease commitments, royalties, research and development, and advertising, other than amounts set out separately in the statement of income are not significant.

SIGNATURES

Pursuant to the requirements of Sections 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.

Texas Power & Light Company

Date: March 27, 1981

By R. K. Campbell
R. K. Campbell, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the date indicated.

Signature	Title	Date
R. K. Campbell R. K. Campbell, President	Principal Executive Officer and Director	March 27, 1981
W. H. Goodenough W. H. Goodenough, Vice President	Principal Financial Officer	
Gary L. Price Gary L. Price, Treasurer	Principal Accounting Officer	
K. A. Anderson K. A. Anderson	Director	
E. L. Ashcroft, Jr. E. L. Ashcroft, Jr.	Director	
T. L. Austin, Jr. T. L. Austin, Jr.	Director	
Thomas W. Baker Thomas W. Baker	Director	
Thomas E. Blakey Thomas E. Blakey	Director	
Frank A. Blanxenbeckler, Jr. Frank A. Blankenbeckler, Jr.	Director	
Ben H. Carpenter	Director	
Marvin Gibbs Marvin Gibbs	Director	

Signature	Title	Date
JOHN M. GRIFFITH John M. Griffith	Director	March 27, 1981
CHARLES F. HAWN Charles F. Hawn	Director	
R. L. POLAND R. L. Poland	Director	
JAMES A. RATTEREE James A. Ratteree	Director	
R. E. ROBERTS R. E. Roberts	Director	
B. LYNN SANDERS, JR. B. Lynn Sanders, Jr.	Director	
J. F. SKELTON J. F. Skelton	Director	
C. TRUETT SMITH C. Truett Smith	Director	
JOHN A. WARNER John A. Warner	Director	
JOE N. WEATHERBY Joe N. Weatherby	Director	

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 1980 — Commission File Number 0-1250

Dallas Power & Light Company

A Texas Corporation	I.R.S. Employer No. 75-0224710

1506 Commerce Street, Dallas, Texas 75201

Telephone (214) 698-7000

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

None

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

Preferred Stock, Without Par Value

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 ___

Aggregate market value of Common Stock held by non-affiliates: **$50,150**

Common Stock outstanding at February 28, 1981: **15,000,000 shares, Without Par Value**

DOCUMENTS INCORPORATED BY REFERENCE

None

This Form 10-K of Dallas Power & Light Company for the fiscal year ended December 31, 1980 is complete in all respects, except for the information contained herein in response to Item 10(a), which information is on file at the Securities and Exchange Commission.

PART I

Item 1. BUSINESS.

THE COMPANY

Dallas Power & Light Company (Company) was incorporated under the laws of the State of Texas in 1917 and has perpetual existence under the provisions of the Texas Business Corporation Act. The Company is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity wholly within the State of Texas. The Company possesses all of the necessary franchises and certificates required to enable it to conduct its business (see Regulation and Rates).

The Company, Texas Electric Service Company (Texas Electric) and Texas Power & Light Company (Texas Power), whose respective systems are interconnected, are subsidiaries of Texas Utilities Company (Texas Utilities). Texas Utilities also has three subsidiaries which perform specialized services, at cost, for the Texas Utilities Company System (System), including the Company: Texas Utilities Services Inc. (Service Company) furnishes engineering, financial and other services; Texas Utilities Fuel Company (Fuel Company) owns a natural gas pipeline system, acquires, stores and delivers fuel gas and oil and provides other fuel services for the generation of electric energy; and Texas Utilities Generating Company (Generating Company) operates the jointly-owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for surface mining and recovery of lignite for use as fuel at such stations (see Note 2 to Financial Statements).

The Company had a total of 2,431 full-time employees at December 31, 1980 and provides electric service in the Greater Dallas area, including the incorporated municipalities of Dallas, Highland Park, University Park and Cockrell Hill and some of the adjacent unincorporated areas, substantially all of which are in Dallas County. The territory served has an estimated population of 936,000. During the year 1980, approximately 44% of operating revenues was derived from residential sales, 38% from commercial sales, 12% from industrial sales and 6% from other sources.

For energy sales and operating revenues contributed by each class of service, see Item 6, Selected Financial Data – Operating Statistics.

GENERAL PROBLEMS OF THE INDUSTRY

The electric utility industry in general is currently experiencing problems in a number of areas, including the effects of inflation upon the cost of operations and upon construction expenditures, availability and increased cost of fuel for the generation of electric energy, the ability to fully recover increases in fuel costs through automatic fuel adjustment clauses, supply and high cost of capital, difficulty in obtaining sufficient return on invested capital and in securing adequate rate increases when required, compliance with environmental and mining regulations, uncertainties regarding the construction and fueling of nuclear generating units, licensing and other delays affecting the construction of new facilities, and the effects of conservation in the use of electric energy. The Company has been experiencing certain of these problems in varying degrees (see Fuel Supply, Regulation and Rates, Environmental Matters; Item 2, Properties – Construction Program; Item 3, Legal Proceedings; and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations). The Company is unable to predict the future effect of such factors upon its operations.

In addition, the National Energy Act (NEA), enacted in November 1978, seeks to promote conservation of energy and the development of more plentiful domestic energy sources through various regulatory and tax provisions. Among other things, NEA requires state regulatory authorities to give consideration to certain rate and other standards and load management techniques, and provides for compulsory interconnections and transmission of power under certain circumstances (see Regulation and Rates), and restricts the use of natural gas and oil (see Fuel Supply). The Company is unable to predict the future effect of this legislation upon its operations.

Item 1. BUSINESS (Continued).

FUEL SUPPLY

Net input to the Company's system for the year 1980 was 12,847 million kilowatt-hours of which 12,713 million was generated in Company stations. During this period, 142,932,865 million Btu of fuel were consumed for electric generation at an average cost of 145.4¢ per million Btu.

A comparison of the unit cost per million Btu of fuel consumed and the fuel mix for electric generation during the last three years is shown below:

	Unit Cost Per Million Btu			Fuel Mix For Electric Generation		
	1980	1979	1978	1980	1979	1978
Gas	231.8¢	204.4¢	186.7¢	48.1%	48.2%	55.1%
Oil	1475.9	200.3	221.6	—	0.7	0.6
Lignite*	64.5	60.4	42.4	51.9	51.1	44.3
Average/Total	145.4¢	130.7¢	123.1¢	100.0%	100.0%	100.0%

* Lignite cost per ton: $8.41 for 1980, $8.05 for 1979, and $5.78 for 1978.

The cost of fuel and increases therein are generally recoverable under the fuel cost factor referred to under Regulation and Rates.

Gas

Fuel gas for the Company's five principal gas-fueled and gas/oil-fueled generating stations (see Item 2, Properties) having a net capability of 2,955 megawatts was provided by Fuel Company and Lone Star Gas Company (Lone Star). During 1980, Fuel Company provided approximately 81% of the Company's gas requirements. Short-term curtailments of gas deliveries have been experienced under the contracts with Lone Star during periods of peak demand on its delivery system; however, such curtailments have been of relatively short duration and have had no major impact on Company operations.

In June 1980, several Lone Star gas supply contracts held by the Company and Texas Electric were assigned to Fuel Company. Concurrently with these assignments, supplemental agreements between Fuel Company and Lone Star were signed which provide for (i) an increase in maximum daily and annual delivery obligations of Lone Star, (ii) an increase in the delivery points through which these supplies could flow to System generating stations, and (iii) an extension of the primary term through 1989 or 1990, with provision for year to year extension by mutual agreement.

Fuel Company owns and operates an intrastate natural gas pipeline system which extends from the gas-producing area of the Permian Basin in west Texas to the Fort Worth-Dallas area and eastward to the gas fields of east Texas. This system includes a one-half interest in a natural gas pipeline which extends 395 miles from the Permian Basin area of west Texas to a point of termination south of the Fort Worth-Dallas area. This 36-inch line has a total initial capacity of 550 million cubic feet of gas per day which can be increased at additional cost to 1,300 million cubic feet per day by the installation of compression. Fuel Company also owns and operates an additional 1,303 miles of various smaller capacity lines which are used to gather and transport natural gas from other gas-producing areas, including the gas fields of east Texas. Pipeline facilities of Fuel Company are interconnected with similar facilities of Old Ocean Fuel Company, a subsidiary of Texas Electric, to form an integrated network through which fuel gas is gathered and transported to certain of the generating stations of the Company, Texas Electric and Texas Power for use in the generation of electric energy.

Fuel Company has acquired under contracts expiring at intervals through 2000, principally with producers at the wellhead, supplies of gas which are generally expected to be produced over a ten to fifteen year period. As gas production declines and/or contracts expire, new contracts are negotiated to replenish or augment such supplies. During 1980, no curtailments were experienced under these contracts.

Fuel Company also owns and operates underground gas storage facilities with a usable capacity of 22.4 billion cubic feet. Gas stored in these facilities is currently capable of being withdrawn at a rate of approximately 215 million cubic feet per day for use during periods of peak demand or curtailment of deliveries by other gas suppliers.

In November 1978, the Powerplant and Industrial Fuel Use Act of 1978 (Fuel Use Act), was enacted as part of the NEA. Among other things, the Fuel Use Act (i) generally prohibits the use of natural gas and/or oil as a primary energy source in any new electric power plants, (ii) limits the use of natural gas as a primary energy source in existing electric power plants in any calendar year before 1990 in a greater proportion than the average yearly proportion of natural gas used during 1974 through 1976, and (iii) requires that natural gas used in such facilities cease by 1990 unless specific exemptions can be obtained. The Economic Regulatory Administration of the Department of Energy (DOE) has issued regulations implementing this Act. The Company is not able to state what impact this legislation or these regulations will have on future operations. (See Item 3, Legal Proceedings.)

Oil

During 1980, dependence by the Company upon fuel oil as an alternate source of boiler fuel amounted to 6,088 barrels of oil or 0.03% of total fuel requirements. Fuel oil is stored at all of the Company's principal gas-fueled and gas/oil-fueled generating stations. At December 31, 1980 the Company had fuel oil storage capacity sufficient to accommodate the storage of approximately 1.1 million barrels of oil, with approximately 0.9 million barrels of oil in inventory. It is anticipated that oil required to replenish that removed from storage and consumed for the generation of electric energy will be met primarily from purchases in the open market or from Fuel Company. Fuel Company has access to an oil pipeline and owns terminal facilities to provide for more dependable and efficient movement of oil.

Lignite

Two units in service at the Big Brown generating station, three units at the Martin Lake generating station, and two units at the Monticello generating station (see Item 2, Properties), having an aggregate net capability of 4,550 megawatts and providing 1,101 megawatts to the Company, use lignite as fuel; two other lignite-fueled units, with an aggregate net capability of 1,500 megawatts, now in design or under construction, will provide 300 megawatts to the Company (see Item 2, Properties — Construction Program). These lignite units, which will be base loaded to operate at the maximum practical load factor, have been or are being constructed adjacent to lignite reserves which will be surface mined. At the present time, the Company, Texas Electric and Texas Power, along with Aluminum Company of America who is a joint-participant with Texas Power in the construction of a lignite-fueled generating station, own in fee or have under lease an estimated 820 million proven recoverable tons of such reserves. The Company, Texas Electric and Texas Power, through Fuel Company, are engaged in an active program of core drilling and/or acquiring additional reserves. Generating Company owns and operates equipment to remove the overburden and to recover lignite. For information concerning the applicable air quality standards, see Environmental Matters.

Lignite production operations at the Big Brown, Martin Lake and Monticello generating stations are accompanied by an extensive reclamation program which returns the land to productive uses and includes a vegetation restoration program. Similar programs are planned for future lignite-fueled generating stations mentioned above. For information concerning federal and state legislation with respect to surface mining, see Environmental Matters.

Item 1. BUSINESS (Continued).

Nuclear

Two nuclear-fueled units of 1,150 megawatts each under construction at the Comanche Peak station will provide 422 megawatts aggregate net capability to the Company. The first of such units is scheduled for service in 1982 and the second in 1984 (see Item 2, Properties – Construction Program). Commitments have been obtained for anticipated uranium ore concentrate requirements and fabrication services for both units for the first 17 years of operation. Uranium hexafluoride conversion services have been contracted for through 1987, and uranium enrichment contracts, having a duration of approximately 30 years, have been made with the DOE. No arrangements have as yet been made for the reprocessing requirements for the Comanche Peak units and it is understood that at present there are no reprocessing plants in commercial operation in the United States. However, there will be on-site storage capacity for spent fuel sufficient to accommodate the operation of the units for approximately 17 years and this storage capacity can be increased. Additional contracts for uranium ore concentrates and nuclear fuel cycle services will be required in the future; however it is not possible to predict the ultimate availability or cost thereof.

General

The Company is not able to state what problems may be encountered in the future in obtaining the fuel it will require for use in generating electric energy to serve its customers, or to predict the effect upon its operations of any difficulty it may experience in protecting its rights to fuel now under contract or in acquiring fuel in the future, or the cost thereof, although the cost of fuel is generally recoverable under the fuel cost tariff schedule approved by various regulatory authorities.

REGULATION AND RATES

Regulation

Texas Utilities and its subsidiaries, including the Company, are presently exempt from the provisions of the Public Utility Holding Company Act of 1935, except as to Section 9(a)(2) which relates to acquisition of securities of public utility companies.

At present, the Company does not transmit electric energy in interstate commerce or sell electric energy at wholesale in interstate commerce, or own or operate facilities therefor, and is not connected directly or indirectly to other systems which are involved in such interstate activities, except during the continuance of emergencies permitting temporary or permanent connections which do not subject the Company to the jurisdiction of the Federal Energy Regulatory Commission (FERC), successor to the Federal Power Commission (FPC) under the Federal Power Act. In view thereof, the Company believes that it is not a public utility as defined in the Federal Power Act and has been advised by its counsel that it is not subject to regulation under such Act as to the issuance of securities or otherwise; however, should the Company become subject to the Federal Power Act, it would be subject to regulation by FERC with respect to rates for transmission and sale of electric energy at wholesale, the interconnection of facilities, the issuance of securities and to the extent the FERC determines, accounting policies and practices.

The Public Utility Commission of Texas (PUC) has original jurisdiction over electric rates and service in unincorporated areas and exclusive appellate jurisdiction to review the rate and service orders and ordinances of municipalities. Each municipality has original jurisdiction over the regulation of electric rates and service within its corporate limits until such time that any such municipality may elect to have the PUC exercise original jurisdiction. Approximately 1% of the Company's revenues for 1980 were derived from electric energy sales to customers subject to the original jurisdiction of the PUC. (See also Environmental Matters for information relating to the Railroad Commission of Texas.)

Item 1. BUSINESS (Continued).

The Public Utility Regulatory Policies Act of 1978 (PURPA), a constituent bill of the NEA, grants power to FERC on its own authority or on application of any electric utility, co-generator or state regulatory authority to order interconnections and transmission of power under certain circumstances. However, compliance with such an order involving interstate transmission of power would not subject the Company to the general jurisdiction of FERC. PURPA also requires state regulatory authorities to hold public hearings to consider the application of certain rate design and other standards and the mandatory use of load management techniques. The Company is unable at this time to assess the full effect of PURPA standards and regulations upon the results of its operations or financial condition.

Central and South West Corporation (CSW) is a holding company with electric utility subsidiaries operating in Arkansas, Louisiana, Oklahoma and Texas. For many years, CSW has operated two separate systems – one interstate and part of the Southwest Power Pool (SPP), and the other an intrastate system tied in with the Texas Interconnected System (TIS), an intrastate network of six major investor-owned and seven public entities. TIS includes Central Power & Light Company (CP&L), the southern part of West Texas Utilities Company (WTU) both of which are CSW subsidiaries, Houston Lighting & Power Company (HL&P), and the Company, Texas Electric, and Texas Power, among others. On May 4, 1976, CSW put its Texas system into interstate commerce, and by that act also connected the other parties in TIS to Oklahoma through WTU. Texas Electric promptly disconnected from WTU and returned to intrastate operation. Also, on that date subsidiaries of CSW, asserting that the Company, Texas Electric, and Texas Power were subject to the jurisdiction of the FPC, petitioned the FPC to require them to reestablish connections with the interstate facilities of the CSW system. (See Item 3, Legal Proceedings.) In July 1976, the FPC issued an order finding that the Company, Texas Electric, and Texas Power were not public utilities as defined in the Federal Power Act. On appeal, the United States Court of Appeals for the District of Columbia Circuit has remanded this order to FERC, as successor to the FPC, for further clarification.

On May 2, 1977, in Docket No. 14, the PUC entered an interim order requiring WTU and CP&L in effect to return to their pre-May 4, 1976 mode of operation, and further requiring WTU to sever the interstate ties into Oklahoma. On May 4, 1977, after WTU had severed the interstate ties, interconnections were reestablished between its intrastate system and TIS. On June 2, 1977, the PUC entered a final order confirming its interim order and prohibiting any party operating a utility system connected with TIS from withdrawing from TIS or making connections with utility systems not so connected unless approved by the PUC or pursuant to judicial mandate or order of the FPC. (See Item 3, Legal Proceedings.)

In February 1979, certain subsidiaries of CSW filed an application with FERC under PURPA seeking generally to exempt CP&L and WTU from certain provisions of the PUC order in Docket No. 14 and to require the Company, Texas Electric and Texas Power to operate interconnected with facilities in the CSW system, including interstate facilities. In July 1979, FERC issued an order instituting an investigation in the matter, which is currently proceeding. (See Item 3, Legal Proceedings.) In October 1980, the Company, Texas Electric, Texas Power, HL&P and CSW filed an Offer of Settlement in this proceeding, which has the concurrence of the FERC staff, providing, among other matters, for the entry of an order requiring the establishment of two direct current asynchronous interconnections between SPP and TIS and for the wheeling of power between such systems under specified terms and conditions. This offer is made on a basis which would not subject the Company, Texas Electric, Texas Power and HL&P to the jurisdiction of the FERC generally. In December 1980, FERC granted the motion of the Department of Justice for leave to intervene in this proceeding, which motion generally opposes the proposed settlement. As the result of the intervention by the Department of Justice, the Administrative Law Judge ruled in January 1981 that a hearing in this proceeding is necessary; however, this ruling will be reviewed by FERC. The settlement proposal of CSW, the Company, Texas Electric, Texas Power and HL&P would encompass the proceeding before FERC mentioned hereinabove and is also contingent upon the settlement and termination of the proceeding before the Securities and Exchange Commission (SEC) described below.

In August 1978, in connection with the application by Generating Company for an operating license for the Comanche Peak nuclear station, the Department of Justice indicated that the intrastate provisions of agreements among TIS members raise antitrust issues. The Nuclear Regulatory Commission (NRC) has ordered a hearing on this matter which is in progress. Proposed licensing conditions relating to the antitrust matters have been agreed to by the NRC staff, the Department of Justice and all parties to the Comanche Peak proceeding. There is also in progress a similar hearing before the NRC relating to an operating license in connection with the South Texas nuclear facility being constructed by HL&P and CP&L, among others. The City of Brownsville, Texas has intervened in this proceeding claiming that certain antitrust issues relating to HL&P should be considered, and asserted that similar issues affect the Company, Texas Electric and Texas Power and should be considered in connection with their license application.

In March 1974, a request was filed with the SEC by four Oklahoma municipalities and two cooperatives, asking, among other things, that the SEC undertake a review of the status of CSW and its subsidiaries under the Public Utility Holding Company Act of 1935; and that the SEC also review the exemption granted to Texas Utilities and its subsidiaries, including the Company, to determine if that exemption should be revoked. A hearing concerning the status of CSW under this Act has been in progress and is currently being held in abeyance pending resolution of the matters before FERC described above.

In December 1976, Tex-La Electric Cooperative of Texas, Inc. (Tex-La), a wholesale customer of Texas Power, requested an investigation by the PUC and the FPC to determine whether Texas Power engages in interstate commerce in connection with the transmission of energy generated by the Denison Dam plant located near the Texas/Oklahoma border and which of such agencies has jurisdiction over the wholesale sales of Texas Power. Subsequently, the PUC has established wholesale rates for sales by Texas Power to Tex-La but the matter is still pending before FERC. Several parties have intervened in the FERC proceeding including certain CSW subsidiaries, HL&P and the State of Texas. In addition, the United States Supreme Court has granted a petition from the State of Texas to determine the location of the Texas/Oklahoma boundary line in this area.

Rates

In September 1980, the Company filed applications with the PUC and with the municipalities of Dallas, Highland Park, University Park and Cockrell Hill for upward adjustments in electric service rates. On February 26, 1981, the PUC issued an order which recognized a revenue deficiency for the test year ended June 30, 1980, of approximately \$56.3 million, or about 11.4%, for customers subject to the original jurisdiction of the PUC. Either through placing rates in effect under bond, as provided in the Public Utility Regulatory Act of Texas (PURA), or through issuance of interim orders by the PUC acting in its appellate jurisdiction, the Company began billing said increased rates to all customers in March, 1981. Prior general rate levels were established, commencing in December 1979, by upward adjustments of electric service rates for all classes of service designed to increase operating revenues for the test year ended December 31, 1978 by approximately \$37 million, or 9.7%.

General

In an order issued in April 1979, following a hearing with respect to certain transactions, involving substantial amounts, among the subsidiaries of Texas Utilities, including the Company, Texas Electric and Texas Power, the PUC concluded that the transactions reviewed were generally in the public interest. Certain provisions of the order were appealed by the Company, Texas Electric and Texas Power and other parties to the proceedings. On December 30, 1980 following oral argument before the 53rd Judicial District Court of Travis County, Texas in the appeal of this matter, the Court announced its intention to enter an order remanding this matter to the PUC for further consideration in light of its conclusion that the provisions of PURA required a prior determination by the PUC of the reasonableness of the charges involved in transactions among affiliated interests, which have been recovered by the Company under its fuel adjustment clause. The Court further indicated that it was not ordering additional refunds or requiring penalties to be levied but asked that these matters be further considered by the PUC on remand. The Company intends to appeal any adverse final order entered by the Court. The Company cannot predict the outcome of this proceeding.

In December 1977, the Company accepted a revised franchise from the City of Dallas replacing the previous franchise under which it had operated since 1943. Under the terms of the revised franchise, the Company has the nonexclusive right to maintain and operate an electric generating, transmission and distribution system within the City of Dallas for a period of thirty years, subject to termination at fifteen years. The revised franchise is consistent with other electric utility franchises and conforms to PURA. In October 1977, the Company accepted a revised franchise from the City of University Park. In March 1980, the Company accepted a revised franchise from the Town of Highland Park. Under the terms of these revised franchises, the Company has a nonexclusive right to maintain and operate an electric generating, transmission and distribution system within the City of University Park and the Town of Highland Park for a period of thirty years and twenty years, respectively. The Company also holds a franchise from the City of Cockrell Hill, expiring in 1990. The Company by agreement pays to these municipalities 4% of the annual gross receipts from business within these municipalities.

ENVIRONMENTAL MATTERS

The Company is subject to various federal, state and local regulations dealing with air and water quality and related environmental matters. (See Item 2, Properties — Construction Program for scheduled expenditures and Item 3, Legal Proceedings.)

Air

Under the Texas Clean Air Act, the Texas Air Control Board (TACB) has jurisdiction over the permissible level of air contaminant emissions from generating facilities located within the State of Texas. In addition, the new source performance standards of the United States Environmental Protection Agency (EPA) promulgated under the federal Clean Air Act, which have also been adopted by the TACB, are applicable to such generating units, the construction of which commenced after March 5, 1972.

The Company's gas-fueled and gas/oil-fueled generating units have been constructed to operate in compliance with regulations promulgated pursuant to these Acts. Particulate control devices have been installed at each of the Company's lignite-fueled units and sulfur dioxide control devices have also been installed on the three units in operation at the Martin Lake station in order to comply with applicable regulations under these Acts. Due to variations in the sulfur content of the lignite fuel, operation of certain of these generating units at reduced loads is required from time to time in order to maintain compliance with these standards.

Generating facilities presently under construction are designed to comply with applicable statutes and regulations. To date, required construction permits have been obtained for Unit 4 at the Martin Lake station and Unit 1 at the Forest Grove station.

The federal Clean Air Act Amendments of 1977, among other things, require the Administrator of EPA to promulgate revised new source performance standards. The amendments also contain provisions relating to the prevention of significant deterioration of air quality pursuant to which regulations have been issued, and limit the maximum allowable increases in concentrations of sulfur

Item 1. BUSINESS (Concluded).

oxides and particulates in various areas. The Company cannot presently determine the effect of these amendments and regulations upon its planned construction program, although it is not expected that the regulations relating to the prevention of significant deterioration of air quality will have a substantial impact on the Company.

Water

The Texas Department of Water Resources (TDWR) and the EPA have jurisdiction over all water discharges from Company generating stations and mining areas. The Company has obtained all required liquid waste control orders from the Texas Water Quality Board, predecessor to the TDWR, for facilities in operation and has applied for or obtained all such orders for facilities under construction. The Company has received permits from the EPA under the National Pollutant Discharge Elimination System (NPDES) for the discharge of waters from units at the Company generating stations currently in operation. All NPDES permits required for units under construction and lignite mining areas have been applied for or obtained. Most of these permits expired in 1980; however, applications for new permits have been submitted while interim authorizations are in effect, and the Company believes that it can satisfy the requirements necessary to obtain renewals thereof.

In June 1979, the EPA issued revised regulations for the issuance of NPDES permits, the validity of which is being challenged by various electric utility companies, including the Company, Texas Electric and Texas Power. Also, it is anticipated that the EPA will issue new regulations relating to thermal discharges as a result of litigation setting aside certain of the thermal regulations initially adopted. The Company cannot presently determine what modifications might be necessary to obtain NPDES permits for future plants or to obtain renewals of existing permits, or to comply with future requirements pertaining to thermal limitations or standards, nor can any determination be made of the direct or indirect cost of any such modifications.

The Company generating stations presently in operation have been constructed to operate in compliance with applicable state and federal standards relating to the quality of discharges of water.

Diversion of water by the Company for cooling and other purposes is subject to the jurisdiction of the Texas Water Commission, formerly the Texas Water Rights Commission, which is empowered to allocate such waters among users. The Company possesses all necessary permits from such Commission for the use of surface water required for its present operations and plants under construction.

Other

System lignite mining operations are currently regulated at the state level by the Railroad Commission of Texas. Surface mining permits in connection with the Big Brown, Martin Lake and Monticello stations have been issued. Federal legislation regulating surface mining was enacted in August 1977 and regulations implementing the law have been issued.

Disposal of solid waste is regulated under the Texas Solid Waste Disposal Act and at the federal level under the Resource Conservation and Recovery Act of 1976 (RCRA). The EPA has issued regulations under RCRA and the TDWR has issued regulations under the Texas Solid Waste Disposal Act applicable to the Company's generating stations. The Company cannot presently determine the effect of these Acts upon its operations, but has submitted applications for the permits and filed notices required by such regulations.

Item 2. PROPERTIES.

The Company owns and operates five principal generating stations, all located in Dallas County, Texas, and is a joint owner with Texas Electric and Texas Power of the Big Brown, Martin Lake and Monticello generating stations. At December 31, 1980 the Company's total net generating capability of 4,056 megawatts was comprised of 2,440 megawatts of gas-fueled generation (which is generally equipped to use fuel oil for short periods when the gas supply is interrupted or curtailed – see Item 1, Business – Fuel Supply), 515 megawatts of gas/oil-fueled generation and 1,101 megawatts of lignite-fueled generation.

The Company's ownership interest in jointly-owned generating stations in service is as follows:

Station and Location*	Fuel	Unit No.	Percent Partici-pation	Net Capability (Megawatts) Total	Net Capability (Megawatts) Company Partici-pation	Company's Participation in Electric Plant in Service December 31, 1980 (Thousands of Dollars)
Big Brown – Freestone County	Lignite	1	33⅓	575	191	$ 50,246
		2	33⅓	575	192	
Monticello – Titus County	Lignite	1	20	575	115	47,096
		2	20	575	115	
Martin Lake – Rusk County	Lignite	1	20	750	150	139,952
		2	20	750	150	
		3	25	750	188	

*The Company's share of direct expenses for jointly-owned facilities is included in the applicable operating expense categories; depreciation is not maintained by individual generating stations. The Company provides financing for its participation in each jointly-owned generating station. See Item 1, Business – The Company and Fuel Supply, Note 2 to Financial Statements and Construction Program regarding operation of the jointly-owned generating stations and additional facilities in design or under construction.

At December 31, 1980 the Company's electric transmission and distribution system included 85 substations, approximately 4,372 structure miles of transmission and distribution lines, and 351 miles of underground conduit bank. The maximum hourly load on the Company's system for 1980 occurred on August 22, and amounted to 2,844 megawatts, all of which was generated by the Company. The interconnected electric systems of the Company, Texas Electric and Texas Power are connected by two 345,000 volt circuits to HL&P; by five 138,000 volt and eight 69,000 volt lines to WTU; by one 345,000 volt, four 138,000 volt and one 69,000 volt lines to Lower Colorado River Authority; and at several points with smaller systems operating wholly within Texas. The Company, along with Texas Electric and Texas Power, is a member of the TIS (see Item 1, Business – Regulation and Rates) and of the Electric Reliability Council of Texas, the regional reliability coordinating organization for electric power systems in Texas.

The generating stations, main office buildings, most substations, and other important units of property of the Company are located on lands owned in fee simple. Certain substations are located on real property held under leases or easements. Transmission lines and distribution systems have been constructed in part on or across privately owned land pursuant to easements, or on streets or highways and across waterways, pursuant to authority granted by municipal franchises and by grants of authority and permits issued by state, county and other governmental authorities. The Company has the right of eminent domain whereby it may secure rights-of-way for other uses of land needed in the conduct of its business. The Company's titles to some of its properties may be subject to minor defects and encumbrances customarily found in properties of like size and character. Substantially all of the property of the Company is subject to the lien of the Mortgage and Deed of Trust securing its First Mortgage Bonds.

Item 2. PROPERTIES (Continued).

CONSTRUCTION PROGRAM

Construction expenditures for 1981 through 1983, including allowance for funds used during construction (AFUDC), are estimated as follows:

	1981	1982	1983
	Thousands of Dollars		
Production	$ 90,000	$ 84,000	$ 57,000
Transmission	6,000	7,000	4,000
Distribution	27,000	28,000	37,000
General	11,000	8,000	6,000
Total	$134,000	$127,000	$104,000
Such expenditures do not include nuclear fuel	$ 3,000	$ 10,000	$ 13,000

The Company is subject to federal, state and local regulations dealing with environmental protection (see Item 1. Business – Environmental Matters). The Company's portion of the construction expenditures for lignite-fueled generating units for additional items of equipment contributing to the protection of the environment included in production above is estimated to be $7,600,000 for 1981 and $2,500,000 for 1982. Similar such expenditures approximated $5,600,000 for 1980, $3,700,000 for 1979, and $5,800,000 for 1978.

Additional generating units now in design or under construction, and the year each is scheduled for service, are as follows:

Station and Location	Fuel	Unit No.	Unit Net Capability (megawatts) Total	Company Participation (b)	Scheduled for Service (a)	Company Participation(b) Expenditures Through December 31, 1980	Estimated Completed Cost	Estimated Completed Cost Per Megawatt (c)
						Thousands of Dollars		
Comanche Peak — Somervell County	Nuclear	1	1,150	211	1982	$280,185	$408,772	$ 972
		2	1,150	211	1984			
Forest Grove — Henderson County	Lignite	1	750	150	1989	19,943	161,220	1,075
Martin Lake — Rusk County	Lignite	4	750	150	1990	6,990	99,040	660

(a) Subject to approval of various regulatory agencies, including the NRC in the case of Comanche Peak.

(b) Company participation in net capability and cost of units jointly-owned with Texas Electric and Texas Power: Comanche Peak – 18.33% (14⅓% owned by Texas Municipal Power Agency, Brazos Electric Power Cooperative, Inc. and Tex-La); Martin Lake No. 4 – 20%; Forest Grove – 20%. Concerning Comanche Peak, the sale by Company to Texas Electric and Texas Power and the sale by Texas Power to Tex-La are subject to NRC approval.

(c) Except for Comanche Peak which reflects the total cost of the project for all participants.

As a result of design changes and modifications required by the NRC and of delays in obtaining an operating license, in July 1980 the in-service dates of Units 1 and 2 at the Comanche Peak station were delayed from 1981 and 1983 to 1982 and 1984, respectively. In addition, as a result of the Company's continuing review of projected customer demand and the cost of financial resources, the Company announced deferrals in the in-service dates of other units under construction as follows: Martin Lake Unit 4 from 1985 to 1990 and Forest Grove Unit 1 from 1987 to 1989. The above chart reflects the foregoing delays and the resulting increased construction costs.

Following an incident at the Three Mile Island nuclear power plant, the NRC staff issued an "Action Plan" in June 1980, designed to provide a comprehensive and integrated plan to improve safety at nuclear power reactors. Efforts are underway to comply with applicable requirements of the Action Plan. Since many of the improvements indicated by the Three Mile Island accident had already been incorporated in the design of Comanche Peak, the Company believes that the modifications presently underway will not significantly impact either the scheduled completion or the estimated completed cost of the two units at the Comanche Peak station. However, if an operating license has not been issued by the time Unit No. 1 is ready for fuel loading, construction costs may increase and the in-service date may be delayed. It is not anticipated that any deferral of the Comanche Peak nuclear units will have a materially adverse effect upon the ability to provide adequate service or the results of operations of the Company.

In decisions rendered in July 1976 the United States Court of Appeals for the District of Columbia Circuit, in two proceedings in which the Company was not a party, held that the NRC must, before granting construction permits or operating licenses, consider the environmental impact of reprocessing spent fuel and of waste disposal. In March 1977, the NRC adopted an interim rule with respect to such environmental impact and stated that all construction permits and operating licenses, including the construction permit for Comanche Peak, previously issued will remain in effect. In April 1978, the United States Supreme Court reversed the Circuit Court decisions, upheld the NRC review procedures and remanded one case to require the Circuit Court to determine if the NRC rule concerning such environmental impact was adequately supported by the rulemaking record. Before commencement of operations at Comanche Peak, an operating license must be obtained from the NRC for which application has been made (see Item 1, Business – Regulation and Rates). The Company cannot predict what effect the above proceedings may have on its application for such operating license.

The effects of inflation on construction costs and reevaluation of growth expectations by the Company and other joint participants may require changes in estimated completed costs and completion dates for certain generating units in design or under construction. Actual expenditures and dates of completion may further vary because of other uncertain factors such as weather conditions, licensing delays, and availability of fuel, labor, materials and capital. At December 31, 1980, construction of the additional generating units and other major projects was on schedule for completion and testing prior to the planned in-service dates. Commitments in connection with the construction programs, principally for generating plants and related facilities, are generally revocable by the Company subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties.

Of the funds required to finance the construction program in 1981 present estimates indicate that approximately 50% will be provided from internal sources. The Company expects to sell additional securities from time to time as needed to finance substantial portions of its construction program.

During the period from January 1, 1978 to December 31, 1980, the Company made gross property additions of approximately \$308,900,000 and retirements of property of approximately \$14,600,000 resulting in net property additions of approximately \$294,300,000. Such gross additions approximated 23% of total electric plant at December 31, 1980.

Item 3. LEGAL PROCEEDINGS.

Fuel Supply

In October 1980, the Company, Texas Electric, Texas Power and Generating Company filed a petition in the United States Court of Appeals for the Fifth Circuit for review of regulations issued by the Economic Regulatory Administration of the DOE implementing the Fuel Use Act (see Item 1, Business – Fuel Supply). Such petition has been transferred to the United States Court of Appeals for the Fourth Circuit.

Regulation and Rates

Texas Electric and HL&P were named as defendants in a suit filed against them on May 3, 1976, in the United States District Court for the Northern District of Texas, Dallas Division, by WTU and CP&L. (See Item 1, Business – Regulation and Rates.) The suit generally sought to require Texas Electric and HL&P to operate interconnected with the interstate facilities of WTU and CP&L. A trial on the merits in this matter has been held and in February 1979, the Court entered a judgment to the effect that it would not be in the public interest to force the defendants to interconnect in interstate commerce, finding, among other things, that the defendants had not violated the federal antitrust laws. An appeal to the United States Court of Appeals for the Fifth Circuit has been filed by WTU and CP&L, which have now requested that further action thereon be deferred pending resolution of the settlement arrangements undertaken in connection with the FERC proceeding described in Item 1, Business – Regulation and Rates.

In July 1977, the Company, Texas Electric and Texas Power intervened in a suit filed by WTU and CP&L in the 53rd Judicial District Court of Travis County, Texas challenging the validity of the final order issued by the PUC in Docket No. 14. In May 1978, the DOE and FERC intervened contending that the PUC violated the United States Constitution and the Federal Power Act by ordering CSW to cease and not renew interstate power sales. A decision in this suit is pending. (See Item 1, Business – Regulation and Rates.)

Environmental Matters

In July 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas, against the Company, Texas Electric, Texas Power, Generating Company and Service Company, by the State of Texas on behalf of the TACB. The petition alleges that Generating Company and Service Company, acting as agents for the Company, Texas Electric and Texas Power have violated regulations issued under the federal Clean Air Act, provisions of the Texas Clean Air Act, and permits issued by the TACB, in allowing the start-up of Unit 3 at the Martin Lake station before the completion and operation of its associated air pollution control equipment. The State seeks an injunction against further violation of the federal Clean Air Act and penalties from each of the defendants of $1,000 for each day and each act of violation. The defendants are contesting this action. The Company does not expect that an adverse decision in this suit would have a material effect on its operations or financial condition. (See Item 1, Business – Environmental Matters.)

In July 1979, Generating Company and various electric utilities filed suit in the United States Court of Appeals for the District of Columbia Circuit challenging the validity of regulations issued by the EPA pursuant to the federal Clean Air Act Amendments of 1977, relating to emissions of sulfur dioxide. (See Item 1, Business – Environmental Matters.)

In June 1979, various electric utility companies, including the Company, Texas Electric and Texas Power filed suits in the United States District Court for the Western District of Virginia and the United States Court of Appeals for the Fourth Circuit challenging the validity of the revised regulations issued by the EPA in 1979, pertaining to the issuance of NPDES permits. These suits have not yet been set for trial and the Company cannot predict the outcome of this matter. (See Item 1, Business – Environmental Matters.)

In May 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas, against Generating Company by the State of Texas on behalf of the TDWR. The petition alleges that Generating Company has discharged contaminated water from the Martin Lake station into the

Item 3. LEGAL PROCEEDINGS (Concluded).

adjacent lake in violation of provisions of the Texas Water Code and permits issued thereunder to Generating Company by the TDWR. In July 1979, the petition was amended to join a claim on behalf of the Texas Parks and Wildlife Department (TPWD) that as a result of such discharges fish have been killed, the State of Texas has suffered losses in the recreational value of its properties and the safety of the public has been endangered. In July 1980, TDWR and TPWD filed a second amended petition which names Texas Utilities and Service Company as defendants, in addition to Generating Company, alleges additional violations of permits, seeks an injunction against further violations and seeks penalties in the amount of $1,000 from each defendant for each day and each act of violation with a minimum of $281,000 from each defendant, damages in the amount of $1,450,314 in regard to state fish resources and at least $500,000 for lost recreation resources, as well as $5,000,000 in punitive damages. The Company does not expect that an adverse decision in this suit would have a material effect on its operations or financial condition. (See Item 1, Business – Environmental Matters.)

In May 1979, Generating Company, along with various coal producers, filed suit in the United States District Court for the District of Columbia challenging the validity of certain of the final federal surface mining regulations implementing federal legislation passed in 1977. Judgments upholding certain of the challenged regulations, and remanding others for reconsideration have been appealed to the United States Court of Appeals for the District of Columbia Circuit. Enforcement of these regulations would increase the cost of producing lignite; however, the Company does not anticipate that the terms and conditions of permits issued thereunder will have a material adverse effect upon its future use of lignite as fuel for the generation of electricity. (See Item 1, Business – Fuel Supply and Environmental Matters.)

In June 1980, Generating Company and various electric utility companies intervened in a suit pending in the United States District Court for the District of Columbia, challenging the validity of certain EPA regulations issued under the RCRA.

Item 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

(a) Security ownership of certain beneficial owners at February 28, 1981:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock without par value of the Company	Texas Utilities Company 2001 Bryan Tower Dallas, Texas 75201	14,998,300 shares, sole voting and investment power	99.9%

(b) Security ownership of management at February 28, 1981:

Title of Class	Number of Shares Beneficially Owned*	Percent of Class
Preferred Stock, without par value, of the Company	None	None
Common Stock of Texas Utilities Company (parent)	40,830	Less than 1%

* Amount of shares with respect to which such persons have the right to acquire beneficial ownership: None

(c) Change in control:

None.

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PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS.

The Company's common stock is 99.9% owned by Texas Utilities.

The number of record holders of the Company's common stock as of February 28, 1981 was 2.

There is no market for the common stock of the Company.

Annual dividends per share of common of $2.36 for 1980 and $2.36 for 1979 were paid.

Reference is made to Note 4 to Financial Statements regarding limitations upon payment of dividends on common stock of the Company.

Item 6. SELECTED FINANCIAL DATA.

FINANCIAL STATISTICS

	Year Ended December 31,				
	1980	1979	1978	1977	1976
TOTAL ASSETS end of year (thousands)	$ 1,126,170	$ 1,100,995	$ 1,047,450	$ 945,202	$ 824,069
ELECTRIC PLANT end of year (thousands)	$ 1,372,482	$ 1,318,354	$ 1,244,442	$ 1,078,157	$ 948,359
Accumulated depreciation – end of year	$ 313,797	$ 277,817	$ 245,683	$ 218,848	$ 200,927
Construction expenditures (including allowance for funds used during construction)	$ 121,693	$ 167,600	$ 158,438	$ 136,775	$ 114,746
CAPITALIZATION end of year (thousands)					
Long-term debt	$ 345,817	$ 346,443	$ 373,017	$ 380,718	$ 298,858
Preferred stock	104,722	104,722	104,722	104,722	104,722
Common stock equity	432,962	375,690	339,279	322,072	270,898
Total	$ 883,501	$ 826,855	$ 817,018	$ 807,512	$ 674,478
AVERAGE INTEREST COST ON LONG-TERM DEBT end of year	6.9%	6.6%	6.5%	6.5%	6.2%
AVERAGE DIVIDEND COST ON PREFERRED STOCK end of year	6.3%	6.3%	6.3%	6.3%	6.3%
NET INCOME (thousands)	$ 67,383	$ 45,932	$ 42,953	$ 42,405	$ 31,927
DIVIDENDS DECLARED ON COMMON STOCK (thousands)	$ 33,040	$ 32,450	$ 19,175	$ 14,160	$ 13,098
COMMON STOCK DATA					
Shares outstanding – average	14,083,333	13,833,333	13,000,000	12,083,333	11,175,000
Shares outstanding – end of year	15,000,000	14,000,000	13,000,000	13,000,000	12,000,000
Earnings per average share	$ 4.32	$ 2.85	$ 2.30	$ 2.97	$ 2.27
Dividends declared per share	$ 2.36	$ 2.36	$ 1.48	$ 1.18	$ 1.18
Return on average common stock equity	15.0%	11.0%	11.0%	12.1%	10.1%
RATIO OF EARNINGS TO FIXED CHARGES	4.0	3.2	3.1	3.4	3.0
SUPPLEMENTAL RATIO OF EARNINGS TO FIXED CHARGES*	3.3	2.9	3.0	3.4	3.0
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AS PERCENT OF EARNINGS TO COMMON STOCK	20.4%	41.9%	43.2%	35.5%	33.7%
FUNDS FROM OPERATIONS AS PERCENT OF CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)	56.9%	29.3%	35.9%	43.8%	36.7%

* The supplemental ratio of earnings to fixed charges includes the Company's allocable portion of interest on senior notes of affiliated companies which provide services to the Company.

Item 6. SELECTED FINANCIAL DATA (Concluded).

OPERATING STATISTICS

	Year Ended December 31,				
	1980	1979	1978	1977	1976
ELECTRIC ENERGY GENERATED AND PURCHASED (mwh)					
Generated – net station output	12,713,256	11,720,463	12,011,330	12,388,846	11,523,507
Purchased and net interchange	134,090	165,132	89,923	22,145	2,884
Total generated and purchased	12,847,346	11,885,595	12,101,253	12,410,991	11,526,391
Company use, losses, and unaccounted for	598,289	585,817	652,025	563,025	511,980
Total electric energy sales	12,249,057	11,299,778	11,449,228	11,847,966	11,014,411
FUEL MIX FOR ELECTRIC GENERATION					
Gas	48.1%	48.2%	55.1%	64.5%	65.7%
Oil	–	0.7	0.6	1.1	0.5
Lignite	51.9	51.1	44.3	34.4	33.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%
ELECTRIC ENERGY SALES (mwh)					
Residential	4,880,144	4,301,795	4,554,102	4,295,782	3,828,422
Commercial	4,975,876	4,570,382	4,609,565	4,374,875	4,147,511
Industrial	1,842,414	1,773,866	1,696,511	1,616,720	1,540,560
Government and municipal	365,588	320,003	319,097	287,433	241,235
Total general business	12,064,022	10,966,046	11,179,275	10,574,810	9,757,728
Other electric utilities	185,035	333,732	269,953	1,273,156	1,256,683
Total electric energy sales	12,249,057	11,299,778	11,449,228	11,847,966	11,014,411
OPERATING REVENUES (thousands)					
Residential	$ 232,071	$ 177,173	$ 165,413	$ 148,828	$ 117,883
Commercial	197,473	167,411	144,985	133,742	109,316
Industrial	65,185	56,332	47,114	43,596	35,088
Government and municipal	13,423	9,720	7,455	6,362	4,466
Total general business	508,152	410,636	364,967	332,528	266,753
Other electric utilities	3,491	6,653	5,504	22,996	18,088
Total from electric energy sales	511,643	417,289	370,471	355,524	284,841
Other operating revenues	12,173	5,152	4,871	6,700	4,678
Total operating revenues	$ 523,816	$ 422,441	$ 375,342	$ 362,224	$ 289,519
ELECTRIC CUSTOMERS (end of year)					
Residential	273,347	254,586	241,201	228,393	224,347
Commercial	29,855	28,567	27,272	25,644	24,854
Industrial	2,362	2,328	2,199	2,108	2,036
Government and municipal	395	877	825	777	743
Total general business	305,959	286,358	271,497	256,922	251,980
Other electric utilities	2	2	2	2	2
Total electric customers	305,961	286,360	271,499	256,924	251,982
Residential classification includes indirect sales (apartments, etc.); dwelling units not included in number of customers	130,781	143,088	142,485	137,732	131,279

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Liquidity and Capital Resources

The primary capital requirements of the Company for 1980 and as estimated for 1981 through 1983 are as follows:

	1980	1981	1982	1983
		Thousands of Dollars		
Construction expenditures (excluding AFUDC)	$109,000	$122,000	$112,000	$ 87,000
Nuclear fuel	5,000	3,000	10,000	13,000
Maturities of long-term debt and sinking fund requirements	30,000	–	–	35,000
Total	$144,000	$125,000	$122,000	$135,000

For detail concerning major new construction work now in progress or contemplated and commitments with respect thereto, see Item 2, Properties -- Construction Program.

The Company generates funds from operations sufficient to meet operating needs, pay dividends on capital stock and finance a significant portion of capital requirements. These funds are derived from net income, depreciation, deferred taxes, and federal investment tax credits. Factors affecting the ability of the Company to fund a portion of its capital requirements from operations include adequate rate relief and regulatory practices allowing a substantial portion of construction work in progress in rate base, adequate depreciation rates, normalization of federal income taxes, full current recovery of the cost of fuel used in the generation of electricity, and the opportunity to earn competitive rates of return required in the capital markets. For 1980, approximately 57% of the funds needed for construction was generated from operations.

External funds of a permanent or long-term nature are obtained by the Company through the sales of common stock primarily to Texas Utilities, preferred stock and long-term debt. The capitalization ratios of the Company at December 31, 1980 consisted of approximately 39% long-term debt, 12% preferred stock, and 49% common stock equity, and similar ratios are expected to be maintained in the future. To provide for immediate cash requirements during periods between long-term financings, the Company obtains short-term loans from Texas Utilities, which has lines of credit with commercial banks aggregating $300,000,000 at December 31, 1980. The Company does not maintain separate credit arrangements with banks or other lenders.

The Company expects to sell additional securities as needed, in amounts and of types presently undetermined. Although the Company cannot predict future regulatory practices and is to some degree exposed to fluctuating economic and securities market conditions, it does not currently expect any changes in trends or commitments which might significantly alter its basic financial position or ability to finance capital requirements in the future (see Item 1, Business – Regulation and Rates).

See Item 6, Selected Financial Data – Financial Statistics for additional information.

Results of Operations

Increases in operating revenues include rate increases granted the Company of approximately 10% in October 1979 and 13% in August 1978, recovery of higher fuel costs on a current basis, customer growth, and increased energy consumption by customers (see Item 1, Business – Fuel Supply and Regulation and Rates and Item 6, Selected Financial Data – Operating Statistics). Energy consumption per customer is affected by material variations in weather conditions and was particularly impacted by the unusually hot and dry summer of 1980 compared to the relatively mild summer of 1979 and by warmer summer and colder winter weather in 1978. Customer consumption also reflects the effects of energy conservation on the part of some customers.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Concluded).

Operation and maintenance expenses have increased substantially as a result of the continuing inflationary pressures on the cost of labor, materials and services and the additional lignite-fueled generating units placed in service during 1979 and 1978; such expenses were also affected by the higher costs of operating and maintaining existing lignite-fueled generating units, including the additional costs of operating and maintaining the pollution control equipment required in connection therewith and unscheduled maintenance on several such units in 1979. Increases in taxes other than income resulted primarily from increases in revenue and property based taxes. See Item 1, Business – Fuel Supply for a comparison of unit costs of fuel consumed.

Allowance for funds used during construction decreased in 1980 primarily because of the allowance of a greater portion of construction work in progress in rate base by the Company's regulatory authorities. The increase in allowance for funds used during construction in 1979 was attributable principally to increases in amounts of construction work in progress. Increases in other income and deductions – net and federal income taxes on other income in 1979 resulted primarily from the gain on the sale of a portion of the Comanche Peak nuclear station.

The Company expects to pursue adequate and timely rate relief in the future to offset the effects of increases in the costs of providing electric service.

The Company has prepared supplementary information concerning the effects of changing prices in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33; such information is included in Item 8, Financial Statements and Supplementary Data following the Notes to Financial Statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

DALLAS POWER & LIGHT COMPANY

STATEMENT OF INCOME

Schedule No.		Year Ended December 31, 1980	1979	1978
		Thousands of Dollars		
	OPERATING REVENUES	$523,816	$422,441	$375,342
	OPERATING EXPENSES			
	Fuel	207,802	172,642	164,476
	Operation	68,192	57,332	44,242
	Maintenance	37,638	34,152	23,546
VI	Depreciation	33,758	31,218	28,843
	Federal income taxes (Note 7)	38,407	21,318	19,086
X	Taxes other than income	48,243	43,267	39,481
	Total operating expenses	434,040	359,929	319,674
	OPERATING INCOME	89,776	62,512	55,668
	OTHER INCOME			
	Allowance for equity funds used during construction	8,906	11,844	7,665
	Other income and deductions – net	1,275	5,432	3,328
	Federal income taxes (Note 7)	(593)	(5,589)	(1,603)
	Total other income	9,588	11,687	9,390
	TOTAL INCOME	99,364	74,199	65,058
	INTEREST CHARGES			
	Interest on mortgage bonds	21,793	22,258	22,474
	Interest on other long-term debt	2,412	2,549	2,495
	Other interest	11,298	8,093	5,181
	Allowance for borrowed funds used during construction	(3,522)	(4,633)	(8,045)
	Total interest charges	31,981	28,267	22,105
	NET INCOME	67,383	45,932	42,953
	PREFERRED STOCK DIVIDENDS	6,571	6,571	6,571
	NET INCOME AFTER PREFERRED STOCK DIVIDENDS	$ 60,812	$ 39,361	$ 36,382
	Average shares of common stock outstanding (thousands)	14,083	13,833	13,000
	Earnings and dividends per share of common stock:			
	Earnings (on average shares outstanding)	$4.32	$2.85	$2.80
	Dividends declared	$2.36	$2.36	$1.48

See accompanying Notes to Financial Statements.

DALLAS POWER & LIGHT COMPANY

STATEMENT OF SOURCE OF FUNDS FOR CONSTRUCTION

	Year Ended December 31,		
	1980	1979	1978
	Thousands of Dollars		
FUNDS FROM OPERATIONS			
Net income	$ 67,383	$ 45,932	$ 42,953
Depreciation	33,758	31,218	28,843
Deferred federal income taxes – net	8,424	8,575	6,265
Federal investment tax credits – net	4,670	14,087	14,703
Allowance for funds used during construction	(12,428)	(16,477)	(15,710)
Total funds from operations	101,807	83,335	77,054
Less – Dividends declared:			
Preferred stock	6,571	6,571	6,571
Common stock	33,040	32,450	19,175
Total dividends declared	39,611	39,021	25,746
Net funds from operations	62,196	44,314	51,308
FUNDS FROM FINANCING			
Sales of securities:			
Other long-term debt	279	2,750	3,398
Common stock	29,500	29,500	–
Retirement of long-term debt	(29,575)	(10,516)	(1,028)
Increase (decrease) in notes payable to Texas Utilities Company (parent)	(25,900)	(600)	54,100
Net funds from financing	(25,696)	21,134	56,470
OTHER SOURCES (USES) OF FUNDS			
Changes in working capital, excluding notes payable and long-term debt due currently:			
Cash in banks and temporary cash investments	45	300	1,274
Accounts receivable – net	(515)	(4,779)	(5,009)
Inventories	(765)	(4,643)	(1,038)
Accounts payable	(4,274)	(3,040)	9,693
Taxes accrued	18,863	6,428	(3,056)
Other – net	(9,895)	(174)	1,332
Net change	3,459	(5,908)	3,196
Investment advances to affiliates	–	–	43,440
Nuclear fuel	(4,776)	(5,248)	(9,915)
Sale of electric plant	74,327	99,871	–
Other – net	(245)	(3,040)	(1,771)
Net other sources (uses) of funds	72,765	85,675	34,950
TOTAL	$109,265	$151,123	$142,728
CONSTRUCTION EXPENDITURES			
Electric plant	$121,693	$167,600	$158,438
Allowance for funds used during construction	(12,428)	(16,477)	(15,710)
CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)	$109,265	$151,123	$142,728

See accompanying Notes to Financial Statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued).

DALLAS POWER & LIGHT COMPANY

BALANCE SHEET

ASSETS

Schedule No.		December 31, 1980	December 31, 1979
		Thousands of Dollars	
V	ELECTRIC PLANT		
	In service:		
	Production	$ 505,722	$ 491,402
	Transmission	144,062	134,445
	Distribution	317,886	296,638
	General	34,870	29,513
	Total	1,002,540	951,998
	Construction work in progress	349,623	347,199
	Nuclear fuel	17,831	16,680
	Held for future use	2,488	2,477
	Total electric plant	1,372,482	1,318,354
VI	Less accumulated depreciation	313,797	277,817
	Electric plant, less accumulated depreciation	1,058,685	1,040,537
	CURRENT ASSETS		
	Cash in banks	2,284	2,329
	Special deposits	4,340	2,515
	Accounts receivable:		
	Customers	26,271	24,609
	Affiliates	350	1,020
	Other	1,011	1,168
VIII	Allowance for uncollectible accounts	(2,020)	(1,700)
	Inventories — at average cost:		
	Materials and supplies	9,738	10,919
	Fuel stock	11,941	9,995
	Other current assets	10,942	5,099
	Total current assets	64,857	55,954
	DEFERRED DEBITS	2,628	4,504
	TOTAL	$1,126,170	$1,100,995

See accompanying Notes to Financial Statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued).

DALLAS POWER & LIGHT COMPANY

BALANCE SHEET

LIABILITIES

Schedule No.		December 31, 1980	December 31, 1979
		Thousands of Dollars	
	CAPITALIZATION		
	Common stock (Note 3)	$ 328,500	$ 299,000
	Retained earnings (Note 4)	104,462	76,690
	Total	432,962	375,690
	Preferred stock (Note 3)	104,722	104,722
	Long-term debt – less amounts due currently (Note 5):		
	First mortgage bonds	305,000	305,000
	Other long-term debt	39,725	40,282
	Unamortized premium	1,092	1,161
	Total	345,817	346,443
	Total capitalization	883,501	826,855
	CURRENT LIABILITIES		
	Notes payable – Texas Utilities Company (parent)	50,600	76,500
	Accounts payable:		
	Affiliates	18,168	11,258
	Other	11,737	22,921
	Dividends declared	1,643	1,643
	Long-term debt due currently	–	28,739
	Customers' deposits	3,040	3,119
	Taxes accrued	35,728	16,865
	Interest accrued	6,874	7,521
	Other current liabilities	5,529	7,641
	Total current liabilities	133,319	176,207
VIII	RESERVES FOR INSURANCE AND CASUALTIES	942	1,833
	ACCUMULATED DEFERRED FEDERAL INCOME TAXES	51,362	42,938
	UNAMORTIZED FEDERAL INVESTMENT TAX CREDITS	57,046	53,162
	COMMITMENTS AND CONTINGENCIES (Note 6)		
	TOTAL	$1,126,170	$1,100,995

See accompanying Notes to Financial Statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued).

DALLAS POWER & LIGHT COMPANY

STATEMENT OF RETAINED EARNINGS

	Year Ended December 31,		
	1980	1979	1978
	Thousands of Dollars		
BALANCE AT BEGINNING OF YEAR	$ 76,690	$ 69,779	$52,572
ADD — Net income	67,383	45,932	42,953
Total	144,073	115,711	95,525
DEDUCT			
Dividends (cash)			
Preferred stock:			
$4 series ($4.00 per share per annum)	280	280	280
$4.24 series ($4.24 per share per annum)	424	424	424
$4.50 series ($4.50 per share per annum)	335	335	335
$4.80 series ($4.80 per share per annum)	480	480	480
$6.84 series ($6.84 per share per annum)	1.368	1,368	1,368
$7.20 series ($7.20 per share per annum)	1,440	1,440	1,440
$7.48 series ($7.48 per share per annum)	2,244	2,244	2,244
Common stock (for amounts per share, see Statement of Income)	33,040	32,450	19,175
Total dividends	39,611	39,021	25,746
BALANCE AT END OF YEAR (Note 4)	$104,462	$ 76,690	$69,779

See accompanying Notes to Financial Statements.

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Electric Plant – Electric plant is stated at original cost. The cost of property additions charged to electric plant includes labor and materials, applicable overhead and payroll-related costs and an allowance for funds used during construction.

Allowance for Funds Used During Construction – Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on other capital used to finance construction are charged to electric plant. The accrual of AFUDC is in accord with established accounting practices of the industry, but does not represent current cash income. The Company has capitalized AFUDC at a net of tax rate of 8% compounded semi-annually of expenditures incurred, except for that portion of construction work in progress allowed in rate base by regulatory authorities. Prior to November 1979, a rate of 7% had been used. These rates were determined on the basis of, but are less than, the cost of capital used to finance the construction program. Effective January 1, 1981, a rate of 8½% was adopted.

Depreciation – Depreciation is based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties. Depreciation as a percent of average depreciable electric plant in service approximated 3.6% for 1980, 1979 and 1978.

Federal Income Taxes – The Company is included in the consolidated federal income tax return of Texas Utilities Company and subsidiary companies, and federal income taxes are allocated to all subsidiary companies based upon taxable income or loss. Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation and the class life depreciation system (ADR). Current federal income taxes have been reduced by amounts of investment tax credits allowable under the Internal Revenue Code; such credits are being amortized to income over the estimated service lives of the properties. (See Note 7.)

Reserve for Insurance and Casualties – The Company, as allowed by regulatory authorities, maintains a reserve for major uninsured losses and claims.

2. Affiliates

The Company is a subsidiary of Texas Utilities which provides common stock capital and short-term financing to the Company. Texas Electric and Texas Power, whose respective systems are interconnected with that of the Company, are also subsidiaries of Texas Utilities. Texas Utilities has three other subsidiaries which perform specialized services, at cost, for the System, including the Company: Service Company furnishes engineering, financial and other services; Fuel Company owns a natural gas pipeline system, acquires, stores and delivers fuel gas and oil and provides other fuel services for the generation of electric energy; and Generating Company operates the jointly-owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for the surface mining and recovery of lignite for use as fuel at such stations.

The Company, jointly with Texas Electric and Texas Power, has entered into agreements with Fuel Company to procure certain fuels and related services and with Generating Company for the production of lignite fuel and the operation of electric generating stations; payments are at cost of the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Generating Company.

For information concerning jointly-owned generating stations, see Item 2, Properties.

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS – (Continued)

3. Common and Preferred Stocks

	December 31, 1980		December 31, 1979		Redemption Price Per Share (before adding accumulated dividends)	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Current	Eventual Minimum
		Thousands of Dollars		Thousands of Dollars		
Common stock – without par value; authorized 20,000,000 shares	15,000,000	$328,500	14,000,000	$299,000		
Preferred stock – cumulative, without par value; entitled upon liquidation to $100 a share; authorized 2,000,000 shares:						
$4 series	70,000	$ 7,049	70,000	$ 7,049	$103.56	$103.56
$4.24 series	100,000	10,081	100,000	10,081	103.50	103.50
$4.50 series	74,430	7,443	74,430	7,443	110.00	110.00
$4.80 series	100,000	10,009	100,000	10,009	102.79	102.79
$6.84 series	200,000	20,023	200,000	20,023	106.47	103.05
$7.20 series	200,000	20,044	200,000	20,044	105.01	103.21
$7.48 series	300,000	30,073	300,000	30,073	106.69	102.95
Total	1,044,430	$104,722	1,044,430	$104,722		

The Company issued and sold, on a pre-emptive basis to common shareholders, shares of its authorized common stock as follows: December 1980, 1,000,000 shares for $29,500,000; and March 1979, 1,000,000 shares for $29,500,000.

In November 1978, the 6,500,000 outstanding shares of common stock of the Company were converted into 13,000,000 shares of common stock, without capitalization of retained earnings or change in the aggregate amount of capital represented by the outstanding shares.

No shares of the Company's common or preferred stocks are held by or for account of the Company, nor are any shares of such capital stocks reserved for officers and employees or for options, warrants, conversions, and other rights in connection therewith.

4. Retained Earnin. .estrictions

The Company's a. icles of incorporation, the mortgage, as supplemented, and the debenture agreements contain prov ions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At December 31, 1980, none of the retained earnings was thus restricted.

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS – (Continued)

5. Long-Term Debt (less amounts due currently)

	December 31, 1980	December 31, 1979
	Thousands of Dollars	
First mortgage bonds:		
3½% series due 1983	$ 9,000	$ 9,000
7¾% series due 1983	25,000	25,000
7¾% series due 1984	25,000	25,000
7¾% series due 1985	25,000	25,000
3⅛% series due 1986	10,000	10,000
4¼% series due 1986	10,000	10,000
4¼% series due 1993	25,000	25,000
4⅞% series due 1996	20,000	20,000
5⅜% series due 1997	16,000	16,000
9⅜% series due 2000	30,000	30,000
7⅜% series due 2001	30,000	30,000
7⅝% series due 2002	30,000	30,000
8⅞% series due 2005	50,000	50,000
Total first mortgage bonds	305,000	305,000
Other long-term debt:		
Sinking fund debentures		
4½%, due 1989	10,897	11,099
6¾%, due 1993	11,966	12,600
Total	22,863	23,699
Pollution control revenue bonds – net		
Sabine River Authority of Texas		
6¼% series due 2006	8,590	8,590
5.70% series due 2007	7,125	7,125
6.60% series due 2008	2,025	2,025
Funds on deposit with trustee	(878)	(1,157)
Total	16,862	16,583
Total other long-term debt	39,725	40,282
Unamortized premium	1,092	1,161
Total long-term debt – less amounts due currently	$345,817	$346,443

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS – (Continued)

5. Long-Term Debt (less amounts due currently) – (Continued)

Sinking fund and maturity requirements for the years 1981 through 1985 under long-term debt instruments in effect at December 31, 1980 are as follows:

Year	Sinking Fund(a)	Maturity (see above)	Minimum Cash Require-ment(a)(b)
		Thousands of Dollars	
1981	$3,050	$ —	$ —
1982	3,147	—	97
1983	3,276	34,000	34,566
1984	3,060	25,000	25,600
1985	2,810	25,000	25,300

(a) Excluding amounts satisfied prior to December 31, 1980: $600,000 for 1981, $503,000 for 1982, and $34,000 for 1983.

(b) Other requirements may be satisfied by certification of property additions at the rate of 100% of such requirements.

The total amounts of Sinking Fund Debentures authorized in the debenture agreements have been issued. The Company's First Mortgage Bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings, and other provisions of the mortgage. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Substantially all of the electric plant is subject to the lien of the mortgage.

6. Commitments and Contingencies

For major new construction work now in progress or contemplated, and commitments with respect thereto, see Item 2, Properties – Construction Program.

The Company, along with Texas Electric and Texas Power, has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee its share of the principal, $46,032,000 at December 31, 1980, and interest on the bonds issued to finance the reservoirs from which the water is supplied.

Reference is made to Item 1, Business – Fuel Supply, Regulation and Rates, and Environmental Matters and Item 3, Legal Proceedings for information relating to legal and administrative proceedings. In the opinion of the Company, such legal and administrative proceedings are not expected to have a material effect upon the financial position or results of operation of the Company.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued).

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS – (Continued)

7. Federal Income Taxes

The details of federal income taxes are as follows:

	Year Ended December 31,		
	1980	1979	1978
	Thousands of Dollars		
Charged to operating expenses:			
Current federal income taxes	$25,313	$(1,344)	$(1,882)
Deferred federal income taxes – net:			
Differences between depreciation methods and lives	6,480	7,433	5,797
Certain capitalized construction costs	1,534	1,491	696
Other	410	(349)	(228)
Total	8,424	8,575	6,265
Investment tax credits – net	4,670	14,087	14,703
Total federal income taxes charged to operating expenses	38,407	21,318	19,086
Charged to other income:			
Gain on disposition of property	85	5,360	8
Other	508	229	1,595
Total federal income taxes charged to other income	593	5,589	1,603
Total federal income taxes	$39,000	$26,907	$20,689

Federal income taxes were less than the amount computed by applying the federal statutory rate to pre-tax book income as follows:

	Year Ended December 31,		
	1980	1979	1978
	Thousands of Dollars		
Federal income taxes at statutory rate (46%; 48% prior to 1979)	$48,936	$33,506	$30,548
Reductions in federal income taxes resulting from:			
Allowance for funds used during construction	5,717	7,580	7,541
Depletion allowance	1,630	1,202	840
Amortization of investment tax credits	1,520	918	719
Other	1,069	(3,101)	759
Total reductions	9,936	6,599	9,859
Total federal income taxes	$39,000	$26,907	$20,689
Effective tax rate	36.7%	36.9%	32.5%

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS – (Concluded)

8. Retirement Plan

The Company has a retirement plan covering substantially all employees. The cost of the plan is determined by an independent actuary and is funded by the Company as accrued. The cost of the plan, including amounts capitalized, approximated $5,656,000 for 1980, $4,822,000 for 1979, and $3,938,000 for 1978. As of the annual valuations at July 1, 1980 and 1979, accumulated benefits and net fund assets were as follows:

	1980	1979
	Thousands of Dollars	
Actuarial present value of accumulated benefits:		
Vested	$47,645	$42,870
Nonvested	5,261	4,711
Total	$52,906	$47,581
Net fund assets	$34,428	$29,560

An assumed rate of return of 5½% was used in determining the value of accumulated benefits.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Dallas Power & Light Company:

We have examined the balance sheet of Dallas Power & Light Company as of December 31, 1980 and 1979 and the related statements of income, retained earnings, and source of funds for construction for each of the three years in the period ended December 31, 1980. 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 financial statements referred to above present fairly the financial position of the Company at December 31, 1980 and 1979 and the results of its operations and the source of its funds for construction for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations also comprehended the supplemental schedules listed in Part IV, Item 11(a) 2, and in our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

/s/ DELOITTE HASKINS & SELLS

Deloitte Haskins & Sells

Dallas, Texas
March 26, 1981

DALLAS POWER & LIGHT COMPANY

SUPPLEMENTARY INFORMATION CONCERNING EFFECTS OF CHANGING PRICES

Unaudited information furnished in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33, Financial Reporting and Changing Prices (FASB 33), follows. The Statement indicates the need for experimentation in providing information about the effects of changing prices. Such information is intended to help readers better understand the impact of inflation on the Company. Because the information is presented on an experimental basis, it should be viewed with caution. Calculation of the information inherently involves the use of assumptions, approximations, and estimates and, therefore, the resulting measurements should be considered in that context and not as precise indications of the effects of inflation. The effects of changing prices are not recognized for income tax or rate-making purposes, therefore the supplementary information should not be interpreted as adjustments to earnings reported in the Financial Statements.

Information concerning the effects of general inflation (constant dollar) was determined by converting historical cost amounts into dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers.

Information concerning changes in specific prices (current cost) represent such changes in electric plant from the date costs were initially incurred to present, and differs from constant dollar information to the extent that the specific prices have increased at a rate different from the general rate of inflation. The current cost of electric plant was computed by indexing the existing historical cost of plant by the Handy-Whitman Index of Public Utility Construction Costs for the South Central Region and other appropriate indices. Such current costs are not necessarily representative of the replacement costs of the Company's productive capacity that might be incurred in a future period.

Depreciation on the constant dollar and current cost basis was determined by applying the Company's straight-line depreciation rates used for financial accounting purposes to the appropriate indexed electric plant amounts, and is the only income statement item that has been restated from the Financial Statements. In compliance with FASB 33, no adjustment has been made to federal income taxes.

Under rate-making rules prescribed by the Public Utility Commission of Texas, only the original cost of electric plant is recoverable through revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars and current cost over the original cost is not recoverable through rates as depreciation and is reflected as Reduction to Net Recoverable Cost of Electric Plant. The Company believes, based on past experiences, that it will be allowed to earn on the net investment in electric plant when replacement of facilities actually occurs.

During periods of inflation, the holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The amount shown as Gain From Decline in Purchasing Power of Net Amounts Owed reflects the net of these two items and is primarily attributable to the substantial amount of long-term debt which has been used to finance electric plant. Since depreciation on this electric plant is limited by regulation to the recovery of historical costs, a holding gain on debt is not allowed and recovery is limited by regulation to the recovery of historical costs, a holding gain on debt is not allowed and recovery is limited to only the embedded cost of debt capital.

To reflect the results of rate regulation, Gain From Decline in Purchasing Power of Net Amounts Owed is offset by the Reduction to Net Recoverable Cost of Electric Plant.

DALLAS POWER & LIGHT COMPANY

SUPPLEMENTARY INFORMATION CONCERNING EFFECTS OF CHANGING PRICES – (Continued)
Year Ended December 31, 1980
Thousands of Dollars

	Historical Cost Reported In Financial Statements	Adjusted for Changing Prices	
		General Inflation (Constant Dollar)	Specific Prices (Current Cost)
		Average 1980 Dollars	
Operating revenues	$523,816	$523,816	$ 523,816
Operating expenses(a)	434,040	472,243	478,002
Operating income	89,776	51,573	45,814
Other income	9,588	9,588	9,588
Total income	99,364	61,161	55,402
Interest charges	31,981	31,981	31,981
Net income	$ 67,383	$ 29,180	$ 23,421
Increase in specific prices of electric plant held during the year(b)			$ 189,313
Reduction to net recoverable cost of electric plant		$(85,813)	(46,678)
Effect of general inflation on electric plant			(222,689)
Effect of general inflation in excess of increase in specific prices of electric plant after reduction to net recoverable cost			(80,054)
Gain from decline in purchasing power of net amounts owed		64,563	64,563
Net change in purchasing power		$(21,250)	$ (15,491)

(a) Includes depreciation amounts of $33,991,000 for historical cost, $72,194,000 for constant dollar and $77,953,000 for current cost.

(b) At December 31, 1980, electric plant, net of accumulated depreciation, was $1,982,298,000 for current cost and $1,058,685,000, for historical cost.

DALLAS POWER & LIGHT COMPANY

SUPPLEMENTARY INFORMATION
CONCERNING EFFECTS OF CHANGING PRICES – (Concluded)

COMPARISON OF SELECTED FINANCIAL DATA
ADJUSTED FOR EFFECTS OF CHANGING PRICES

	Year Ended December 31,				
	1980	1979	1978	1977	1976
	Thousands of Average 1980 Dollars				
Operating revenues	$523,816	$ 479,570	$474,076	$492,546	$419,081
Constant Dollar Information					
Net income	$ 29,180	$ 20,327			
Earnings per share of common stock	$ 1.61	$ .93			
Net assets at year end at net recoverable cost	$513,547	$ 515,727			
Current Cost Information					
Net income	$ 23,421	$ 9,378			
Earnings per share of common stock	$ 1.20	$ .14			
Effect of general inflation in excess of increase in specific prices of electric plant after reduction to net recoverable cost	$(80,054)	$(102,488)			
Net assets at year end at net recoverable cost	$513,547	$ 515,727			
General Information					
Gain from decline in purchasing power of net amounts owed	$ 64,563	$ 79,580			
Dividends declared per share of common stock	$ 2.36	$ 2.68	$ 1.87	$ 1.60	$ 1.71
Consumer price index – average	246.8	217.4	195.4	181.5	170.5

PART III

Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

(a) and (e) Identification of Directors, business experience and Directorships:

Name of Director	Age	Other Positions and Offices Presently Held with the Company	Date First Elected as Director (Term Expires May 13, 1981)	Present Principal Occupation or Employment and Principal Business (preceding 5 yrs.)*, Other Directorships
J. S. Farrington(1)	46	President and Chief Executive	May 21, 1976	President and Chief Executive of the Company; other Directorships: Texas Utilities Company
T. L. Austin, Jr.	62	None	August 15, 1973	Chairman of the Board and Chief Executive of Texas Utilities Company; other Directorships: Texas Utilities Company, Texas Electric Service Company and Texas Power & Light Company
Henry C. Beck, Jr.	63	None	May 15, 1963	Chairman of the Board of Henry C. Beck Company (general contractor); other Directorships: Henry C. Beck Company, The Equitable Life Mortgage and Realty Investors and First International Bancshares
Lloyd S. Bowles	65	None	May 19, 1967	Chairman of the Board, President and Chief Executive Officer of Dallas Federal Savings & Loan Association; other Directorships: Dallas Federal Savings & Loan Association, MGIC Investment Corporation, Republic Financial Services, Inc. and Republic of Texas Corporation
George L. C. rk(2)	42	None	May 14, 1980	Chairman of the Board and Chief Executive Officer of Mercantile National Bank at Dallas; other Directorships: Mercantile National Bank at Dallas
Robert B. Cullum	63	None	May 15, 1957	Chairman of the Executive Committee of Cullum Companies, Inc. (food and drugs); other Directorships: Cullum Companies, Inc., Justin Industries, Inc., Republic of Texas Corporation and Dr. Pepper Company
J. D. Francis	77	None	May 13, 1964	President of The Equitable Company of Texas (investments); other Directorships: The Equitable Company of Texas, Bonanza International, Lomas & Nettleton Mortgage Investors, Mercantile National Bank at Dallas (Advisory), Rangaire, Republic Financial Services, Inc. and Republic National Life Insurance
Richard M. Hart(3)	51	None	May 14, 1980	Vice Chairman of the Board and Chief Administrative Officer of First National Bank in Dallas; other Directorships: First National Bank in Dallas
James W. Keay	59	None	May 15, 1968	Vice Chairman of the Board of Republic of Texas Corporation; other Directorships: Republic of Texas Corporation, Austin Industries, Inc., General American Oil Company of Texas, General Automotive Parts Corporation, Republic National Bank of Dallas and United Fidelity Life Insurance Company

Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (Continued).

Name of Director	Age	Other Positions and Offices Presently Held with the Company	Date First Elected as Director (Term Expires May 13, 1981)	Present Principal Occupation or Employment and Principal Business (preceding 5 yrs.)*, Other Directorships
Robert McDonald	63	None	May 14, 1975	President of Anderson Clayton Foods; other Directorships: Anderson, Clayton & Co. and Melville Corporation
John M. Stemmons	71	None	May 16, 1972	Chairman of Industrial Properties Corporation (land development); other Directorships: Industrial Properties Corporation, Republic of Texas Corporation and Southland Financial Corporation

* All in Dallas, Texas.

(1) Prior to his present position, served as Vice President of Texas Utilities Company.

(2) Prior to his present position, has served in other management positions with Mercantile National Bank at Dallas.

(3) Prior to his present position, has served in other management positions with First National Bank in Dallas.

There were no arrangements or understandings between any director and any other person pursuant to which he was selected as director, other than with directors or officers of the Company acting solely in their capacities as such.

(b) and (e) Identification of executive officers and business experience:

Name of Officer	Age	Positions and Offices Presently Held	Date Elected to Present Office(s) (Current term expires May 13, 1981)	Business Experience (Preceding Five Years)
J. S. Farrington	46	President and Chief Executive and a Director	May 21, 1976	Prior to May 21, 1976, served in other management positions with Texas Utilities Company.
W. W. Aston	53	Vice President	May 19, 1971	Same.
T. L. Baker	35	Vice President	November 19, 1980	Prior to November 19, 1980, served in other management positions with the Company.
D. J. Hampton	35	Vice President	February 18, 1981	Prior to February 18, 1981, served in other management positions with Texas Utilities Company and Texas Utilities Services Inc.
G. W. Sellar	47	Vice President	February 13, 1980	Prior to February 13, 1980, served in other management positions with the Company.
M. H. Tanner, Jr.	52	Vice President	November 17, 1976	Prior to November 17, 1976, served in other management positions with the Company.
C. E. Watson	65	Assistant to the President	—	Prior to May 14, 1980, served as Vice President and a Director of the Company.
J. D. Karney	47	Treasurer and Assistant Secretary	May 18, 1977	Prior to May 18, 1977, served in other management positions with the Company.
J. W. Teague	53	Secretary	May 14, 1975	Same.
J. T. Lewis	32	Assistant Treasurer	February 14, 1979	Prior to February 14, 1979, served in other management positions with the Company; prior to October 21, 1978, served in other positions with Texas Utilities Services Inc.
J. H. Loughan	49	Assistant Treasurer	November 15, 1978	Prior to November 15, 1978, served in other management positions with the Company.
W. E. Patterson	43	Assistant Treasurer	May 14, 1980	Prior to May 14, 1980, served in other management positions with the Company.

Item 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (Concluded).

There were no arrangements or understandings between any executive officer and any other person pursuant to which he was selected as officer, other than with directors or officers of the Company acting solely in their capacities as such.

(c) Identification of certain significant employees:

None.

(d) Family relationship:

None.

(f) Involvement in certain legal proceedings:

None.

Item 10. MANAGEMENT REMUNERATION AND TRANSACTIONS.

(a) Current remuneration:

Name of Individual or Number of Persons in Group	Capacities in Which Served	Salaries, Fees, Directors' Fees, Commissions and Bonuses	Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits*
J. S. Farrington	President and Chief Executive and a Director		
W. W. Aston	Vice President		
G. W. Sellar	Vice President		
M. H. Tanner, Jr.	Vice President		
C. E. Watson	Assistant to the President		
All Directors and Officers as a group (22, including those named above)	Directors and Officers	$722,560	$39,715

* Represents vested employer contributions under the Employee Stock Ownership Plan (established pursuant to the Tax Reduction Act of 1975, as amended) and the Employees' Thrift Plan of the Texas Utilities Company System which are generally available to all employees including officers (but not directors who are not also salaried officers).

The Company has a defined benefit retirement plan and amounts contributed by the Company during 1980 cannot be determined by individual account by the actuary for the plan. For 1980, the percentage of aggregate contributions to the plan to the total regular salaries or wages of the plan participants was approximately 13.1%.

(b) Proposed remuneration:

Retirement Plan. The Company has a non-contributory defined benefit retirement plan covering substantially all employees including officers but not directors who are not also salaried officers. The Company funds the plan with amounts determined annually by the plan's actuary, however, the amounts contributed are not determined by individual account. Eligible employee receive monthly pension benefits upon retirement with the annual normal retirement benefit equal to 1.3% of the first $7,800 plus 1.5% of the excess over $7,800 of average annual regular earnings received by the participants during their three years of highest earnings, multiplied by the number of years of accredited service. Earnings are defined as total annual remuneration paid to an employee for services rendered exclusive of overtime earnings or any special or extra compensation. Retirement benefits under the plan are not subject to reduction for Social Security benefits, or other offset amounts.

The estimated annual benefits payable upon retirement at age 65 to persons in specific average salary and accredited years-of-service classifications are as follows:

Three Year Average Annual Salary	Annual Retirement Benefits		
	20 Years Accredited Service	30 Years Accredited Service	40 Years Accredited Service
$ 70,000	$20,688	$31,032	$ 41,376
100,000	29,688	44,532	59,376
130,000	38,688	58,032	77,376
160,000	47,688	71,532	95,376
190,000	56,688	85,032	113,376

The accredited years-of-service for the officers of the Company named in the remuneration table above are as follows: Mr. Farrington, 21 years; Mr. Aston, 28 years; Mr. Sellar, 12 years; Mr. Tanner, 27 years; and Mr. Watson, 40 years.

Thrift Plan. Under the Employees' Thrift Plan of the Texas Utilities Company System, employees of the Company may save, by payroll deductions, up to 6% of their regular salary or wages. Employer-corporation makes a contribution to each participant's account of 40%, 50% or 60% of the employee's savings depending upon his length of service. Employer's contributions are invested in common stock of Texas Utilities.

Employee Stock Ownership Plan. Under the Employee Stock Ownership Plan of the Texas Utiltic. Company System, the Company contributes each year to a trustee amounts up to the additional 1% and ½% investment tax credit allowed under the Internal Revenue Code. Such contributions are invested in common stock of Texas Utilities for the account of participating employees of the Company in proportion to their compensation. The amounts contributed based upon the ½% credit are conditioned upon a matching contribution by the participant. Shares allocated to a participant's account may not be withdrawn except under certain limited conditions or upon termination of service with the Company.

Item 10. MANAGEMENT REMUNERATION AND TRANSACTIONS (Concluded).

(c) Remuneration of directors:

The Company's standard arrangement for compensating directors, other than directors who are also salaried officers, for services is as follows:

Annual Retainer	$1,600
Each Regular or Special Meeting Attended	300
Each Committee Meeting Attended	100
Reimbursement for Transportation Costs and other Expenses incurred in Attending Meetings is permitted	

(d) Options, warrants, or rights:

None.

(e) Indebtedness of management:

None.

(f) Transactions with management:

None.

(g) Transactions with pension or similar plans:

None.

(h) Termination of employment:

None.

PART IV

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

The following financial statement 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 or notes thereto:

I, II, III, IV, VII, IX, XI, XII and XIII.

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Continued).

3. Exhibits:

3(a) – Restated Articles of Incorporation

3(b) – Bylaws

4(a)* – Mortgage and Deed of Trust, dated as of February 1, 1937, between the Company and Old Colony Trust Company, as Trustee (The First National Bank of Boston, successor Trustee), filed as Exhibit B-2, File No. 2-2801.

4(b)* – Supplemental Indentures to Mortgage and Deed of Trust.

Number	Dated	File Reference	Exhibit
First	April 1, 1949	2-7855	7(a)
Second	June 1, 1950	2-8466	7(a)-2
Third	March 1, 1953	2-10071	4(b)-3
Fourth	February 1, 1956	2-12200	2(b)-1
Seventh	February 1, 1963	2-20997	2(b)-7
Ninth	February 1, 1967	2-25805	2(b)-9
Tenth	June 1, 1970	2-37161	2(c)
Eleventh	November 1, 1971	2-42043	2(c)
Twelfth	September 1, 1972	2-45403	2(c)
Thirteenth	March 1, 1975	2-52708	2(c)

4(c) – Supplemental Indentures to Mortgage and Deed of Trust.

Number	Dated
Fifth	December 1, 1956
Sixth	December 1, 1959
Eighth	January 1, 1966
Fourteenth	May 1, 1977

4(d)* – Debenture Agreements between the Company and Morgan Guaranty Trust Company of New York, as Trustee:

Dated	File Reference	Exhibit
February 1, 1964	2-22020	2(b)-10
February 1, 1968	2-28016	2(b)-13

4(e) – Agreement to furnish certain debt instruments.

12(a) – Computation of Ratio of Earnings to Fixed Charges

12(b) – Computation of Supplemental Ratio of Earnings to Fixed Charges

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* Incorporated herein by reference

(b) Reports on Form 8-K:

The Registrant filed a Form 8-K during the quarter ended December 31, 1980 as follows:

October 7, 1980 Item 5. OTHER MATERIALLY IMPORTANT EVENTS.

The Registrant made applications on September 26, 1980, to the Public Utility Commission of Texas and to the cities of Dallas, Highland Park, University Park, and Cockrell Hill for upward adjustments in electric service rates. The proposed rate adjustments, affecting all classes of service, were estimated to increase operating revenues of the Registrant for the test year ended June 30, 1980, by approximately \$81.7 million, or an average of 16.4%. (See Part I, Item 1, Business – Regulation and Rates).

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Continued).

DALLAS POWER & LIGHT COMPANY

SCHEDULE V — ELECTRIC PLANT
For the Years Ended December 31, 1980, 1979 and 1978

	Column A	Column B	Column C	Column D	Column E	Column F
Year	Classification	Balance at beginning of year	Additions at cost	Retirements	Other changes — add (deduct)	Balance at end of year
			Thousands of Dollars			
1980	Electric plant in service:					
	Production	$ 491,402	$ 18,385	$4,065	$ —	$ 505,722
	Transmission	134,445	10,316	699	—	144,062
	Distribution	296,638	24,056	2,808	—	317,886
	General	29,513	5,909	552	—	34,870
	Total electric plant in service	951,998	58,666	8,124	—	1,002,540
	Construction work in progress	347,199	73,126	—	(70,702)†	349,623
	Nuclear fuel	16,680	4,776	—	(3,625)†	17,831
	Electric plant held for future use	2,477	11	—	—	2,488
	Total electric plant	$1,318,354	$136,579	$8,124	$(74,327)	$1,372,482
1979	Electric plant in service:					
	Production	$ 426,626	$ 65,279	$ 503	$ —	$ 491,402
	Transmission	120,292	14,766	613	—	134,445
	Distribution	276,164	22,488	2,014	—	296,638
	General	27,686	2,208	381	—	29,513
	Total electric plant in service	850,768	104,741	3,511	—	951,998
	Construction work in progress	374,047	67,073	—	(93,921)*	347,199
	Nuclear fuel	17,382	5,248	—	(5,950)*	16,680
	Electric plant held for future use	2,245	232	—	—	2,477
	Total electric plant	$1,244,442	$177,294	$3,511	$(99,871)	$1,318,354
1978	Electric plant in service:					
	Production	$ 391,831	$ 35,049	$ 254	$ —	$ 426,626
	Transmission	118,261	2,858	827	—	120,292
	Distribution	265,580	12,128	1,544	—	276,164
	General	25,786	2,228	328	—	27,686
	Total electric plant in service	801,458	52,263	2,953	—	850,768
	Construction work in progress	267,858	106,189	—	—	374,047
	Nuclear fuel	7,467	9,915	—	—	17,382
	Electric plant held for future use	1,374	871	—	—	2,245
	Total electric plant	$1,078,157	$169,238	$2,953	$ —	$1,244,442

† Amounts received from the transfer of a portion of the Comanche Peak nuclear station and Martin Lake Unit 4 to Texas Electric Service Company and Texas Power & Light Company.

* Amounts received from the sale of a portion of the Comanche Peak nuclear station.

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Continued).

DALLAS POWER & LIGHT COMPANY

SCHEDULE VI – ACCUMULATED DEPRECIATION
For the Years Ended December 31, 1980, 1979 and 1978

Column A		Column B	Column C	Column D	Column E	Column F
Year	Description	Balance at beginning of year	Additions charged to costs and expenses	Retirements	Other changes — add (deduct)*	Balance at end of year
				Thousands of Dollars		
1980	Accumulated depreciation	$277,817	$33,758	$(1,989)	$233	$313,797
1979	Accumulated depreciation	$245,683	$31,218	$ (882)	$ 34	$277,817
1978	Accumulated depreciation	$218,848	$28,843	$ 2,032	$ 24	$245,683

*Amounts recorded represent depletion of lignite.

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Continued).

DALLAS POWER & LIGHT COMPANY

SCHEDULE VIII – VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 1980, 1979 and 1978

	Column A	Column B	Column C		Column D	Column E
			Additions			
Year	Description	Balance at beginning of year	Charged to costs and expenses	Charged to other accounts — describe	Deductions — describe	Balance at end of year
			Thousands of Dollars			
1980	Valuation account, deducted from related asset on balance sheet – Allowance for uncollectible accounts	$1,700	$2,894	–	$2,574*	$2,020
	Balance sheet reserves –					
	Insurance	$1,254	$2,000	–	$2,891†	$ 363
	Accident	579	–	–	–	579
	Total	$1,833	$2,000	–	$2,891	$ 942
1979	Valuation account, deducted from related asset on balance sheet – Allowance for uncollectible accounts	$1,257	$2,370	–	$1,927*	$1,700
	Balance sheet reserves –					
	Insurance	$2,013	$2,408	–	$3,167†	$1,254
	Accident	579	–	–	–	579
	Total	$2,592	$2,408	–	$3,167	$1,833
1978	Valuation account, deducted from related asset on balance sheet – Allowance for uncollectible accounts	$1,000	$1,616	–	$1,359*	$1,257
	Balance sheet reserves –					
	Insurance	$1,421	$ 233	–	$ (359)†	$2,013
	Accident	579	–	–	–	579
	Total	$2,000	$ 233	–	$ (359)	$2,592

*Deductions from the allowance represent uncollectible accounts written off less recoveries of amounts previously written off.

†Partial recovery in 1978 of a major uninsured loss deducted from the reserve in 1977. The deductions in 1979 and 1980 represent major uninsured losses.

Item 11. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Concluded).

DALLAS POWER & LIGHT COMPANY

SCHEDULE X – SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 1980, 1979, and 1978

Column A	Column B		
	Charged to Expenses and Other Accounts		
	1980	1979	1978
	Thousands of Dollars		
Taxes other than income:			
Ad valorem	$14,363	$15,602	$15,136
Local gross receipts	19,700	15,915	14,135
State gross receipts	9,944	7,824	7,243
State franchise	2,208	2,029	1,852
Social security and unemployment	3,094	2,758	2,180
Miscellaneous	53	47	64
Total	$49,362	$44,175	$40,610
Charged to:			
Operating expenses	$48,243	$43,267	$39,481
Electric plant and sundry accounts	$ 1,119	$ 908	$ 1,129

Maintenance and repairs, depreciation, depletion, amortization, rents and lease commitments, royalties, research and development, and advertising, other than amounts set out separately in the Statement of Income, are not significant.

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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.

DALLAS POWER & LIGHT COMPANY

By J. S. FARRINGTON

J. S. Farrington (President)

Date: March 27, 1981

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
J. S. FARRINGTON J. S. Farrington (President)	Principal Executive Officer and Director	March 27, 1981
D. J. HAMPTON D. J. Hampton (Vice President)	Principal Financial Officer	
J. D. KARNEY J. D. Karney (Treasurer & Assistant Secretary)	Principal Accounting Officer	
T. L. AUSTIN, JR. T. L. Austin, Jr.	Director	
HENRY C. BECK, JR. Henry C. Beck, Jr.	Director	
LLOYD S. BOWLES Lloyd S. Bowles	Director	
GEORGE L. CLARK George L. Clark	Director	
ROBERT B. CULLUM Robert B. Cullum	Director	
J. D. FRANCIS J. D. Francis	Director	
RICHARD M. HART Richard M. Hart	Director	
JAMES W. KEAY James W. Keay	Director	
ROBERT MCDONALD Robert McDonald	Director	
JOHN M. STEMMONS John M. Stemmons	Director	

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED SEPTEMBER 30, 1980

TEXAS UTILITIES COMPANY

I.R.S. Employer	A Texas	Commission File
No. 75-0705930	Corporation	No. 1-3591

2001 BRYAN TOWER, DALLAS, TEXAS 75201

(214) 653-4600

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_____.

Common stock outstanding at September 30, 1980: 95,260,964 shares (without par value)

PART I. FINANCIAL INFORMATION

THE FINANCIAL STATEMENTS HEREIN HAVE BEEN REVIEWED BY DELOITTE HASKINS & SELLS, INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, WHOSE LETTER WITH RESPECT THERETO IS FILED HEREWITH AS AN EXHIBIT TO PART I OF THIS REPORT. NO ADJUSTMENTS OR ADDITIONAL DISCLOSURES WERE PROPOSED BY DELOITTE HASKINS & SELLS. THE FOLLOWING FINANCIAL STATEMENTS SHOULD BE CONSIDERED IN CONJUNCTION WITH THE NOTES THERETO AND THE INFORMATION UNDER MANAGEMENT'S ANALYSIS OF STATEMENT OF CONSOLIDATED INCOME. IN THE OPINION OF THE COMPANY, ALL ADJUSTMENTS (CONSTITUTING ONLY NORMAL RECURRING ACCRUALS) NECESSARY TO A FAIR STATEMENT OF THE RESULTS OF OPERATIONS HAVE BEEN INCLUDED THEREIN.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	1979	1980	1979	1980	1979	1980
			Thousands of Dollars			
OPERATING REVENUES—Electric	$545,273	$763,826	$1,342,850	$1,670,270	$1,701,220	$2,083,709
OPERATING EXPENSES (Note 1)						
Operation	61,169	73,835	170,328	206,980	222,550	271,211
Fuel	180,620	275,033	467,681	588,276	580,852	720,659
Maintenance	30,959	32,736	88,186	109,196	114,042	151,048
Depreciation provisions	38,180	40,929	111,704	120,840	147,400	159,429
Federal income taxes	23,045	72,817	776	52,564	5,261	38,166
Deferred federal income taxes—net	18,092	18,001	45,758	55,747	54,956	69,825
Federal investment tax credits—net	25,211	21,879	69,264	56,548	81,416	75,354
State, local and miscellaneous taxes	33,207	38,326	94,068	105,164	122,970	138,251
Total operating expenses	410,483	573,556	1,047,765	1,295,315	1,329,447	1,623,943
OPERATING INCOME	134,790	190,270	295,085	374,955	371,773	459,766
OTHER INCOME						
Allowance for equity funds used during construction (Note 1)	9,245	14,377	27,284	41,205	34,474	57,253
Other income and deductions—net	4,795	4,614	14,864	16,543	16,992	26,991
Federal income taxes on other income	(1,835)	(1,800)	(6,294)	(6,459)	(7,113)	(13,981)
Total other income	12,205	17,191	35,854	51,289	44,353	70,263
TOTAL INCOME	146,995	207,461	330,939	426,244	416,126	530,029
INTEREST CHARGES						
Interest on mortgage bonds	33,120	36,966	97,260	106,854	126,403	139,975
Interest on other long-term debt	9,611	15,557	28,809	47,180	37,868	58,308
Other interest	8,254	5,731	19,247	25,520	23,870	36,426
Allowance for borrowed funds used during construction (Note 1)	(5,465)	(5,364)	(16,044)	(15,544)	(22,661)	(15,805)
Total interest charges	45,520	52,890	129,272	164,010	165,480	218,904
PREFERRED STOCK DIVIDENDS OF SUBSIDIARIES	10,099	11,855	29,530	32,015	38,744	41,893
CONSOLIDATED NET INCOME	$ 91,376	$142,716	$ 172,137	$ 230,219	$ 211,902	$ 269,232
Average shares of common stock outstanding (thousands)	86,721	95,119	85,789	92,952	84,494	91,692
Earnings and dividends per share of common stock:						
Earnings (on average shares outstanding)	$1.05	$1.50	$2.01	$2.48	$2.51	$2.94
Dividends declared	$0.41	$0.44	$1.23	$1.32	$1.61	$1.73

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

MANAGEMENT'S ANALYSIS OF STATEMENT OF CONSOLIDATED INCOME

OPERATING REVENUES - Increases in operating revenues resulted primarily from (i) general rate increases which were placed into effect on various dates in 1979 and 1980 by the electric utility subsidiaries, (ii) increased energy sales attributable primarily to unusually hot weather during the recent summer months as compared to the milder than normal weather during the summer months in 1979, and (iii) the recovery of the higher costs of fuel consumed in generating the increased output of electric energy. Factors limiting the growth in energy sales and resulting revenues for the nine and twelve month periods were (i) milder weather in the heating season as compared to that experienced in the corresponding periods ended in 1979, and (ii) energy conservation efforts on the part of some customers.

OPERATION AND MAINTENANCE - Increases in operation and maintenance expenses resulted from continuing inflationary pressures on the costs of labor, materials and services, and from an additional lignite-fueled generating unit placed in service during 1979. Maintenance expenses were affected by the higher costs of maintaining lignite-fueled generating units, including the additional costs of maintaining the pollution control equipment required in connection therewith.

FUEL - Increases in fuel expense resulted from increased levels of generation and higher unit costs of fuel consumed, offset in part by a greater use of lower cost lignite for electric generation.

FEDERAL INCOME TAXES - Increases in federal income taxes resulted primarily from the corresponding increases in taxable income and decreases in federal investment tax credits.

DEFERRED FEDERAL INCOME TAXES - Increases in deferred federal income taxes for the nine and twelve month periods are primarily attributable to the continued effect of the adoption for federal income tax purposes of liberalized depreciation and the class life depreciation system (ADR) for depreciable property.

FEDERAL INVESTMENT TAX CREDITS - Decreases in federal investment tax credits reflect the effects of the completion in 1979 of the phase-in of Qualified Progress Expenditures pursuant to the Tax Reduction Act of 1975.

STATE, LOCAL AND MISCELLANEOUS TAXES - Increases in state, local and miscellaneous taxes resulted primarily from increases in revenue and property based taxes, principally gross receipts and ad valorem taxes.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION - Increases in allowance for funds used during construction are attributable to an increase in the AFUDC rate effective November 1979, accompanied by the commencement of semi-annual compounding, and to increases in the amount of construction work in progress of the electric utility subsidiaries not allowed in rate base by regulatory authorities (see Note 1 to Financial Statements).

OTHER INCOME AND DEDUCTIONS—NET - Increases in other income and deductions—net for the nine and twelve month periods are primarily attributable to increased income from a large industrial customer of one electric utility subsidiary for construction of generating facilities and interest income on federal income tax refunds arising from the carryback to prior years of federal investment tax credits.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

MANAGEMENT'S ANALYSIS OF STATEMENT OF CONSOLIDATED INCOME

(Concluded)

INTEREST CHARGES - Increases in interest charges are attributable primarily to the additional debt securities issued and sold in connection with the financing of the construction programs of the System companies. Also reflected for the nine and twelve month periods is the greater use of short-term debt for interim requirements at generally higher interest rates.

CONSOLIDATED NET INCOME AND EARNINGS PER SHARE - Increases in consolidated net income and earnings per share of common stock reflect primarily the salutary effects of the general rate increases effective in 1979 and 1980 and the unusually hot weather during the recent summer months, offset in part by the dilutive effects of sales by the Company of additional shares of common stock (see Note 3 to Financial Statements).

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED SOURCE OF FUNDS FOR CONSTRUCTION

(Unaudited)

	Nine Months Ended September 30, 1979	Nine Months Ended September 30, 1980	Twelve Months Ended September 30, 1979	Twelve Months Ended September 30, 1980
	Thousands of Dollars			
FUNDS FROM OPERATIONS				
Consolidated net income	$172,137	$230,219	$211,902	$269,232
Less—Dividends declared by Texas Utilities Company on common stock	106,198	122,264	136,843	158,328
Balance	65,939	107,955	75,059	110,904
Depreciation provisions	111,704	120,840	147,400	159,429
Deferred federal income taxes—net	48,702	59,002	58,952	73,351
Federal investment tax credits—net	69,264	56,548	81,416	75,357
Allowance for funds used during construction	(43,328)	(56,749)	(57,135)	(73,058)
Total funds from operations	252,281	287,596	305,692	345,983
FUNDS FROM FINANCING				
First mortgage bonds	175,000	125,000	175,000	125,000
Other long-term debt	10,254	55,297	12,528	244,582
Preferred stocks	29,591	64,285	29,591	64,285
Common stock of Texas Utilities Company	115,276	113,038	128,630	135,048
Notes payable—commercial paper	84,545	(26,775)	191,605	(156,975)
Long-term debt retired	(22,564)	(36,737)	(38,636)	(41,430)
Total funds from financing	392,102	294,108	498,718	370,510
ADD (DEDUCT)				
Non-utility property	(3,918)	(7,210)	10,968	(8,065)
Nuclear fuel	(18,300)	(6,925)	(31,280)	(817)
Utility plant—sale	-	-	-	99,871
Other—net	(7,687)	(21,033)	32,611	(70,579)
Total	(29,905)	(35,168)	12,299	20,410
Total	614,478	546,536	816,709	736,903
CASH IN BANKS AND TEMPORARY CASH INVESTMENTS—net change	(19,834)	(15,943)	(18,918)	12,324
CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)	$594,644	$530,593	$797,791	$749,227

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Unaudited)

ASSETS

	September 30, 1979	September 30, 1980
	Thousands of Dollars	
UTILITY PLANT—at original cost (Note 1)		
Electric plant in service:		
Production	$2,708,214	$2,823,715
Transmission	736,736	781,029
Distribution	1,275,914	1,385,492
General	115,065	132,578
Total	4,835,929	5,122,814
Construction work in progress	1,584,214	1,999,002
Nuclear fuel	70,445	71,262
Held for future use	16,100	16,880
Total utility plant	6,506,688	7,209,958
Less accumulated provisions for depreciation	1,173,514	1,338,456
Utility plant, less accumulated provisions for depreciation	5,333,174	5,871,502
INVESTMENTS—at cost		
Non-utility property	51,067	59,132
Other investments (Note 1)	15,994	15,737
Total investments	67,061	74,869
CURRENT ASSETS		
Cash in banks (Note 2)	30,982	33,486
Special deposits	22,763	16,979
Temporary cash investments—at cost	20,428	5,600
Accounts receivable:		
Customers	133,134	168,993
Other	15,454	25,598
Allowance for uncollectible accounts	(4,650)	(6,261)
Inventories—at average cost:		
Materials and supplies	44,461	61,149
Fuel stock	69,177	114,982
Other current assets	23,777	37,504
Total current assets	355,526	458,030
DEFERRED DEBITS		
Unamortized debt expense	6,995	9,465
Other	30,382	4,982
Total deferred debits	37,377	14,447
Total	$5,793,138	$6,418,848

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Unaudited)

LIABILITIES

	September 30, 1979	September 30, 1980
	Thousands of Dollars	
CAPITALIZATION		
Common stock (Note 3)		
Texas Utilities Company, without par value:		
Authorized shares—150,000,000		
Outstanding shares—1979, 86,768,295; 1980, 95,260,964 ...	$1,049,500	$1,184,548
Retained earnings (Note 4) ...	756,013	866,916
Minority interest in subsidiary ...	1,285	48
Total ...	1,806,798	2,051,512
Preferred stocks (Note 5) ...	535,824	600,109
Long-term debt—less amounts due currently (Note 6):		
First mortgage bonds ...	1,716,000	1,829,500
Other long-term debt ...	473,074	703,634
Unamortized premium and discount ...	(3,750)	(5,389)
Total ...	2,185,324	2,527,745
Total capitalization ...	4,527,946	5,179,366
CURRENT LIABILITIES		
Notes payable—commercial paper (Note 2) ...	305,900	148,925
Long-term debt due currently ...	33,288	17,380
Total (to be refinanced) ...	339,188	166,305
Accounts payable ...	173,612	157,136
Dividends declared ...	45,446	53,550
Customers' deposits ...	12,123	14,687
Taxes accrued ...	57,337	123,081
Interest accrued ...	40,479	52,434
Other current liabilities ...	88,731	27,235
Total current liabilities ...	756,916	594,428
RESERVE FOR INSURANCE AND CASUALTIES (Note 1) ...	4,442	5,365
ACCUMULATED DEFERRED FEDERAL INCOME TAXES (Note 1) ...	218,148	290,804
UNAMORTIZED FEDERAL INVESTMENT TAX CREDITS (Note 1) ...	285,686	348,885
COMMITMENTS AND CONTINGENCIES (Note 7)		
Total ...	$5,793,138	$6,418,848

See accompanying Notes to Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The consolidated financial statements include Texas Utilities Company and all of its subsidiaries:

Dallas Power & Light Company
Texas Electric Service Company
Old Ocean Fuel Company
Texas Power & Light Company
Texas Utilities Services Inc.
Texas Utilities Generating Company
Texas Utilities Fuel Company
Chaco Energy Company
Basic Resources Inc.

All significant intercompany items and transactions have been eliminated in consolidation.

Utility Plant - The cost of property additions, including replacements of units of property and betterments, is charged to utility plant. An allowance for funds used during construction has been charged to utility plant at the rate of 7% of expenditures incurred, except for that portion of construction work in progress allowed in rate base by regulatory authorities. Effective November 1, 1979, such rate was increased to a net of tax rate of 8%, compounded semi-annually. Maintenance and repairs of property, and replacements of items determined to be less than units of property, are charged to operating expenses. Accumulated provisions for depreciation is charged with the cost of units of property retired, plus removal costs, less salvage.

Other Investments - The difference between the amount at which the investment in a subsidiary is carried by the Company and the underlying book equity of such subsidiary at the respective dates of acquisition is included in other investments: $14,269,000 at September 30, 1979, and $14,411,000 at September 30, 1980.

Depreciation - Depreciation provisions are based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties.

Federal Income Taxes - Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation for property placed in service after 1969 and also the class life depreciation system (ADR) for property placed in service after 1971. Federal income tax provisions have been reduced by the amounts of investment tax credits allowable under the Internal Revenue Code, including amounts for an Employee Stock Ownership Plan established pursuant to the Tax Reduction Act of 1975, as amended; a ratable portion, except for amounts applicable to the Employee Stock Ownership Plan, is being amortized to income over the estimated service lives of the properties.

Retirement Plans - The companies have uniform retirement plans covering substantially all employees. The costs of the plans are determined by independent actuaries and are funded by the companies as accrued.

Reserve for Insurance and Casualties - The companies make provision for major uninsured losses and claims and charge the amounts thereof to the reserves when incurred.

2. BANK BALANCES AND SHORT-TERM BORROWINGS

At September 30, 1980, the Company had lines of credit with commercial banks aggregating $300,000,000. Such lines may be used for either back-up lines for commercial paper or for bank loans at the prime commercial lending rate as it exists from time to time.

No commitments with respect to the maintenance of compensating balances have been made by the Company to any banks from which it has lines of credit; such arrangements are dependent upon the regular operating balances maintained in accounts with said banks by the Company and its subsidiaries.

3. COMMON STOCK

The Company issued and sold shares of its authorized but unissued common stock during the years 1978 and 1979 and the nine months ended September 30, 1980, as follows:

	Public Offering		Automatic Dividend Reinvestment and Common Stock Purchase Plan		Employees' Thrift Plan and Employee Stock Ownership Plan		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
1978	5,000,000	$97,250,000	95,817	$ 1,856,000	570,072	$11,569,000	5,665,889	$110,675,000
1979	5,000,000	94,750,000	1,091,137	19,689,000	1,228,072	22,846,000	7,319,209	137,285,000
1980	5,000,000	74,250,000	1,318,314	21,765,000	957,552	17,023,000	7,275,866	113,038,000

At September 30, 1980, 3,998,610 shares of the authorized but unissued common stock of the Company were reserved for issuance and sale pursuant to the above plans.

4. RETAINED EARNINGS

The articles of incorporation, the mortgages, as supplemented, and the debenture agreements of the subsidiaries contain provisions which, under certain conditions, restrict distributions on or acquisitions of their common stocks. At September 30, 1979, and September 30, 1980, $47,716,000 and $ 57,670,000, respectively, of retained earnings of two subsidiaries was thus restricted as a result of the provisions of such articles of incorporation. Retained earnings at such dates also included $281,243,000 and $331,243,000, respectively, representing the Company's equity in undistributed earnings since acquisition included in transfers by subsidiaries from their retained earnings to stated value of common stock, making a total of retained earnings which was restricted of $328,959,000 at September 30, 1979, and $388,913,000 at September 30, 1980.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS - (Continued)

(Unaudited)

5. PREFERRED STOCKS OF SUBSIDIARIES (cumulative, without par value, entitled upon liquidation to $100 a share)

	Shares Outstanding	Amount September 30, 1979 (Thousands of Dollars)	Amount September 30, 1980 (Thousands of Dollars)	Redemption Price Per Share (before adding accumulated dividends) Current	Redemption Price Per Share (before adding accumulated dividends) Eventual Minimum
Dallas Power & Light Company					
$4.00 series	70,000	$ 7,049	$ 7,049	$103.56	$103.56
4.24 series	100,000	10,081	10,081	103.50	103.50
4.50 series	74,430	7,443	7,443	110.00	110.00
4.80 series	100,000	10,009	10,009	102.79	102.79
6.84 series	200,000	20,022	20,022	106.47	103.05
7.20 series	200,000	20,044	20,044	105.01	103.21
7.48 series	300,000	30,073	30,073	106.69	102.95
Texas Electric Service Company					
$4.00 series	110,000	11,000	11,000	102.00	102.00
4.56 series	65,000	6,563	6,563	112.00	112.00
4.64 series	100,000	10,016	10,016	103.25	103.25
5.08 series	80,000	8,004	8,004	103.60	103.60
7.44 series	300,000	30,006	30,006	106.12	102.40
8.32 series	300,000	29,655	29,655	108.32*	101.00
8.44 series	300,000	30,046	30,046	107.40	103.18
8.92 series	200,000	20,076	20,076	105.83	103.60
9.36 series	300,000	29,625	29,625	107.02	102.34
10.12 series	350,000	—	34,615	110.12*	100.00
Texas Power & Light Company					
$4.00 series	70,000	7,000	7,000	102.00	102.00
4.44 series	150,000	15,061	15,061	102.61	102.61
4.56 series	133,786	13,379	13,379	112.00	112.00
4.76 series	100,000	10,000	10,000	102.00	102.00
4.84 series	70,000	7,000	7,000	101.79	101.79
7.24 series	250,000	25,113	25,113	107.04	103.42
7.80 series	300,000	30,030	30,030	105.20	103.25
8.16 series	300,000	29,655	29,655	108.16*	102.04
8.20 series	300,000	30,108	30,108	107.39	103.29
8.68 series	300,000	29,550	29,550	108.43*	101.92
8.84 series	300,000	29,591	29,591	108.17*	102.05
9.32 series	300,000	29,625	29,625	106.99	102.33
10.92 series	300,000	—	29,670	110.92*	102.73
Total	6,023,216	$535,824	$600,109		

*Redemption may not be effected currently through certain refunding operations.

6. LONG-TERM DEBT OF SUBSIDIARIES (less amounts due currently)

Interest Rate Groups				Maturity Groups			
		September 30,				September 30,	
From	To	1979	1980	From	To	1979	1980
		Thousands of Dollars				Thousands of Dollars	
First mortgage bonds:							
3 1/8%	4 1/4%	$ 134,500	$ 123,000	1981	1986	$ 194,500	$ 183,000
4 3/8	5 1/2	223,500	223,500	1987	1992	50,500	50,500
6 1/8	7 3/4	368,000	368,000	1993	1998	231,000	231,000
8 1/4	9 1/2	940,000	940,000	1999	2004	565,000	565,000
10 1/8	14 1/8	50,000	175,000	2005	2010	675,000	800,000
	Total	$1,716,000	$1,829,500			$1,716,000	$1,829,500
Other long-term debt:							
Sinking fund debentures							
4 1/2%	5 1/4%	$ 35,530	$ 32,852	1985	1989	$ 35,530	$ 32,852
6 5/8	7 3/4	42,865	37,401	1993	1994	42,865	37,401
	Total	78,395	70,253			78,395	70,253
Pollution control revenue bonds - net							
5.70%	7 5/8%	99,089	143,671	2004	2009	99,089	143,671
Senior notes							
8.50%	10.45%	295,590	489,710	1996	1999	295,590	489,710
	Total	$ 473,074	$ 703,634			$ 473,074	$ 703,634

Utility plant of the System companies is generally subject to the lien of the mortgages.

7. COMMITMENTS AND CONTINGENCIES

For information relating to major new construction work now in progress or contemplated by the subsidaries, and commitments with respect thereto, see Part II, "Item 8, Other Materially Important Events" in Form 10-Q for the quarter ended June 30, 1980 and "Item 3, Properties—Construction Programs" in Form 10-K for the year 1979.

The three electric utility subsidaries have entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and the subsidiaries have agreed, in effect, to guarantee the principal, $145,865,000 at September 30, 1979 and $155,110,000 at September 30, 1980, and interest on bonds issued to finance the reservoirs from which the water is supplied.

Reference is made to Part II, "Item I, Legal Proceedings" in Form 10-Q for the quarter ended June 30, 1980, and "Item I, Business—Fuel Supply and Environmental Matters" and "Item 5, Legal Proceedings" in Form 10-K for the year 1979, for information relating to legal and administrative proceedings. In the opinion of the Company, such legal and administrative proceedings are not expected to have a material effect upon the financial position or results of operations of the Company or the Company and its subsidiaries.

REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

See attached Exhibit.

Deloitte Haskins+Sells

EXHIBIT

One Main Place
Dallas, Texas 75250
(214) 748-6601
Telex 732648

November 7, 1980

Texas Utilities Company:

We have made reviews of the consolidated balance sheets of Texas Utilities Company and subsidiaries as of September 30, 1979 and 1980, and the related statements of consolidated income for the three-month, nine-month and twelve-month periods then ended and consolidated source of funds for construction for the nine-month and twelve-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles.

Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

Items 1 through 9.

None.

SIGNATURE

Pursuant to the requirements 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.

TEXAS UTILITIES COMPANY

By /s/ Erle Nye
Erle Nye
Vice President

Date: November 13, 1980

NEW ISSUE

INTEREST EXEMPT, IN THE OPINION OF BOND COUNSEL, FROM PRESENT FEDERAL INCOME TAXES UNDER EXISTING LAWS AND REGULATIONS.

$250,000,000

Texas Municipal Power Agency

Revenue Bonds, Series 1980

Dated: August 1, 1980 **Due: September 1, as shown below**

The Series 1980 Bonds are coupon bonds in the denomination of $5,000 each, registrable as to principal only. The principal of bonds payable to bearer, and interest on all bonds (March 1, 1981, and semiannually thereafter on each September 1 and March 1), are payable at Chemical Bank, New York, New York, or, at the option of the holder, at National Bank of Commerce of Dallas, Dallas, Texas. The principal of bonds registered as to principal (unless registered to bearer) is payable only at the office of National Bank of Commerce of Dallas, Dallas, Texas, as Registrar.

The Series 1980 Bonds are subject to redemption prior to maturity as described herein.

The Series 1980 Bonds are additional bonds on a parity with $600,000,000 Revenue Bonds presently outstanding and are payable solely from the Net Revenues of the Agency pledged therefor, the Bond Fund and certain other special funds. The Cities of Bryan, Denton, Garland and Greenville, Texas have entered into Power Sales Contracts with the Agency obligating the Cities to purchase from the Agency, subject to certain exceptions, all of their electric energy requirements not generated by their existing electric systems. Additionally, if money on deposit in the Bond Fund is less than the amount then required to be on deposit therein, each City is obligated to pay directly to the custodian of the Bond Fund its Percentage Share of the amount sufficient to satisfy such requirements. All amounts payable by the Cities under said Contracts are payable solely from the revenues of their respective electric systems and constitute operating expenses thereof, and are not payable from taxes or any other revenues of the Cities. The Agency has no taxing power. The State of Texas is not liable on the Bonds and they are not a debt of the State.

$38,240,000 Serial Bonds

Due September 1	Amount	Rate	Price	Due September 1	Amount	Rate	Price
1985	$2,635,000	6 %	100%	1991	$3,865,000	7.40%	100%
1986	2,790,000	6¼	100	1992	4,155,000	7.60	100
1987	2,965,000	6½	100	1993	4,470,000	7.80	100
1988	3,160,000	6¾	100	1994	4,815,000	8	100
1989	3,370,000	7	100	1995	2,410,000	8.15	100
1990	3,605,000	7.20	100				

$ 36,490,000 8⅞% Term Bonds Due September 1, 2000 @ 99½%
$ 18,050,000 9% Term Bonds Due September 1, 2002 @ 99½%
$ 33,670,000 9.10% Term Bonds Due September 1, 2005 @ 100%
$123,550,000 9¼% Term Bonds Due September 1, 2012 @ 100%

(Accrued interest to be added)

The Series 1980 Bonds are offered when, as and if issued and received by the Underwriters, and subject to the approval of legality by the Attorney General of Texas and Messrs. Dumas, Huguenin, Boothman & Morrow, Dallas, Texas, Bond Counsel. Certain legal matters will be passed on for the Underwriters by Messrs. Hutchison Price Boyle & Brooks, Dallas, Texas, and for the Agency by its General Counsel, Naman, Howell, Smith, Lee & Muldrow, P.C., Waco, Texas. It is expected that the Series 1980 Bonds in definitive form will be available for delivery in New York, New York, on or about August 19, 1980.

Salomon Brothers

Goldman, Sachs & Co.

Merrill Lynch White Weld Capital Markets Group
Merrill Lynch, Pierce, Fenner & Smith Incorporated

Smith Barney, Harris Upham & Co.
Incorporated

Blyth Eastman Paine Webber
Incorporated

July 31, 1980

No dealer, broker, salesman or other person has been authorized by the Texas Municipal Power Agency or by the Underwriters to give any information or to make any representations, other than as contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by the Agency or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Series 1980 Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been furnished by the Texas Municipal Power Agency and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion contained 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 Agency or the Cities since the date hereof.

TABLE OF CONTENTS

TEXAS MUNICIPAL POWER AGENCY

600 Arlington Downs Tower

Arlington, Texas 76011

817-461-4400

BOARD OF DIRECTORS

MANAGEMENT

General Manager	Joel T. Rodgers
Director of Engineering & Operations	Larry C. Hearn
Director of Finance	Dan G. Simmons
Director of Administrative Services	Robert P. Murphy, Jr.
Director of Construction Management	Robert B. McKnight
Director of Legal Services	Frank H. Bass

GENERAL COUNSEL

Naman, Howell, Smith, Lee & Muldrow, P.C.
Waco, Texas

BOND COUNSEL

Dumas, Huguenin, Boothman & Morrow
Dallas, Texas

CONSULTING ENGINEER

R. W. Beck and Associates
Seattle, Washington

FINANCIAL ADVISORS

FIRST SOUTHWEST COMPANY
Mercantile Bank Building
Dallas, Texas 75201

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OFFICIAL STATEMENT OF THE

TEXAS MUNICIPAL POWER AGENCY

Relating to its

$250,000,000

REVENUE BONDS, SERIES 1980

INTRODUCTION AND SUMMARY

The purpose of this Official Statement, which includes the cover page, appendices and exhibits hereto, is to set forth information concerning the Texas Municipal Power Agency (the "Agency"), the Cities of Bryan, Denton, Garland and Greenville, Texas (the "Cities"), and the Agency's $250,000,000 Revenue Bonds, Series 1980 (the "Series 1980 Bonds").

The Series 1980 Bonds

The Series 1980 Bonds are being issued pursuant to Article 1435a, Vernon's Texas Civil Statutes, as amended (the "Act"), and the bond resolution (the "Resolution") of the Agency adopted on July 31, 1980. The Series 1980 Bonds are on a parity with the Agency's outstanding $50,000,000 Revenue Bonds, Series 1976, $250,000,000 Revenue Bonds, Series 1978 and $300,000,000 Revenue Bonds, Series 1979 (collectively, the "Outstanding Bonds"). The Outstanding Bonds, the Series 1980 Bonds and any additional parity bonds issued under the conditions set forth in the Resolution are hereinafter referred to as the "Bonds."

The proceeds of the Series 1980 Bonds will be expended primarily to continue construction of the Agency's lignite-fueled and nuclear-fueled generating projects and to pay other costs associated therewith. The proceeds will also be used to fund interest on the Series 1980 Bonds and the Outstanding Bonds to September 1, 1981, to the extent not previously funded, and to make deposits into the Reserve Fund and the Contingency Fund. (See "Application of Series 1980 Bond Proceeds").

The Series 1980 Bonds are secured by an irrevocable first lien on and pledge of the Net Revenues of the Agency, the Revenue Fund (subject to payment of Operation and Maintenance Expenses), and all other funds established by the Resolution. Such revenues will be derived primarily by the Agency under identical Power Sales Contracts between the Agency and the Cities. (See "Security For the Bonds").

The Agency covenants in the Resolution that it will at all times fix, establish and collect rates and other charges for power and energy or services sold or furnished in connection with the System which, together with other income, are reasonably expected to yield Net Revenues equal to at least 1.25 times the Debt Service on all Bonds for the fiscal year for which such rates and charges apply. To the extent not used, surplus amounts on deposit in the Revenue Fund may be returned to the Cities. (See "Summary of Certain Provisions of the Resolution").

The Series 1980 Bonds maturing September 1, 1991, and thereafter are subject to redemption on and after September 1, 1990, in whole on any date, and in part (by maturity as selected by the Agency and by lot within a maturity) on any interest payment date, at 103% of the principal amount and at declining percentages beginning September 1, 1991, plus accrued interest, as more fully described herein. Series 1980 Bonds due 2000, 2002, 2005 and 2012 are subject to mandatory redemption in part by lot at a price of 100% of the principal amount thereof plus accrued interest, as more fully described herein.

Background

Each of the Cities presently owns and operates a municipal electric power generation, transmission and distribution system. The municipal systems of the Cities of Bryan, Denton and Greenville provide the primary source of electric energy supply for substantially all of the electric customers residing within their respective corporate limits. The City of Garland serves approximately 85% of the electric customers within its corporate limits, with Texas Power & Light Company serving the remainder under franchise. The City of Bryan, in addition to its municipal system, owns and operates a distinct and separate rural transmission and distribution system which purchases electric energy from Bryan's municipal system. (See "Cities' Electric Systems").

In 1963, the Cities of Bryan, Garland and Greenville, along with Brazos Electric Power Cooperative, Inc. ("Brazos"), entered into an "Interchange Agreement," forming the "Texas Municipal Power Pool," which the City of Denton joined in 1969. Utilizing the pool, the participants coordinate the use of generation and transmission facilities owned and operated by the participants, interchange reserve capacity and provide spinning reserves.

In July, 1975, the Cities created the Agency in accordance with the provisions of the Act and, in September, 1976, the Agency entered into an identical Power Sales Contract (collectively, the "Contract") with each of the Cities for the purpose of obtaining the economic advantages of jointly financing, constructing and operating large generating units to supply the growing energy needs of the Cities.

Power Sales Contract

The Contract obligates the Agency to use reasonable diligence to provide a constant and uninterrupted supply of power and energy to the Cities and, subject to certain exceptions, obligates the Cities to purchase from the Agency, if available, all of the Cities' power and energy requirements in excess of the amounts generated by the Cities' existing municipal systems. (See "Summary of Certain Provisions of the Power Sales Contract, Sale of Power and Energy"). Under the Contract, each City covenants that it will establish, maintain and collect rates and charges for the electric service of its electric system at least sufficient, together with other revenues and available reserves of its electric system, to pay to the Agency, when due, all amounts required of such City under the Contract. If money on deposit in the Bond Fund is less than the amount required to be on deposit therein, without giving consideration to transfers made from other than the Revenue Fund or from Bond proceeds, the Contract unconditionally obligates each City to pay directly to the respective custodians of the Bond Fund, the Reserve Fund and the Contingency Fund its Percentage Share of the amount necessary to replenish such Funds, provided that transfers may be made from the Reserve Fund to the Bond Fund for not more than two consecutive calendar months without replenishment. (See "Security for the Bonds, Contract Obligations of Cities and Agency"). All amounts payable by the Cities under the Contract are payable solely from the revenues of their respective electric systems and constitute operating expenses thereof. Such amounts are not payable from taxes or any other revenues of the Cities.

Adequacy of Existing and Approved Power Supply Resources

In the opinion of R. W. Beck and Associates (the "Consulting Engineer"), without additional power sources, the Cities face growing combined deficiencies in electric generating capacity to serve their customers starting in 1984. It is also the Consulting Engineer's opinion that the Agency's approved generating projects are feasible and represent desirable increments of power supply to meet future loads of the Cities. The "Consulting Engineer's Report for Texas Municipal Power Agency, Series 1980 Revenue Bonds" dated July 18, 1980, including a supplemental letter thereto, dated July 28, 1980, (the "Engineer's Report") are reproduced herein as Appendix A.

Most of the Cities' present generating facilities use natural gas as the primary fuel. Increasing prices and governmental restrictions in the use of natural gas and oil as boiler fuels emphasize the need for the development of electric generating facilities and resources which do not require such fuels.

In the opinion of the Consulting Engineer, the Agency's efforts with respect to developing additional generating resources utilizing alternative fuels have been and continue to be reasonable and appropriate, and the forecasted cost of power from its approved projects continues to be attractive when compared to that which could be anticipated from the City-owned units using natural gas and operating at an average efficiency.

Approved Projects

The first generating project of the Agency, named the Gibbons Creek Steam Electric Station, is now under construction in Grimes County, Texas, and includes a net 400 megawatt ("MW") lignite-fueled steam electric plant, reservoir, railroad spur, associated transmission facilities, an adjacent surface mine and related properties and equipment ("Gibbons Creek"). Gibbons Creek is expected to be in commercial operation by October, 1982. (See "The Projects, Gibbons Creek").

The Agency's second generating project consists of a 6.2% ownership interest in the nuclear-fueled Comanche Peak Steam Electric Station, now under construction in Somervell County, Texas, together with related fuel and certain transmission facilities ("Comanche Peak"). The station will consist of two 1,150 MW nuclear-fueled pressurized water reactor steam generating units, properties and equipment. The Agency's interest in the station was acquired pursuant to the terms of a joint ownership agreement (the "Joint Ownership Agreement"), dated January 2, 1979, with Dallas Power & Light Company ("DP&L"), Texas Electric Service Company ("TESCO"), Texas Power & Light Company ("TP&L"), (collectively called the "Companies"), and Texas Utilities Generating Company ("TUGCO"). (See "The Projects, Comanche Peak").

Upon completion of Gibbons Creek and Comanche Peak, the combined generating capability of the Agency's and the Cities' units will be 1,474 MW, of which 63.2% is natural gas and/or fuel oil-fired, 27.2% is lignite-fueled and 9.6% is nuclear-fueled.

The Cities have approved, as "System Development and Reliability Expenditures", transmission facilities which, in conjunction with a certain transmission agreement (the "Transmission Agreement") with the Companies, and an interconnection agreement (the "Interconnection Agreement") with Houston Lighting & Power Company ("HL&P"), will be adequate to provide for delivery of Agency power to the Cities and to allow the coordination of the generation facilities of the Agency and the Cities at least until 1991. (See Appendix A – Engineer's Report).

Certain Developments Since 1979 Financing

Except as otherwise noted herein, the Agency's construction and related activities have proceeded generally as forecast since March 15, 1979, the date of its most recent financing (the "1979 Financing"), and the Agency has undertaken certain initial steps necessary for it to become an operational part of the electric utility industry serving the needs of the Cities. However, as an agency remaining predominantly in its construction phases, the Agency's activities and courses of action continue to be affected by several factors and events, some of which relate specifically to the Agency and others to the electric utility industry generally. Among other developments since the 1979 Financing discussed in this Official Statement are the following:

(a) All litigation pending at the time of the 1979 Financing, which challenged the Contract, has been decided in favor of the Agency. (See "Litigation").

(b) Certain management changes and additions have been made in the Agency, including the addition of a Construction Management Division and a Legal Services Division. The Agency believes these changes will improve management control of the Agency's construction and administrative affairs, and will contribute to an orderly and efficient transition of the Agency from its initial construction phases into its on-going operational phases

(c) Forecasts of energy costs made by the Consulting Engineer assume that the combined generating units of the Cities and the Agency will be operated on a full economic dispatch basis starting in 1981. (See Appendix A – Engineer's Report). While the Agency and the Cities have executed a Memorandum of Intent to develop and enter into the necessary economic dispatch agreements and limited economic dispatch is being conducted presently, the Agency is not aware of on-going activities by the Cities to finalize and make permanent such agreements at this time. However, the Agency believes that the economic advantages in operating the Agency's generating units as base load facilities and the Cities' units on the basis of their relative variable costs will mandate that permanent arrangements for full economic dispatch be implemented in order to provide the most efficient and least expensive power and energy supply to the Cities.

(d) With the execution of the Interconnection Agreement and an agreement with Brazos River Authority to provide a supplemental water supply for Gibbons Creek, all major agreements, except an agreement for economic dispatch as discussed above, assumed by the Consulting Engineer for the purposes of the Engineer's Report have been completed and executed. (See Appendix A – Engineer's Report).

(e) As a result of the execution of the Interconnection Agreement, the Agency eliminated a significant number of its earlier planned transmission facilities thus reducing the capital and financing requirements of the Agency. The Consulting Engineer has considered the operating consequences of this Agreement in his forecasts of costs of power and energy. In addition, the Agency has been designated as a member of the Texas Interconnected System, an intra-state arrangement for mutual operating and planning of facilities to ensure reliability of electric utility operations. (See Appendix A – Engineer's Report).

(f) The Texas Supreme Court recently further clarified Texas law with respect to the ownership of lignite deposits in the State in a manner generally consistent with and favorable to the Agency's lignite acquisition program. In the light of this clarification, and subject to certain liens, rights of surface use and to further confirmation by examination of abstracts of title pursuant to the Agency's abstract examination program (estimated to be completed during 1983), the Agency now owns lignite with less than 140 feet of overburden in quantities approximating 81% of the lignite required to operate the Gibbons Creek plant at a 75% plant factor for its 30-year life. (See "Gibbons Creek, The Mine").

(g) In September, 1979, the general contract for construction of the Gibbons Creek plant was awarded to Austin Power, Inc.

(h) The Agency has undertaken activities toward placing the mine for Gibbons Creek into operation. It has retained Morrison-Knudsen Company, mining contractor, to operate the mine and to perform other mine-related services. (See "Gibbons Creek, the Mine").

(i) The Agency's ownership interest in Comanche Peak has been finalized by the Nuclear Regulatory Commission (the "NRC") by its approval of amendments to the construction permits. Thus, the Agency now participates as a joint owner of Comanche Peak in accordance with the Joint Ownership Agreement. (See "Summary of Certain Provisions of the Joint Ownership Agreement").

(j) The electric utility industry generally, including the Agency and the Cities, continues to experience difficulties and uncertainties in determining costs, preparing load forecasts, predicting regulatory patterns, and fixing operational dates for construction projects due to many factors (see "Factors Affecting the Electric Utility Industry"). Significant uncertainties have developed in the nuclear power industry following the accident at the Three Mile Island Nuclear Station near Harrisburg, Pennsylvania, on March 28, 1979. The Agency has been advised by Texas Utilities Services, Inc. ("TUSI") that as a result of the accident, TUSI performed a thorough review of safety systems and equipment, and operating instructions and procedures at Comanche

Peak, concluding that there were no major deficiencies but that certain recommended changes in engineering design, operator training and operations, and emergency planning and preparedness should be implemented. On July 22, 1980, TUSI announced that it had completed its current review of the estimated costs and projected operational dates for Comanche Peak in the light of subsequent NRC regulatory activities relating to the accident and in the light of other factors and that the estimated costs for Comanche Peak had increased and that the projected operational dates for Comanche Peak had been extended. (See "The Projects, Comanche Peak").

(k) The Agency projects that its financing requirements for Gibbons Creek and Comanche Peak have increased since the 1979 Financing, (see "The Projects, Gibbons Creek and Comanche Peak"), and the Consulting Engineer has assumed such increases in his report, (see Appendix A – Engineer's Report). However, due to the execution of the Transmission Agreement and the Interconnection Agreement, five transmission facilities have been eliminated, thus reducing the Agency's projected financing requirements for transmission facilities, (see "The Projects, System Development and Reliability Expenditures"). These factors, among others, have resulted in an overall reduction in the Agency's previously estimated total financing requirements from $1,162,566,000 to $1,080,800,000, (see "The Projects, Cost Summary and Financing Requirements").

This Official Statement includes descriptions and summaries of events and developments, the terms of the Series 1980 Bonds, the Contract, the Resolution, other documents and certain provisions of the Act. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the Agency or from First Southwest Company, Financial Advisors to the Agency. A glossary of certain of the words and terms defined in this Official Statement appears as Exhibit II to this Official Statement.

THE AGENCY

Powers under the Act

The Agency is a joint powers agency, without taxing power, created by the Cities, with all powers conferred upon public entities by the Act and Chapter 10, Title 28, Vernon's Annotated Texas Civil Statutes of 1925, as amended, except that the Agency is not authorized to engage in any utility business other than the generation, transmission and sale or exchange of electric energy to the Cities and to private entities which are joint owners with the Agency of an electric generating facility located within the State of Texas. Certain specific powers are described below:

Bonds and Contracts. In addition to the power to issue revenue bonds and to pledge the Agency's "Net Revenues" to the payment thereof, the Act authorizes the Agency and the Cities to enter into contracts with respect to the sale and purchase of power and energy. The Contract was executed pursuant to this authority.

Rates and Charges. The Agency is empowered to establish and collect rates and charges necessary to produce revenues sufficient to pay all operational and maintenance expenses, debt service requirements on obligations issued by it and other charges necessary to fulfill contractual commitments. The Act provides that the State of Texas has retained the power to regulate and control the rates, fees and charges for services provided by the Agency, provided that the State of Texas ". . . does hereby pledge to and agree with the purchasers and successive holders of the obligations issued hereunder [under the Act] that the state will not limit or alter the powers hereby vested in the agency to establish and collect such rates and charges as will produce revenues sufficient to pay for (1) all necessary operational and maintenance expenses, (2) all interest and principal on obligations issued by the agency, (3) all sinking funds and reserve fund payments, and (4) for any other charges necessary to fulfill the terms of any agreements theretofore made or in any way to impair the rights or remedies of the holders of the obligations, until the obligations, together with the interest thereon, with interest on unpaid installments of interest, and any other obligations of the agency in connection therewith, are fully met and discharged." (See "Regulatory Bodies").

Condemnation. The Agency is granted the power of eminent domain under the Act and under Chapter 10 of Title 28. The Act prohibits the Agency from condemning land, or any interest therein, for the purpose of drilling for, mining, or producing from said lands, minerals, including lignite and uranium. This limitation does not impair the right of the Agency to condemn land for plant sites, including cooling reservoirs and related surface installations and equipment, or for transmission right-of-way.

Other Borrowing Powers. The Agency is authorized by the Act to issue bond anticipation notes for the purposes for which Bonds may be issued. The Act also permits the issuance of non-negotiable purchase money notes payable in installments (secured by the properties being acquired) in order to acquire land or fuel resources.

Governmental Structure

The Agency is a municipal corporation, a political subdivision of the State of Texas and a body politic and corporate, governed by a Board of Directors consisting of eight members who serve without compensation. The governing body of each of the four Cities appoints two members to the Board. Terms of members are two years, with the term of one member from each City expiring annually, resulting in staggered terms. An affirmative vote of five Directors, plus a weighted majority vote based on the respective energy usage of the Cities, is required for certain major decisions under the provisions of the Agency's Rules and Regulations.

Management

The management of the Agency is directed by the General Manager, who acts within the policies, rules and regulations established by the Board of Directors. The Agency has 87 full-time employees.

Joel T. Rodgers, P.E., was appointed General Manager by the Board of Directors effective December 4, 1978. He joined the Agency following a 29 year career at Florida Power Corporation, where he served in various supervisory and management positions including Assistant Vice President, Generation Engineering and Construction, and, most recently, Assistant Vice President, Corporate Service Staff. He supervised the design, construction and start-up of over two million kW of steam generation capacity including a large nuclear project. He holds a BS Degree in Mechanical Engineering from the University of Florida.

Robert B. McKnight is Director of Construction Management. He has 29 years of experience in the electric utility industry and in construction of both nuclear and fossil fueled generating facilities. He holds a BS Degree in Architectural Engineering from the University of Florida.

Dan C. Simmons is Director of Finance, responsible for accounting, budget administration, cash administration, internal audit, and all aspects of Agency financings. He has eight years experience in utility, municipal and public accounting. He is a Certified Public Accountant and holds a BBA Degree in Accounting from the University of Texas at Arlington.

Robert P. Murphy, Jr. is Director of Administrative Services, responsible for human resources, public affairs, purchasing, computer services, transportation, records management, and other support functions. He has over ten years of experience in project development and public management. He holds a BA Degree from Saint Mary's University in Halifax, Nova Scotia, Canada and a Masters Degree in Urban Planning and Public Administration from George Washington University in Washington, D.C.

Frank H. Bass is Director of Legal Services, responsible for contract administration, risk management, rate administration, real estate and coordination with General Counsel in other legal activities of the Agency. He has over 20 years experience in the utility industry, having held a number of administrative and legal positions. He received his Juris Doctor from Mercer University and was admitted to the State Bar of Florida.

Larry C. Hearn, P.E., is Director of Engineering & Operations, responsible for environmental services, generation, system and transmission engineering, power production and system operations. He has eleven years of experience in the public utility industry. He holds a BS Degree in Mechanical Engineering from Texas A&M University and an MBA Degree in Production Management from the University of Texas at Austin.

During the past year, certain management changes were made including the addition of a Construction Management Division to supervise, monitor and control all facets of the construction program of the Agency and a Legal Services Division to coordinate all Agency legal matters. The construction management team for the Gibbons Creek Project is headed by Agency personnel, but also includes experienced representatives from Tippett & Gee, Inc., design engineers, Freese and Nichols, Inc., hydraulic consulting engineers, and J. A. Jones Construction Company, a construction management and contracting firm.

The professional staff of the Agency includes a total of twelve registered engineers, four certified public accountants, two attorneys and an additional twenty-three degreed accountants, administrators, engineers and personnel/training specialists. The Agency also has an environmental staff to coordinate acquisition of regulatory permits and approvals required for Gibbons Creek.

Financial Statements

The audited financial statements of the Agency for the fiscal years ended September 30, 1979 and 1978, are included as a part of this Official Statement as Appendix E. The Agency's unaudited financial statements for the period ended March 31, 1980 are included as Appendix F.

SECURITY FOR THE BONDS

Pledge

The Bonds are payable from and equally secured by an irrevocable first lien on and pledge of the Net Revenues of the Agency, the Revenue Fund (subject to payment of Operating and Maintenance Expenses), and all other Funds (including investments therein) established by the Resolution. The Resolution requires that upon the issuance of Bonds the Reserve Fund contain an amount equal to the Average Annual Debt Service on all outstanding Bonds. (See "Summary of Certain Provisions of the Resolution, Reserve Fund").

Rate Covenants

The Agency covenants in the Resolution that it will at all times fix, establish and collect rates and other charges for power and energy, or services, sold or furnished by or in connection with the System, which, together with other income, are reasonably expected to yield Net Revenues equal to at least 1.25 times the Debt Service on all outstanding Bonds for the fiscal year for which such rates and charges shall apply. The Agency further covenants in the Resolution that, promptly upon any material change in the circumstances which were contemplated at the time such rates and charges were most recently reviewed, but not less frequently than once in each fiscal year, it will review the rates and charges for electric power and energy and services and will as necessary revise such rates and charges to comply with the foregoing requirement. The Agency further covenants that such rates, charges and income shall in any event produce moneys sufficient to enable the Agency to comply with all of its covenants under the Resolution and to pay all obligations of the Agency. To the extent not used, surplus amounts on deposit in the Revenue Fund may be returned to the Cities. (See "The Agency, Powers under the Act, Rates and Charges").

Each City covenants in the Contract to establish, maintain and collect rates and charges for the electric service of its electric system which will produce revenues at least sufficient, together with other revenues available to such electric system and available electric system reserves, to enable it to pay to the Agency, when due, all amounts payable by such City under the Contract. (See "Regulatory Bodies, Public Utility Commission").

Contract Obligations of Cities and Agency

Energy Sales and Purchases. The Contract obligates the Agency to use reasonable diligence to provide a constant and uninterrupted supply of power and energy to the Cities and, subject to certain exceptions, obligates the Cities to purchase from the Agency, if available, all of their electric energy requirements in excess of the amounts generated by the Cities' existing municipal systems. (See "Summary of Certain Provisions of the Power Sales Contract, Sale of Power and Energy"). The Contract requires the Agency to prepare annual budgets, projecting its Annual System Costs for the succeeding year, including debt service requirements on the Bonds, and to submit the same to the Cities. Based upon these budgetary facts and estimates, the Agency will adopt and fix the rates and charges for electric energy and services to be paid by the Cities for the ensuing year. The Cities are obligated to make such payments on a monthly basis.

Contractual Guarantee. The Contract provides that if at any time the amount of money on deposit in the Bond Fund is less than the amount then required to be on deposit therein without giving consideration to transfers made from other than the Revenue Fund or from Bond proceeds, each City is unconditionally obligated to make a payment, the aggregate of which shall be the amount necessary to maintain the Bond Fund, Reserve Fund and Contingency Fund in the required amounts, provided that transfers may be made from the Reserve Fund to the Bond Fund for not more than two consecutive calendar months without replenishment. Each City's portion of any such payment (the "Percentage Share") shall be adjusted annually based on the percentage that each City's system load bears to the aggregate system load of the four Cities, subject to the qualifications and as explained under "Summary of Certain Provisions of the Power Sales Contract, Payments by Cities." As an example, based on the latest forecasted requirements of the Cities for fiscal 1982, when commercial operation of the Agency's first generating unit is scheduled, the following Percentage Shares would be applicable during the next fiscal year, 1983:

City of Bryan	18.40%
City of Denton	19.83
City of Garland	52.59
City of Greenville	9.18
Total	100.00%

Each City unconditionally covenants in the Contract that its Percentage Share of the payments to the Bond Fund, Reserve Fund and Contingency Fund will be made, if required, and no City shall have the right of set-off, recoupment or counterclaim against any such payments. In the opinion of Bond Counsel, the unconditional obligation of the Cities under the Contract to make payments directly to the custodian of the Bond Fund, in the event of deficiencies therein, constitutes an irrevocable and binding contractual guarantee made and executed for the benefit of the holders of the Bonds as third party beneficiaries thereof.

Source of Payment. All amounts payable by the Cities under the Contract, including any amounts payable pursuant to the contractual guarantee described above, are payable solely from the revenues of the Cities' respective electric systems and constitute operating expenses thereof, and are not payable from taxes or any other revenues of the Cities.

APPLICATION OF SERIES 1980 BOND PROCEEDS

The Agency estimates that the proceeds of the Series 1980 Bonds will be applied as follows:

Construction Fund	
Gibbons Creek	\$146,250,000
Comanche Peak	40,000,000
Sub-Total	186,250,000
Deposit into Bond Fund for Interest on Bonds(1)	35,750,000
Deposit into Reserve Fund(2)	18,500,000
Deposit into Contingency Fund(3)	2,000,000
Allowance for costs of issuance and Bond discount	7,500,000
Principal Amount of Series 1980 Bonds	\$250,000,000

(1) Balance required to fund interest on the Outstanding Bonds from March 1, 1981 to September 1, 1981 and interest on the Series 1980 Bonds to September 1, 1981. The Agency plans to continue funding interest to become due on the Bonds until one year after commercial operation of each approved project in increments from the proceeds of each subsequent series of Bonds.

(2) The amount which together with amounts on deposit in the Reserve Fund equals Average Annual Debt Service.

(3) Minimum amount required by the Resolution to be deposited prior to commercial operation of the first Agency generating unit.

THE PROJECTS

Under the Contract, the Cities must approve any "Project" before the Agency is authorized to proceed with the financing, construction, equipment procurement and development thereof. After approval by the Cities, the Agency may proceed as it deems appropriate. Additionally, the Agency may make "System Development and Reliability Expenditures" as an "Approved Project" for facilities and purposes authorized by the Cities. Certain expenditures for "Development Projects", as defined in the Contract, may be made by the Agency without the approval of the Cities.

Approved Projects

Gibbons Creek, Comanche Peak and certain System Development and Reliability Expenditures are Approved Projects of the Agency under the Contract.

Gibbons Creek

Gibbons Creek includes a net 400 MW lignite-fueled steam electric station (the "Steam Electric Station"), an adjacent surface mine and related facilities (the "Mine"), both located in Grimes County, Texas, and associated transmission facilities. (See Appendix A – Engineer's Report).

Preliminary estimates of total construction costs of Gibbons Creek, available during the construction start-up phase and in connection with the 1979 Financing, indicated an estimated total construction cost of \$492,002,000. In mid-1979, the new Construction Management Division of the Agency initiated a detailed cost review of Gibbons Creek. This review indicated an increase in estimated construction costs which can be attributed primarily to several key factors. Among these are the use of a higher rate of escalation and more refined estimated costs of equipment and facilities based on a greater completion of actual engineering and design. Additional cost increases can be attributed to higher estimates of overhead costs, delays in construction contract awards, higher costs of site preparation, additional foundation costs, and to weather and other associated delays. Based upon this review, the Agency now estimates that the total construction costs of Gibbons Creek will be \$589,583,000. The Agency cannot be certain that costs will not increase further (see "Factors

Affecting the Electric Utility Industry"); however, information presently known to the Agency gives it no reason to believe that the total estimated costs of Gibbons Creek will materially increase.

Steam Electric Station

The Steam Electric Station is designed to utilize lignite fuel having a heat content in the range found in the mining area (see "The Mine"). The power plant, fuel handling systems, intake and discharge structure, and switchyard are being designed by Tippett & Gee, Inc., who has indicated that the design portion of the engineering services is approximately 89% complete. The Gibbons Creek plant will be an "outdoor" design with the boiler and turbine generator exposed to the elements. The railroad spur, site preparation and foundation work are complete. The general contract for construction of the plant was awarded to Austin Power, Inc. in September, 1979. As of June 1, 1980, construction of the plant was 32% complete and its scheduled commercial operation date is October, 1982.

The primary source of water for plant requirements will be a reservoir being constructed immediately adjacent to the plant site. The source of make-up water for the reservoir will be natural runoff and precipitation, with standby reserves being provided by contract with Brazos River Authority. The cooling reservoir, dam and discharge canal are being designed by Freese and Nichols, Inc., hydraulic consulting engineers.

Including the reservoir, interests in approximately 6,700 acres will be needed for the Steam Electric Station, of which 5,523 acres have been acquired, and the Agency has the present right of possession to an additional 647 acres awarded in condemnation proceedings currently on appeal. Acquisition of remaining necessary interests is being pursued by the Agency.

In the course of its land acquisition program, the Agency has executed purchase money notes secured by the properties acquired by the terms of which the purchase price is payable in installments. Failure to pay such notes when due gives rise to a right in the seller to foreclose on the land which is the subject of the lien.

The Mine

The mining area consists of approximately 25,000 acres of land adjacent or accessible to the Steam Electric Station (the "Mining Area") and, according to estimates prepared by the Paul Weir Company, mining engineers, contains approximately 100 million tons of lignite with less than 140 feet of overburden.

The Agency's General Counsel has evaluated the Agency's lignite ownership within the Mining Area based upon the summaries of title information provided by landmen or local abstract companies from the public land records in Grimes County at the time of acquisition, and in the light of legal questions as to the ownership of lignite rights recently clarified by a Texas Supreme Court opinion generally consistent with, and favorable to, the lignite acquisition program of the Agency. This evaluation indicates that, as of June 1, 1980, the Agency owned, by deed or lease, lignite with less than 140 feet of overburden and in an amount which, according to studies of the Paul Weir Company approximates 70.3 million tons. In addition, such evaluation indicates that the Agency owned, by deed or lease, at least an undivided ownership interest in another 8.9 million tons of lignite with less than 140 feet of overburden. Certain of such ownership is subject to confirmation by examination of actual abstracts of title pursuant to the Agency's abstract acquisition and examination program, presently scheduled to be completed during 1983.

This 70.3 million tons represents approximately 81% of the 87 million tons estimated to be required to operate the Gibbons Creek plant at a 75% plant factor for its 30-year life.

The Agency's on-going lignite and land acquisition program in the Mining Area is designed to acquire the necessary additional lignite reserves and to permit the most efficient mining plans.

In order to efficiently and fully mine the lignite that the Agency owns or is acquiring, it may be necessary for the Agency to acquire other interests in land and accommodate other parties on matters such as outstanding easements, non-lignite mineral interests and rights of adjoining landowners. The Agency will evaluate and from time to time revise its future mining plans with due regard for such rights.

As of June 15, 1980, the Agency had expended $18,493,000 for lignite rights, of which approximately $2,842,000 was for advance royalty payments. The Agency, in the future, will be required to make annual advance royalty payments in the amount of $685,000 on leases now in effect. The total price of purchased acres to date is approximately $6,929,000. Of the acres purchased, approximately 69% were purchased outright, while approximately 31% are subject to purchase money notes with various maturities up to fifteen years and annual note payments of approximately $186,740. All of the leases and purchase money notes require annual payments and, if not made, the property or lease-rights could revert to the seller or lessor. Additionally, of the 70.3 million tons of lignite owned by the Agency, a total of approximately 4.6 million tons is under tracts which are subject to liens securing debts of others. If the debts for any of those tracts are not paid, the Agency's rights to the lignite on those tracts could be lost.

Paul Weir Company was retained by the Agency to conduct initial surveys pertaining to the availability and quantity of lignite deposits in the Mining Area. Such activities have now been completed, and the Agency has executed a contract with the Morrison-Knudsen Company of Boise, Idaho to operate the mine, optimize the mining plans, monitor assembly of the draglines and prepare capital and annual mining cost estimates.

Transmission Facilities

Black & Veatch has been retained to design certain transmission facilities (the "Gibbons Creek Transmission Facilities") necessary and associated with the Steam Electric Station. Based in part on Black & Veatch reports, the Agency estimates that the construction cost of the Gibbons Creek Transmission Facilities will be approximately $57,318,000. The Gibbons Creek Transmission Facilities include approximately 60 miles of 345 kilovolt ("kV") line, approximately 23 miles of 138 kV line and six new substations or planned modifications to existing substations. All transmission facilities are being designed based upon load flow and related studies in order to properly integrate Gibbons Creek into the existing Texas Interconnected System ("TIS") transmission network, with which the Agency will connect through the high voltage transmission system (the "HV Transmission System") of the Companies.

The Transmission Agreement requires the Companies to accept that portion of Gibbons Creek power and energy that is not delivered by the Agency directly to one of the Cities into the HV Transmission System from Gibbons Creek Transmission Facilities and to deliver equivalent amounts of power and energy (less transmission losses) from the HV Transmission System at specified delivery points near load centers of some of the Cities.

Pursuant to the Interconnection Agreement, Gibbons Creek, for reliability purposes, will be interconnected with a 345 kV line of HL&P. The HL&P line is interconnected with the HV Transmission System.

Gibbons Creek Permits and Approvals

During the past year the Agency staff assumed responsibility for all activities related to acquisition of permits and approvals for Gibbons Creek. All necessary permits for construction of the Steam Electric Station have been issued by the applicable regulatory authorities. In addition, the Agency has requested a permit from the Texas Railroad Commission related to its lignite mining activities. Such permit is, by statute, issued for a term not longer than five years. A hearing was held before an Examiner of the Railroad Commission in April, 1980. The Examiner has recommended that the full Commission issue the mining permit substantially as requested by the Agency. The Agency anticipates that the order granting the permit will be issued by August, 1980, and that further permit renewals will be issued as needed in the future.

Other operating permits will be required. However, the Agency is of the opinion that construction and commercial operation of Gibbons Creek will not be delayed by federal or state regulatory actions. (See Appendix D – Status of Major Permits and Approvals).

Comanche Peak

Comanche Peak includes a 6.2% undivided ownership interest in the Comanche Peak Steam Electric Station, consisting of two 1,150 MW nuclear-fueled pressurized water reactor steam electric units together with related switchyard, substation, railroad spur and reservoir (the "Comanche Peak Station"), nuclear fuel and an interest in a certain associated transmission line. The interest in Comanche Peak was acquired by the Agency pursuant to the Joint Ownership Agreement, (see "Summary of Certain Provisions of the Joint Ownership Agreement") and the Transmission Agreement. Brazos later acquired an ownership interest therein and became a party to the Joint Ownership Agreement.

The undivided ownership interests of the parties are as follows:

DP&L	18⅓%
TP&L	35⅚
TESCO	35⅚
Agency	6.2
Brazos	3.8
	100%

Tex-La Electric Cooperative of Texas, Inc., ("Tex-La"), a federation of rural electric distribution cooperatives in East Texas, recently signed a letter of intent with TP&L to purchase a 4.35% ownership interest in the Comanche Peak Steam Electric Station. This matter is presently being reviewed by all of the joint owners.

Under the Joint Ownership Agreement, the owners are obligated to pay their respective shares of construction costs as billed by TUGCO, the company responsible for the construction, development, completion and operation of the Comanche Peak Station. Once the plant is operational, irrespective of the quantity of power produced, the Agency is obligated to pay 6.2% of all operating and maintenance costs, including fuel but excluding taxes, plus a management fee, subject to certain limitations, equal to 5% of the Agency's share of such costs. Subject to certain operational exceptions, the Agency will be entitled to receive 6.2% of the net power output that the plant is capable of producing at any given time. The Agency's share of continued construction and fuel acquisition costs will be provided from the proceeds of the Series 1980 Bonds and from future issues of Bonds.

The Companies, whose respective systems are interconnected, and TUGCO are subsidiaries of Texas Utilities Company ("TU"), a Texas holding company. The Companies are engaged in on-going construction programs, of which their interests in the Comanche Peak Station are but one, consisting of various power generating plants within the State of Texas, for the purpose of developing a continuing and available supply of power and energy for the TU system, which is presently engaged in power supply sales solely within the State of Texas. Historically, the Companies have obtained their necessary capital funds from one or more or a combination of issuing preferred stock and corporate bonds through public underwritings, issuing and selling additional common stock to TU, their corporate parent, obtaining short term loans from TU and others and from operating revenues. No assurance can be given that these or other sources of capital funds will be available to the Companies in amounts sufficient to pay their respective shares of costs of construction of or acquisitions for the Comanche Peak Station. The Companies have advised the Agency that they have no reason to believe that the supply of available capital will be inadequate to fully meet such capital requirements. (See "Available Information Regarding the Companies").

The Agency has not been advised as to the source or availability of funding of the shares of costs of Comanche Peak attributable to Brazos and Tex-La (should it become a joint owner).

Under the Joint Ownership Agreement, TUGCO, as project manager, is required to act with due diligence and in accordance with "Prudent Utility Practice" (as defined in the agreement) and to use its best efforts to timely complete construction of, and to place into service, each unit of the Comanche Peak Station. The Agency has no control over licensing, cost, design or construction activities, operations, fuel acquisition functions or decommissioning of the Comanche Peak Station except through its membership on an Owners Committee established in the Joint Ownership Agreement. In limited areas the Owners Committee may advise and direct the project manager upon agreement by a majority in interest of the representatives of owners on the Committee. TUGCO, as project manager and agent for the owners, in designing, constructing and operating the plant, is supported by TUSI, also a subsidiary of TU.

Comanche Peak Station

Construction of the station began in January, 1975. Based on work-in-place, Unit One was 82% complete and Unit Two was 45% complete and the overall plant was 70% complete as of July 1, 1980.

TUSI is responsible for construction schedules and cost estimates for Comanche Peak. TUSI's previous estimates, developed in June, 1978, projected an overall construction cost of the Comanche Peak Station in the amount of $1,395,000,000. The projected operational dates for Units One and Two were 1981 and 1983, respectively. Based on the 1978 cost estimates, the Agency's 6.2% share was estimated to be $86,490,000 for the Station and $19,975,000 for nuclear fuel, transmission, and carrying charges. The Agency included $16,034,000 for additional contingencies in its previous cost estimate for Comanche Peak.

For the purposes of his report, the Consulting Engineer assumed that TUSI's 1978 estimates would increase and the projected operational dates would be extended. Consequently, the Agency increased from $16,034,000 to $36,000,000 the Agency contingencies for Comanche Peak, and the Consulting Engineer escalated the Agency's cash flow requirements to reflect an assumed commercial operation date for Unit One of April, 1982, and for Unit Two of October, 1983. The Agency's increased contingency funds will be sufficient to cover a 41.6% increase in the construction costs of the Comanche Peak Station over TUSI's 1978 estimate.

On July 22, 1980 TUSI publicly announced the results of its current review of the estimates of costs and projected commercial operation dates for Comanche Peak, which results were generally consistent with the preliminary indications given to the Agency on July 18, 1980.

TUSI's new estimates project an overall construction cost of the Comanche Peak Station of $1,841,000,000, and commercial operation dates for Unit One of 1982, and for Unit Two of 1984, all of which, according to TUSI, remain subject to further revision, escalation and extension, dependent principally upon unknown economic and regulatory factors. (See "Factors Affecting The Electric Utility Industry").

The Consulting Engineer has reviewed TUSI's new estimates and projections and has concluded that the Agency's share of costs of Comanche Peak (based on TUSI's new estimates) will be less than the amount estimated by the Agency after it increased its funds available for contingencies for Comanche Peak. The Consulting Engineer has concluded further that, while the revised estimates of costs and the further extension of the commercial operation dates for Comanche Peak would cause a variation in certain of the forecasts and assumptions contained in the Engineer's Report, TUSI's new estimates of costs and schedules will not materially alter the Agency's financing requirements or the cost of power to the Cities as presently estimated in the Engineer's Report. (See Appendix A-Engineer's Report).

Comanche Peak Regulatory Approvals

The Atomic Energy Act of 1954 requires the issuance by the NRC of construction permits and operating licenses for the Comanche Peak Station. The construction permits were issued on December

19, 1974. By an amendment, dated December 18, 1979, to the construction permits the Agency was granted NRC approval to be a co-owner with a 6.2% interest.

The application for operating licenses for both units was docketed with the NRC on April 25, 1978. In connection with the operating licenses, an antitrust proceeding and a safety and environmental proceeding are now pending before separate NRC Atomic Safety and Licensing Boards.

The antitrust proceeding involves numerous parties, many of whom are also parties to the dispute in Texas regarding interstate transmission, (see "Regulatory Bodies, Interstate Transmission"). Certain of these parties are now attempting to settle the antitrust proceeding, but the settlement has not presently been approved by all parties, and will require further regulatory review before the settlement can become final. Whether the settlement will become effective cannot be predicted at this time and there is a possibility that the antitrust review will not be completed prior to the availability of Comanche Peak Unit One for operation. Legislation now pending in Congress would allow an operating license to be granted prior to conclusion of the NRC's antitrust proceedings if otherwise ready for issuance during the federal government's fiscal year 1980-1981, but there is no assurance that such legislation will be enacted into law or that the Comanche Peak proceeding will qualify for the time limits now proposed in the legislation.

In May, 1979, the United States Court of Appeals for the District of Columbia Circuit remanded two cases, neither involving the Agency or any of the Companies, to the NRC to determine in a generic rule making proceeding whether there is reasonable assurance that an off-site disposal or storage solution for spent reactor fuel will be available when needed. Subsequently, in October, 1979, the NRC began a rule making proceeding to reassess its degree of confidence that radioactive wastes produced by nuclear facilities will be safely disposed of, to determine when any such disposal will be available, and to determine whether such wastes can be safely stored until disposal.

The NRC also has determined to hold a safety proceeding regarding Comanche Peak Station, after three environmental and consumer groups petitioned the NRC for a hearing. The issues for the safety hearing were recently determined. These issues include, among others, Comanche Peak quality assurance – quality control program, emergency planning, the effects of tornados, and fire protection measures.

On March 28, 1979, Unit 2 of the Three Mile Island Nuclear Station ("TMI") near Harrisburg, Pennsylvania, began experiencing severe operating difficulties resulting in the shutdown of the unit, releases of above normal radiation to the environment and substantial damage to the reactor core. As a result of the TMI accident, various governmental bodies have been studying issues related to the design, construction and operation of nuclear electric generating facilities. Shortly after the TMI accident, a number of recommendations regarding the nuclear industry were made by the NRC, a Special Inquiry Group chartered by the NRC, and a Presidential Commission.

TUSI has advised the Agency that, as a result of the TMI accident, it has performed a thorough review of safety systems and equipment, and operating instructions and procedures at the Comanche Peak Station and concluded that certain changes in engineering design, operator training and operations, and emergency planning and preparedness should be implemented.

On May 16, 1980, the NRC approved a report (NUREG-0660) that consolidates essentially all the corrective actions derived from its own review of the TMI accident as well as those recommended by the various other TMI studies. Some of these actions are licensing requirements, but others involve actions to be taken in the future, or to be implemented following rule making or additional studies. Also, on June 16, 1980, the NRC issued a statement of policy with regard to the treatment of TMI-related requirements in individual licensing proceedings. TUSI has advised the Agency that the implications of NUREG-0660 have not been determined.

Neither TUSI nor the Agency can predict what other effects the TMI accident and the above proceedings may have upon the completion of construction, licensing, cost or future operation of Comanche Peak. If an operating license has not been issued by the time Unit One is ready for fuel loading, costs will increase and the commercial operation date will be delayed. A substantial delay in the commercial operation date may have an adverse impact on the Agency's financing program.

System Development and Reliability Expenditures

System Development and Reliability Expenditures include communication facilities, fuel exploration costs and transmission facilities necessary to increase the reliability of the delivery of power and energy. These facilities have been authorized by the Agency and the Cities and some of them are presently under construction.

As a result of the Transmission Agreement and the Interconnection Agreement, five transmission facilities that had been planned and approved as System Development and Reliability Expenditures were eliminated. The estimated construction costs of the eliminated facilities totaled $153,871,000. The Agency currently estimates that the construction costs of all of the remaining System Development and Reliability Expenditures will be $64,038,000.

In the opinion of the Consulting Engineer, the transmission facilities included in the Agency's current cost estimates, which consist principally of 138 kV and 345 kV and a small amount of 69 kV facilities, in conjunction with the Transmission and Interconnection Agreements, will be adequate to provide for delivery of Agency power to the Cities and for operation of the Cities' resources in conjunction with those of the Agency on an economic dispatch basis.

Cost Summary and Financing Requirements

The table below sets forth the estimated financing requirements of the Agency for Gibbons Creek, Comanche Peak and System Development and Reliability Expenditures, all as described above, and Development Projects (studies concerning future generating sources). The estimated financing requirements have been developed by the Consulting Engineer based on estimates supplied by the Agency and others. The projected financing requirements of Gibbons Creek and Comanche Peak have been increased by the Agency since the 1979 Financing, but the projected financing requirements of the Agency's transmission facilities have been decreased. These factors, among others, resulted in an overall reduction of the total estimated financing requirements from $1,162,566,000 to $1,080,800,000. (See Appendix A – Engineer's Report).

ESTIMATED FINANCING REQUIREMENTS

Gibbons Creek	
Steam Electric Station(1)	$ 388,825,000
Mine	145,553,000
Transmission Facilities	57,318,000
Comanche Peak	146,123,000
System Development and Reliability Expenditures	
Transmission Facilities	57,783,000
Fuel	5,000,000
Communication Facilities	1,255,000
Development Projects	722,000
Net Interest During Construction(2)	143,865,000
Reserve Fund(3)	91,335,000
Contingency Fund Deposit(4)	2,000,000
Working Capital(5)	13,000,000
Financing, Legal and Other Costs(6)	28,021,000
Total	$1,080,800,000

(1) Includes Impact Payments of $2,113,000.

(2) Computed at actual interest rates on Outstanding Bonds and at an assumed 8% average rate on Series 1980 Bonds and additional Bonds, adjusted for estimated investment income.

(3) An amount equal to the estimated Average Annual Debt Service based on actual debt service on the Outstanding Bonds and assumed level debt service with 28-year amortization and an assumed 8.0% average interest rate on the Series 1980 Bonds and additional Bonds.

(4) As required by the Bond Resolution.

(5) Estimated to provide adequate cash reserves during initial operation.

(6) Based on actual costs to April 1, 1980 and an assumed 3% on the Series 1980 Bonds and additional Bonds.

Projected Financing Schedule

After the issuance of the Series 1980 Bonds, the Agency will have issued $850,000,000 in Bonds, with an estimated $230,800,000 of additional financing necessary to complete the financing requirements outlined above.

The Agency reserves the right to issue additional Bonds to complete Gibbons Creek and Comanche Peak when and as deemed appropriate and as market and other conditions permit or require. The Agency does not presently contemplate the issuance of additional Bonds prior to February, 1981.

Load and Energy Requirements and Resources

The Engineer's Report indicates that, without Gibbons Creek and Comanche Peak, the Cities face growing combined deficiencies in electric generating capacity, starting in 1984. The following table summarizes the aggregate peak and energy requirements projected by the Cities.

PROJECTED AGGREGATE PEAK AND ENERGY REQUIREMENTS

Fiscal Year Ending 9-30	Peak Demand—MW	Energy Requirements—MWh (000)
1980	617	2,597
1981	657	2,796
1982	703	2,995
1983	747	3,190
1984	792	3,388
1985	835	3,579
1986	874	3,745
1987	915	3,916
1988	953	4,085
1989	993	4,256
1990	1,033	4,430
Average Annual Growth Rate	5.29%	5.49%

The Cities' 1980 peak demand and energy requirement forecasts start with lower initial levels and increase at a lesser rate than the forecasts used in the 1979 Financing. The annual average growth rate of combined peak loads has been reduced from 5.77% to 5.29%. The combined annual energy requirements are similarly forecasted at a lower annual average growth rate, from 6.60% to 5.49%.

The load forecasts are based on factors that are considered significant by the particular City preparing the forecast. Denton and Garland, for example, indicate increases in the forecasted number of residential customers. Conversely, Bryan forecasts a lesser increase in residential customers. Greenville has changed its forecast very little. The Cities' load forecasts reflect a national trend toward more conservative forecasts of future load growth. (See Appendix A – Engineer's Report, "Power Requirements and Resources").

The following table summarizes the resources planned to meet the Cities' requirements through 1990.

FORECASTED PEAK LOADS AND RESOURCES
(MW)

Fiscal Year Ending 9-30	Requirements				Resources				Load Resource Balance
						Agency			
	Cities' Peak Require-ments	Trans-mission Losses	15% Reserves	Total Require-ments	Cities' Resources	Gibbons Creek	Comanche Peak	Total Resources	
1980	617	(1)	93	710	932	0	0	932	222
1981	657	20	99	776	932	0	0	932	156
1982	703	21	105	829	932	0	71	1,003	174
1983	747	22	112	881	932	400	71	1,403	522
1984	792	24	119	935	932	400	142	1,474	539
1985	835	25	125	985	932	400	142	1,474	489
1986	874	26	131	1,031	932	400	142	1,474	443
1987	915	27	137	1,079	932	400	142	1,474	395
1988	953	28	143	1,124	932	400	142	1,474	350
1989	993	30	149	1,172	932	400	142	1,474	302
1990	1,033	31	155	1,219	932	400	142	1,474	255

(1) Assumes Agency transmission facilities to be in service starting in 1981.

In 1982 and thereafter, the Agency's and the City-owned generating units are expected to be operated on an economic dispatch basis. Due to higher costs of natural gas and fuel oil, the City-owned units would normally be operated only after Comanche Peak and Gibbons Creek are loaded, or if one of these units is temporarily inoperative or if sales of reserve capacity and/or energy are made to others. On an economic dispatch basis the relative costs of fuels is a primary factor in determining which units are to be operated and at what levels. As an example, in 1984, the forecasted cost of fuel per million Btu is \$3.10 for natural gas; \$1.35 for lignite; and \$0.72 for nuclear. Accordingly, in the "Load Resource Balance" column of the preceding table, the capacity indicated to be in excess of requirements is expected to be in the City-owned generating units. Although the Cities have the authority to sell power from the capacity indicated as excess, no revenue has been assumed to be so derived.

PROJECTED OPERATING RESULTS AND COST OF POWER

Based upon the Assumptions and Conditions set forth in the Engineer's Report, the Consulting Engineer has projected Agency operating results and cost of power to the Cities' electric utility systems for fiscal years ending September 30, 1981 through 1990.

	Fiscal Year Ending September 30 ($000)									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Operating Revenues, from Sales to Cities	2,064	7,267	100,044	144,526	164,336	168,250	173,876	177,739	182,139	186,893
Operating Deductions										
Production Expenses:										
Fuel	—	940	20,207	24,606	27,263	28,446	31,085	31,774	32,592	33,334
Operation and Maintenance	—	175	11,819	13,357	14,678	16,456	18,201	20,044	22,163	24,605
Total Production Expenses	—	1,115	32,026	37,963	41,941	44,902	49,286	51,818	54,755	57,939
Non-Production Expenses:										
Transmission, Operation and Maintenance ..	1,824	5,266	8,566	8,853	9,386	9,951	10,563	11,229	11,936	12,701
Insurance	77	293	1,958	2,519	2,750	2,943	3,150	3,371	3,605	3,859
Administrative and General	47	141	3,531	3,832	4,163	4,528	4,928	5,364	5,854	6,388
Total Non-Production Expenses	1,948	5,700	14,055	15,204	16,299	17,422	18,641	19,964	21,395	22,948
Total Operating Deductions	1,948	6,815	46,081	53,167	58,240	62,324	67,927	71,782	76,150	80,887
Net Operating Revenues	116	452	53,963	91,359	106,096	105,926	105,949	105,957	105,989	106,006
Plus: Interest Income	—	—	85	8,260	8,718	8,888	8,872	8,855	8,835	8,818
Total Available for Debt Service	—	452	54,048	99,619	114,814	114,814	114,821	114,812	114,824	114,824
Debt Service	—	57	43,238	79,695	91,851	91,851	91,857	91,850	91,859	91,859
Coverage of Debt Service	—	7.93	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Balance of Revenues	116	395	10,810	19,924	22,964	22,964	22,964	22,963	22,965	22,965
Less: Renewals and Replacements	116	395	3,104	3,731	4,026	4,345	4,690	5,062	5,463	5,901
Net Revenue Available for Other Purposes	0	0	7,706	16,193	18,938	18,619	18,274	17,901	17,502	17,064
Cost of Power to Cities										
Operating Revenues, from Sales to Cities	2,064	7,267	100,044	144,526	164,336	168,250	173,876	177,739	182,139	186,893
Less: Prior Year's Revenues Available for Other Purposes	—	0	0	7,706	16,193	18,938	18,619	18,274	17,901	17,502
Cost of Agency Power to the Cities	2,064	7,267	100,044	136,820	148,143	149,312	155,257	159,465	164,238	169,391

Unit Cost to Cities

Based on the projected operating results of the Agency, as indicated in the above table, and estimated costs of fuel and other variable costs of City generating units, the unit cost of power, determined by dividing total Agency costs and City variable costs by the combined net energy for loads of the Cities, is as follows:

Fiscal Year Ending Sept. 30,	Costs of Agency Power ($000)	City Fuel and Other Variable Costs ($000)	Total Power Costs ($000)	Cost of Power (Mills/kWh)	Cost in 1980 Dollars(1) (Mills/kWh)
1981	2,064	66,525	68,589	24.53	22.93
1982	7,267	76,704	83,971	28.04	24.49
1983	100,044	22,192	122,236	38.32	31.28
1984	136,820	22,119	158,939	46.91	35.79
1985	148,143	22,677	170,820	47.73	34.03
1986	149,312	29,274	178,586	47.69	31.78
1987	155,257	37,930	193,187	49.33	30.72
1988	159,465	4[illegible],711	207,176	50.72	29.52
1989	164,238	60,525	224,763	52.81	28.73
1990	169,391	74,962	244,353	55.16	28.04

(1) Discounted at 7%.

The actual unit costs ultimately paid by the Cities will be determined by the application of the rates and charges, established by the Agency in accordance with terms of the Power Sales Contract, to the power actually delivered to each City and by a method of sharing cost savings provided for in an economic dispatch arrangement.

CITIES' ELECTRIC SYSTEMS

The aggregate generating capacity of the municipal electric systems of the Cities is 962 MW. In fiscal 1979 the Cities provided electric service to approximately 79,000 customers. Revenues derived from sales of electricity in fiscal 1979 were approximately $93 million and system energy requirements were in excess of 2.2 billion kWh.

Most of the generating facilities of the Cities use natural gas as the primary fuel. The Cities' source of natural gas is from Lone Star Gas Company ("Lone Star"). On November 7, 1977, the Cities entered into gas purchase agreements, replacing prior agreements, with Lone Star which expire on December 31, 1984, and a gas transfer agreement between themselves and Lone Star which permits the Cities to transfer gas purchased from Lone Star among themselves.

Under the Lone Star agreements, deliveries are subject to curtailment and the price is subject to escalation. The average price to the Cities under the Lone Star agreements during 1979 was approximately $2.00 per million Btu. The price of gas purchased by the Cities from Lone Star under the agreements may be limited by the price ceilings established by the Natural Gas Policy Act of 1978.

The Lone Star agreements contain maximum and minimum limits on the amount of gas the Cities may take from Lone Star, and involve a penalty if the Cities take less than the minimum amount. In the opinion of the Consulting Engineer, based on the quantity of natural gas indicated to be required in 1982 as a result of the delay in commercial operation of Comanche Peak Unit One, it appears that the Lone Star contract will need to be supplemented or the amount to be supplied by Lone Star increased above the amount presently authorized. Additionally, the quantities of gas indicated to be required by City units in 1983 and 1984 are less than the amount required to be used or partially paid for by terms of the Lone Star contract. The result is an indicated gas penalty payment in 1983 and 1984. These penalty payments have been included in City gas costs.

The amount of gas which the Cities can burn as boiler fuel is subject to the limits of the Federal Power Plant and Industrial Fuel Use Act of 1978 ("Fuel Use Act"). Beginning January 1, 1990, the Cities cannot continue to use natural gas as a primary fuel source in a power plant unless an exemption is granted. Exemptions may be obtained on a unit by unit basis, or through approval of a system-wide compliance plan. The Cities have begun the process to file a request for approval of a system-wide compliance plan.

A system-wide compliance plan would allow the Cities to pool allowable volumes in all their units, thus allowing optimum use of the more efficient City generating units on an economic dispatch basis. If a system-wide compliance plan is not approved to allow the Cities to pool allowable volumes in all their units, other exemptions from the Fuel Use Act limitations are available, but such exemption may not allow optimum economic dispatching.

In a system-wide compliance plan, the Secretary of Energy must approve any new gas contract or an extension or renewai of an old gas contract. The Cities' contracts with Lone Star terminate on December 31, 1984, and if the Cities are to operate under a system-wide plan they must secure approval of any new contracts, or extension of the present contracts, by the Secretary of Energy. No assurance can be given that the Cities will secure exemptions for a system-wide plan, or on a unit by unit basis, or that the Secretary of Energy will approve any new contracts or that supplies of natural gas will be available after 1984.

Each City has limited fuel oil storage facilities and certain generating units capable of using fuel oil as a standby fuel. The aggregate capacity of fuel oil storage facilities available to the Cities is approximately 430,000 barrels. The aggregate generating capability of units capable of using fuel oil on a continuous basis is 324 MW, with most of the remaining units capable of using fuel oil on a limited basis.

Bryan

The City of Bryan is the county seat of Brazos County, 100 miles northwest of Houston. The estimated 1979 population was 46,575, an increase of 40% from the 1970 census. Located at the center of a seven county economic developmen. district, Bryan has attracted more than 50 manufacturing firms to the community. The area is also a major market for ranching and agriculture with abundant water and hydrocarbon fuel deposits.

The Bryan electric system has one generating plant with six gas-fired steam turbine generating units and one combustion turbine generator. A gas-fired steam turbine generating unit having a capability of 100 MW was put into commercial operation in May, 1978, giving the City an aggregate capability of 240 MW.

The City of Bryan operates its municipal electric, wa- -, and sewer systems as a single municipal utility. The City of Bryan has $42,950,000 principal amount of utility revenue bonds outstanding, such bonds being an issue dated June 1, 1980, which refunded all then outstanding revenue bonds.

Denton

The City of Denton is the county seat of Denton County, and is located within 35 miles of both Dallas and Fort Worth. The 1979 population was estimated at 51,700, a growth of 24% from the 1970 census. Denton is the home of both North Texas State University and Texas Woman's University with a combined enrollment of approximately 25,000. Over 53 industrial firms provide diversity to the Denton economy.

The Denton electric system has five diesel generating units and five gas-fired steam turbine units with an aggregate capability of 168 MW.

The City of Denton operates its electric system as a separate utility. As of June 1, 1980, the City of Denton had $19,255,000 principal amount of electric revenue bonds outstanding.

Garland

The City of Garland is located in northeast Dallas County, approximately 14 miles from downtown Dallas. Since 1970 the population has increased 76% to an estimated 151,000. An annual payroll of $115 million is contributed to the Garland economy by more than 300 diversified industrial firms.

The Garland electric system has two gas-fired steam generating plants and one diesel generating plant having an aggregate capability of 424 MW. Texas Power & Light Company has operated in Garland since 1915, and currently serves about 15% of the electric customers in the City.

In May, 1973, the City of Garland and TP&L entered into an Agreement settling certain then existing controversies and dismissing certain then existing litigation. The City and TP&L have been recently notified that the 1973 Agreement is under investigation by the United States Department of Justice for possible violations of the anti-trust laws of the United States.

The City Attorney has advised the City that the 1973 Agreement was executed by the City in furtherance of its regulatory and governmental authority preserved by state law, and that its activities in that regard are distinguishable from instances in which recent federal court decisions have held cities to be subject to the anti-trust laws when acting in their proprietary capacities.

The subject of the legal application of the anti-trust laws to municipal, governmental and proprietary activities by cities is relatively new and is in a developing state. Accordingly, the City cannot state with certainty whether the announced Justice Department investigation will continue, whether allegations of violations will be made, whether remedies will be sought pursuant to allegations or whether liabilities can be imposed, or whether any such allegations are sustainable in law.

It is the City's intention to cooperate with such investigation, but to resist through all available legal means any allegation or claim of any anti-trust violation in its actions. Should such allegations be made, litigation can be expected. The expense of such litigation may be charged as an operating cost of the City's municipal electric system. If any such allegation should ever be made and sustained in law and should monetary claims be successfully asserted against the City's system, then the revenue forecasts for the City's system could be adversely affected and consumer rate increases could be required.

The City of Garland operates its electric, water and sewer systems as a single municipal utility. As of June 1, 1980, the City of Garland had outstanding $96,280,000 principal amount of utility revenue bonds.

Greenville

The City of Greenville is located 45 miles northeast of Dallas and is the county seat of Hunt County. The Greenville economy is based primarily on light manufacturing, agri-business, and ranching. The 1979 population was estimated at 24,400, an increase of 10.7% from the 1970 census.

The Greenville electric system has three gas-fired steam turbine generating units and eight gas-fueled diesel electric generators for use during periods of peak demand. The aggregate capability of the Greenville system is 100 MW.

The City of Greenville operates its electric, water and sewer systems as a single municipal utility. As of June 1, 1980, the City of Greenville had $26,265,000 principal amount of utility revenue bonds outstanding.

Historical City Electric Utility Operating Statistics

	1975	1976	1977	1978	1979
City of Bryan					
Average Number of Customers					
Residential	11,266	11,817	13,109	14,073	14,281
Commercial & Industrial	1,715	1,782	1,864	1,948	1,965
Other	4	164	177	178	183
Total Customers	12,985	13,763	15,150	16,199	16,429
Kilowatt-Hour Sales (000)					
Residential	101,940	112,975	125,447	151,074	136,439
Commercial & Industrial	123,461	136,855	133,379	146,735	143,163
Other(1)(2)	213,519	226,989	236,727	177,056	133,186
Total Sales	438,920	476,819	495,553	474,865	412,788
Revenue Per kWh of sales (mills)	20.0	26.8	35.9	39.9	38.8
City of Denton					
Average Number of Customers					
Residential	11,030	11,587	12,445	12,931	13,870
Commercial & Industrial	2,038	2,254	2,410	2,603	2,608
Other	273	283	312	310	312
Total Customers	13,341	14,124	15,167	15,844	16,790
Kilowatt-Hour Sales (000)					
Residential	105,203	112,702	133,951	150,615	132,534
Commercial & Industrial	276,168	288,156	295,017	284,290	276,199
Other(2)	21,105	18,319	21,960	23,106	23,579
Total Sales	402,476	419,177	450,928	458,011	432,312
Revenue Per kWh of sales (mills)	22.8	29.3	37.3	40.0	41.5
City of Garland					
Average Number of Customers					
Residential	26,474	27,333	29,770	31,970	33,772
Commercial & Industrial	2,061	2,077	2,257	2,378	2,580
Other	2	2	2	2	2
Total Customers	28,537	29,412	32,029	34,350	36,354
Kilowatt-Hour Sales (000)					
Residential	456,158	422,060	508,007	575,196	544,268
Commercial & Industrial	466,969	507,052	555,073	571,416	561,114
Other(2)	25,670	50,677	63,271	65,644	59,725
Total Sales	948,797	979,789	1,126,351	1,212,256	1,165,107
Revenue Per kWh of sales (mills)	22.7	26.8	30.3	32.0	35.0
City of Greenville					
Average Number of Customers					
Residential	7,636	7,666	7,651	7,861	7,970
Commercial & Industrial	960	1,039	1,037	1,049	1,018
Other	50	60	57	59	65
Total Customers	8,646	8,765	8,745	8,969	9,053
Kilowatt-Hour Sales (000)					
Residential	64,150	61,341	73,905	78,777	76,951
Commercial & Industrial	103,700	110,316	127,174	131,304	132,779
Other(2)	11,577	7,770	5,938	7,020	7,198
Total Sales	179,427	179,427	207,017	217,101	216,928
Revenue Per kWh of sales (mills)	26.7	32.2	38.2	42.9	43.7
Total Average Number of Customers	63,509	66,064	71,091	75,362	78,626
Total Kilowatt-Hour Sales (000) (2)	1,969,620	2,055,212	2,279,849	2,362,233	2,227,135

(1) Includes sales of power to the City of College Station, which sales were discontinued in January, 1979.

(2) Does not include sales to the other Cities and Brazos.

Projected City Electric Utility Operating Results

The following table is drawn from data supplied by the Cities and summarizes the projected operating results for the electric systems of the Cities.

City of Bryan	1982	1984	1986	1988	1990
Average Customers	18,684	20,163	21,505	22,711	23,922
Total Operating Revenues	27,646,799	42,780,417	46,637,490	52,170,339	59,352,258
Purchased Power	1,323,000	28,588,000	30,918,000	33,494,000	36,131,000
Other Expenses(1)	18,433,763	5,729,812	7,318,763	10,521,217	15,492,474
Net Operating Revenues	7,890,036	8,462,605	8,400,727	8,155,122	7,728,784
Total kWh Sales(000)	560,504	609,653	657,435	706,897	760,285
Revenue per kWh Sales(2)	4.72¢	6.81¢	6.90¢	7.18¢	7.61¢
City of Denton					
Average Customers	19,389	21,919	23,731	24,825	25,919
Total Operating Revenues	24,696,000	43,572,000	48,745,000	55,651,000	64,437,000
Purchased Power	11,096,000	32,364,000	37,082,000	42,101,000	48,064,000
Other Expenses(1)	9,793,000	5,038,000	6,211,000	7,806,000	10,573,000
Net Operating Revenues(3)	3,807,000	6,170,000	5,452,000	5,744,000	5,800,000
Total kWh Sales(000)	558,045	655,113	737,116	793,834	854,231
Revenue per kWh of Sales(2)	4.38¢	6.61¢	6.57¢	6.96¢	7.50¢
City of Garland					
Average Customers	42,700	46,795	50,829	54,635	58,507
Total Operating Revenues	72,448,527	107,186,028	121,754,645	146,049,979	176,771,430
Purchased Power	3,849,000	71,327,000	77,305,000	83,438,000	89,432,000
Other Expenses(1)	63,100,299	29,740,120	37,402,688	54,554,626	78,105,246
Net Operating Revenues(3)	5,499,228	6,118,908	7,046,957	8,057,353	9,234,184
Total kWh Sales(000)	1,471,817	1,640,993	1,821,904	2,007,688	2,194,787
Revenues per kWh of Sales(2)	3.90¢	5.92¢	6.02¢	6.38¢	6.89¢
City of Greenville					
Average Customers	9,355	9,568	9,781	10,000	10,223
Total Operating Revenues	14,182,832	19,550,278	21,410,733	24,404,253	28,079,551
Purchased Power	6,569,000	14,139,000	15,596,000	17,916,000	20,714,000
Other Expenses	3,509,626	2,581,318	3,095,293	3,788,433	4,697,951
Net Operating Revenues	4,104,206	2,829,960	2,719,440	2,699,820	2,667,600
Total kWh Sales(000)	261,503	286,794	312,173	339,234	364,977
Revenues per kWh of Sales(2)	5.10¢	6.40¢	6.40¢	6.70¢	7.20¢

(1) Includes fuel and other variables for operation of City's units plus other operating expenses.

(2) Excluding miscellaneous revenues.

(3) Other non-operating income excluded.

Historical City Utility Systems Operating Results

The following table shows historical operating results of the utility systems of the Cities. Amounts due under the Contract are payable solely from electric system revenues as an operating expense thereof. The information presented has been summarized from data contained in the financial reports of the Cities' utility systems. Condensed utility systems balance sheets for each of the Cities are included herein as Appendix C.

(Dollars in Thousands)

	Bryan(a)				
	1975	1976	1977	1978	1979
Electric System:					
Revenues:					
Residential	2,624	3,768	5,369	7,052	6,948
Commercial and Industrial	2,771	4,023	5,131	6,171	6,587
Other(b)	3,662	5,277	7,647	7,199	7,237
Total	9,057	13,068	18,147	20,422	20,772
Expenses Other than Depreciation:					
Fuel	4,163	7,597	11,445	11,537	13,261
Other	1,578	1,087	1,456	2,749	1,605
Total	5,741	8,684	12,901	14,286	14,866
Net Operating Revenues	3,316	4,384	5,246	6,136	5,906
Non-Operating Revenues (Net)	(c)	(c)	(c)	(c)	355
Total Electric System Net Revenues	3,316	4,384	5,246	6,136	6,261
Water and Sewer Systems:					
Revenue	1,988	2,463	2,852	3,131	2,777
Expenses Other than Depreciation	933	1,081	1,197	1,421	1,391
Total Water & Sewer Net Revenues	1,055	1,382	1,655	1,710	1,386
Other Revenues (Net)	493	475	254	513	552
Total Net Revenues(e)	4,864	6,241	7,155	8,359	8,199
Debt Service on Utility Revenue Bonds(f)	2,095	3,014	3,680	3,918	4,202

(a) Operating Results are for the fiscal years ended September 30th, except for Bryan, which ended its fiscal year on June 30th in the years 1975 and 1976. In 1976, Bryan changed its fiscal year to one ending September 30th and, as a consequence, the 1977 operating results for Bryan, other than the Electric System, are an 80% proration of the results for such 15-month period.

(b) For Bryan, includes sales of power to the City of College Station, which sales were discontinued in January, 1979.

(c) Included in Other Revenues (Net).

Bryan, Garland and Greenville each operates its electric, water, and sewer systems as a single municipal utility, while Denton's electric system is operated as a separate utility. Information relating to water and sewer systems is presented for informational purposes only.

(Dollars in Thousands)

Denton(a)					Garland(a)					Greenville(a)				
1975	1976	1977	1978	1979	1975	1976	1977	1978	1979	1975	1976	1977	1978	1979
3,252	4,145	5,660	6,575	6,046	10,671	13,936	18,580	22,281	21,131	2,898	2,402	3,272	3,859	4,122
5,656	7,792	10,363	10,979	11,061	10,524	11,213	13,880	16,591	18,535	1,817	3,338	4,557	5,349	5,223
605	1,468	1,685	1,089	1,121	1,044	1,698	2,989	5,911	5,067	112	126	270	195	293
9,513	13,405	17,708	18,643	18,228	22,239	26,847	35,449	44,783	44,733	4,827	5,866	8,099	9,403	9,638
4,622	7,356	10,380	11,179	11,090	10,298	14,093	20,336	28,715	29,369	2,064	3,064	4,531	5,266	4,937
1,855	2,260	2,293	2,414	2,614	3,455	4,756	6,162	5,889	6,761	1,047	1,019	1,216	1,665	2,264
6,477	9,616	12,673	13,593	13,704	13,753	18,849	26,498	34,604	36,130	3,111	4,083	5,747	6,931	7,201
3,036	3,789	5,035	5,050	4,524	8,486	7,998	8,951	10,179	8,603	1,716	1,783	2,352	2,472	2,437
251	265	235	317	464	253	267	319	438	733	12	20	36	(c)	(c)
3,287	4,054	5,270	5,367	4,988	8,739	8,265	9,270	10,617	9,336	1,728	1,803	2,388	2,472	2,437
(d)	(d)	(d)	(d)	(d)	5,821	6,385	8,272	11,275	11,231	874	1,198	1,237	1,242	1,475
(d)	(d)	(d)	(d)	(d)	3,367	3,465	4,184	5,562	6,243	413	471	541	609	653
					2,454	2,920	4,088	5,713	4,988	461	727	696	633	822
(d)	(d)	(d)	(d)	(d)	285	221	353	557	879	378	441	362	488	301
3,287	4,054	5,270	5,367	4,988	11,478	11,406	13,711	16,887	15,203	2,567	2,971	3,446	3,593	3,560
1,869	1,857	1,857	737(g)	1,886	4,780	5,496	6,271	6,950	7,199	1,080	1,190	1,682	1,771	1,789

(d) Denton's water and sewer systems are operated separately from its electric system.

(e) Before depreciation, interest expense, tax equivalents and/or contributions to General Fund.

(f) Maximum debt service scheduled on outstanding bonds: Bryan $4,424,222 in 1981; Denton $2,131,815 in 1986; Garland $8,956,906 in 1981; Greenville $2,074,105 in 1999.

(g) Excludes amounts included in the City's 1978 Refunding Bonds.

DESCRIPTION OF THE SERIES 1980 BONDS

General

The Series 1980 Bonds are dated August 1, 1980, and bear interest therefrom payable semi-annually on March 1 and September 1 of each year, commencing March 1, 1981, at the rates per annum, corresponding to those principal amounts maturing September 1 in each year, as set forth on the cover page of this Official Statement.

The Series 1980 Bonds are issued as coupon Bonds in the denomination of $5,000 each, registrable as to principal only at the office of National Bank of Commerce of Dallas, Dallas, Texas, the Registrar. Title to Series 1980 Bonds not registered as to principal is transferable by delivery. Series 1980 Bonds registered as to principal may be transferred only on the books kept by the Registrar. Interest coupons on all Series 1980 Bonds and the principal of the Series 1980 Bonds, if payable to bearer, shall be paid at the respective principal offices of Chemical Bank, New York, New York, or at the option of the holder, at National Bank of Commerce of Dallas, Dallas, Texas. Principal of Series 1980 Bonds which is registered to other than the bearer, is payable only at the principal offices of the Registrar.

Optional Redemption

The Series 1980 Bonds maturing on or after September 1, 1991, are subject to redemption at the option of the Agency on and after September 1, 1990, as a whole on any date, or from time to time in part on any interest payment date, at the following redemption prices, plus accrued interest to the date of redemption:

Redemption Period (Dates Inclusive)	Redemption Price
September 1, 1990 to August 31, 1991	103 %
September 1, 1991 to August 31, 1992	102½
September 1, 1992 to August 31, 1993	102
September 1, 1993 to August 31, 1994	101½
September 1, 1994 to August 31, 1995	101
September 1, 1995 to August 31, 1996	100½
September 1, 1996 and thereafter	100

If less than all of the Series 1980 Bonds are to be redeemed, the Agency may select the maturity or maturities to be redeemed, and if less than all the Bonds of any maturity are to be redeemed, the Bonds of such maturity to be redeemed are to be selected by lot.

Mandatory Redemption of Term Bonds

The Series 1980 Bonds maturing on September 1, 2000, September 1, 2002, September 1, 2005 and September 1, 2012, are subject to mandatory redemption in part by lot prior to maturity on and after September 1, 1995, September 1, 2001, September 1, 2003, and September 1, 2006, respectively, at 100% of the principal amount thereof plus accrued interest to the date of redemption, from payments into the Bond Fund which are required to be made in amounts sufficient to redeem on September 1 of each year the principal amounts of such Bonds specified for each of the years below:

2000 Maturity

Year	Amount
1995	$ 2,790,000
1996	5,645,000
1997	6,145,000
1998	6,690,000
1999	7,[illegible]35,000
2000 (Maturity)	7,935,000

2005 Maturity

Year	Amount
2003	$10,260,000
2004	11,195,000
2005 (Maturity)	12,215,000

2002 Maturity

Year	Amount
2001	$ 8,635,000
2002 (Maturity)	9,415,000

2012 Maturity

Year	Amount
2006	$13,325,000
2007	14,560,000
2008	15,905,000
2009	17,375,000
2010	18,985,000
2011	20,740,000
2012 (Maturity)	22,660,000

In lieu of calling said Bonds for redemption, the Agency may deliver Series 1980 Bonds of the maturity required to be redeemed to the Paying Agent (prior to the date of publication of the notice of redemption) in the principal amount up to the amount scheduled to be called for redemption in any one year and the principal amount of said Bonds so delivered shall be credited against the amount of said Bonds required to be called for redemption in that year.

DEBT SERVICE REQUIREMENTS
(Dollars in Thousands)

Year Ending September 1	Debt Service on Outstanding Bonds	Series 1980 Bonds			Total Debt Service Requirements
		Principal(1)	Interest	Total	
1980	39,966(2)	–	–	–	39,966(2)
1981	39,966(2)	–	23,964(2)	23,964(2)	63,930(2)
1982	39,966	–	22,121	22,121	62,087
1983	40,656	–	22,121	22,121	62,777
1984	44,146	–	22,121	22,121	66,267
1985	48,343	2,635	22,121	24,756	73,099
1986	48,342	2,790	21,963	24,753	73,095
1987	48,352	2,965	21,788	24,753	73,105
1988	48,342	3,160	21,596	24,756	73,098
1989	48,351	3,370	21,382	24,752	73,103
1990	48,351	3,605	21,146	24,751	73,102
1991	48,353	3,865	20,887	24,752	73,105
1992	48,353	4,155	20,601	24,756	73,109
1993	48,357	4,470	20,285	24,755	73,112
1994	48,353	4,815	19,936	24,751	73,104
1995	48,358	5,200	19,551	24,751	73,109
1996	48,362	5,645	19,107	24,752	73,114
1997	48,360	6,145	18,606	24,751	73,111
1998	48,365	6,690	18,061	24,751	73,116
1999	48,369	7,285	17,467	24,752	73,121
2000	48,371	7,935	16,821	24,756	73,127
2001	48,375	8,635	16,116	24,751	73,126
2002	48,378	9,415	15,339	24,754	73,132
2003	48,392	10,260	14,492	24,752	73,144
2004	48,381	11,195	13,558	24,753	73,134
2005	48,388	12,215	12,539	24,754	73,142
2006	48,396	13,325	11,428	24,753	73,149
2007	48,398	14,560	10,195	24,755	73,153
2008	48,410	15,905	8,849	24,754	73,164
2009	48,423	17,375	7,377	24,752	73,175
2010	48,434	18,985	5,770	24,755	73,189
2011	48,448	20,740	4,014	24,754	73,202
2012	24,294	22,660	2,096	24,756	49,050

(1) Serial maturities and mandatory redemption requirements for Term Bonds. Giving effect to the mandatory redemption requirements, the average life of the Term Bonds due 2000, 2002, 2005 and 2012 would be approximately 18 years, 22 years, 24 years and 29 years, respectively, calculated from August 1, 1980.

(2) Interest funded through September 1, 1981.

SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACT

Sale of Power and Energy

Except in the event a City exercises one of the options discussed below, the Contract requires each City to purchase from the Agency all of the power and energy required for the operation of its electric system in excess of the amount (i) supplied by any generation and transmission facilities owned by it on October 7, 1976, (the date of the delivery of Series 1976 Bonds), including facilities under construction on such date and improvements or extensions of generating facilities which increase the rated capacity thereof, so long as the increase during any period of two successive fiscal years of the Agency does not exceed 10 percent of the rated capacity of such generating facility at the beginning of such period unless all of the Cities and the Agency waive such limitation and (ii) supplied from any generating facility constructed and owned by one or more of the Cities and primarily fueled from and the construction and operation of which is incidental to the disposal of solid waste. The Cities are also free to purchase or exchange power and energy with others than the Agency (A) on an emergency, maintenance or standby basis, (B) on the basis of economic dispatch between the Cities and Brazos or any one or more of such entities, or (C) under the existing pooling agreement between the Cities and Brazos and future pooling agreements among them and others, or any combination thereof, and the Agency. The Contract also requires the Agency to perform certain other services for the Cities. These include comprehensive planning, and undertaking or coordinating design and economic dispatch.

The Agency is required to devote its best efforts to the acquisition of power and energy required to meet the requirements under the Contract. If it is unable to meet such requirements, it shall allocate its available power and energy among the Cities on a pro rata basis, unless a governmental agency requires a different allocation, and other power purchasers as may be provided by contract, and the Cities shall be permitted during said inability of the Agency to purchase only such amounts of power and energy as are not supplied by the Agency. The Contract will remain in effect for a period of thirty-five years from September 1, 1976 or until all Bonds are paid, whichever occurs later.

Purposes For Which Bonds May Be Issued; Approvals Required

Bonds may be issued in connection with Projects, Development Projects and System Development and Reliability Expenditures. No approval of the Cities is required for the issuance of Bonds for a Development Project. Prior to the issuance of the initial series of Bonds to finance a Project (other than Gibbons Creek which, by the terms of the Contract, is approved) or to finance System Development and Reliability Expenditures, the Agency is required to submit a written notice to each City containing a general description of the Project proposed, the projected sources and uses of funds in connection therewith and a statement of the Agency's opinion that such proposed Project is necessary for the Agency to meet its commitments under the Contract and is economically feasible. Each City is required thereafter to notify the Agency within 60 days of its approval or disapproval, and failure to notify the Agency within such period is deemed to constitute approval. If all of the Cities indicate their approval, or are deemed to have approved, the Agency may issue Bonds therefor without the necessity of any further approvals by the Cities. If one or more Cities disapprove and elect Option Two, hereinafter discussed, the Cities which approved may notify the Agency of their desire to commence the Project and if the Agency determines that the Project is still feasible, it may issue Bonds therefor. If any disapproving City elects Option One, then no additional Bonds, which are payable from the net revenues of the System, may be issued for such proposed Project or any future proposed Project.

Election of Options Upon Disapproval

Any City disapproving a proposed Project is required to elect one of two options set forth in the Contract. The effective date of the option elected shall be the first day of the fiscal year of the Agency which is more than 90 days after the date the City disapproves a Project.

Option One. If any disapproving City elects the first option ("Option One"), all Cities shall thereafter be entitled to schedule and receive the same proportion of the available power and energy from the System as their respective Net Energy for Load bears to the total Net Energy for Load of all Cities for the corresponding month of the completed fiscal year of the Agency next preceding the effective date of said Option and shall be obligated to pay to the Agency the same percentage of the Annual System Costs.

Option Two. If any disapproving City elects the second option ("Option Two") and no disapproving City elects Option One, the disapproving City shall take or pay for an amount (not a percentage) of power and energy equal to the amount of power and energy purchased by such City from the Agency during the corresponding month of the 12 consecutive month period preceding the calendar month of the effective date of the exercise of said Option or such other amount as may from time to time be agreed upon by such City, the Agency and the other Cities at the rates and charges established under the Contract.

The amount due from each City after any City elects Option One and the amount due from any City which elects Option Two shall be due and payable irrespective of whether any power and energy is delivered or made available for delivery.

Rates and Charges

The Contract provides that the rates and charges for power, energy and services shall be (1) nondiscriminatory, (2) fair and reasonable and be based on the cost of providing the power, energy and services with respect to which the rates or charges are based and (3) adequate (after taking into consideration other moneys received or anticipated to be received) to pay or make provision for paying Annual System Costs.

Payments by Cities

Except in the event of the exercise by a City of Option One, in which case each City is obligated to pay its share of Annual System Costs as explained above, the Cities are obligated to pay for power, energy and services pursuant to rates and charges established therefor by the Agency.

In addition, each City has covenanted that whenever the amount of money on deposit in the Bond Fund is less than the full amount required to be on deposit therein, without giving consideration to transfers made from other than the Revenue Fund or from Bond proceeds (provided that transfers may be made from the Reserve Fund to the Bond Fund for not more than two consecutive months) it will pay directly to the custodian of the appropriate fund its Percentage Share of that amount which will be sufficient to establish or reestablish the amount required under the terms of the Resolution to be on deposit in the Bond Fund, the Reserve Fund and the Contingency Fund. The obligation of the Cities to make such payments is absolute and unconditional and does not depend upon whether the Agency is in compliance with the provisions of the Contract or whether power and energy are available to the Cities from the Agency. The Contract recognizes that the holders of Bonds shall be third party beneficiaries to such covenant. Each City's portion of such payments, if required, shall be determined, except as described below, on the basis that each City's Net Energy for Load for the preceding fiscal year of the Agency bore to the total aggregate Net Energy for Load of all Cities for such fiscal year of the Agency, and the sum of adjusted percentages shall equal 100%. If any City should disapprove a future Project and elect Option One, such percentages shall be fixed for each City at the percentage its Net Energy for Load bore to the Net Energy for Load of all Cities for the fiscal year of the Agency next preceding the effective date of said Option. If any City disapproves a Project and elects Option Two, the amount of its Net Energy for Load for the purpose of annual adjustments of the percentages shall be fixed at its Net Energy for Load in the fiscal year of the Agency next preceding the effective date of said Option.

In any instance, except that occasioned by the failure of a City or other power purchaser to pay for power and energy, in which the funds of the Agency are insufficient to pay Operating and Maintenance Expenses or other expenses (other than amounts required to be paid into the Bond Fund, Reserve Fund and Contingency Fund as described above) payments shall be made to the Agency by the Cities in the Percentage Shares determined as set forth above. In the event that the Agency is held to be in default under the provisions of the Resolution by reason of the inadequacy of payments required to be made by the Cities under the Contract, the Cities shall cure the default by making payments in the Percentage Shares determined as set forth above. Under certain circumstances a new power purchaser or a new member of the Agency (see "Re-creation of Agency") may assume primary liability for making certain payments to the Agency, including the obligation to make payments to the Custodian of the Bond Fund referred to above, but such assumption shall not discharge the liability of the Cities and the Cities shall remain secondarily liable to make such payments.

The covenant of the Cities to make payments directly into the Bond Fund, Reserve Fund and Contingency Fund applies to all Bonds issued in order to fully provide funds for (i) Projects approved under the Contract, including the design, construction and placing of such Project in commercial operation or to meet any requirement of law, including those of a regulatory agency having jurisdiction, or to pay judgments or casualty losses not covered by insurance, or to meet a safety or overriding public necessity, and (ii) certain other purposes. The Agency has covenanted in the Resolution that it will not issue any additional Bonds under the Resolution unless the Agency has obtained an opinion from bond counsel, selected by it, that the additional Bonds are payable from the same sources and are secured in the same manner as the outstanding Bonds and that the obligation of the Cities to make payments directly into the Bond Fund, Reserve Fund and Contingency Fund as described above is equally applicable to the additional Bonds.

The Contract provides that all payments by a City under the Contract, including any payments required to be made to the Custodian of the Bond Fund, shall constitute an operating expense of its electric system payable solely from the revenues and receipts of such electric system.

Re-creation of Agency

Under the Act, the Cities are given the authority to recreate the Agency by the addition or deletion, either or both, of a public entity as defined in the Act, so long as there is no impairment of obligation of any existing obligations of the Agency.

Unless certain procedures are followed, each City covenants and agrees that it will not join with any of the other Cities to recreate the Agency so as to delete a City but the obligation to make payments directly into the Bond Fund, Reserve Fund and Contingency Fund referred to above shall remain unaffected until the Bonds theretofore and thereafter issued for completion of Projects have been paid and retired. After the Agency receives notice of the intent of a City to withdraw, no Bonds payable from the net revenues of the system shall be issued for a new Project.

Unless certain procedures are followed, each City covenants not to join with any other entity to recreate the Agency by the addition of an entity unless the entity being added expressly either (i) assumes the primary liability for a pro rata share of the Bonds and subordinated indebtedness of the Agency then outstanding (which shall not discharge the liability of those who were obligated when such debts were incurred, who remain secondarily liable) as well as the obligation to make payments, directly to the Bond Fund, Reserve Fund and Contingency Fund referred to above, and assumes thereafter to pay its share of the remainder of the Annual System Costs, or (ii) agrees that it will be obligated only with respect to the payment of Annual System Costs for projects which are approved after the re-creation of the Agency, but in no event shall the Cities be relieved of the obligation, referred to above, to pay the amounts required to be paid into the Bond Fund, Reserve Fund and Contingency Fund with respect to all Bonds theretofore or thereafter issued without regard to such new entity. The Agency and the Cities must approve which of these two choices is made by the new entity.

Rate Covenant of Cities

Each City covenants to establish, maintain and collect rates and charges for the electric service of its electric system which shall produce revenues at least sufficient, together with other revenues available to such electric system and available electric system reserves, to enable it to pay to the Agency, when due, all amounts payable by such City under the Contract.

Sale of Electric Distribution System by Cities; Assignment of Rights

Under the Contract and the Resolution, no sale or other disposition by a City of its electric utility distribution system as a whole or substantially as a whole may become effective during the term of the Contract. A City may assign its rights under the Contract but such assignment shall not relieve such City of its obligations under the Contract during the time any Bonds are outstanding.

Amendments

The Contract may by its terms be amended by the Agency with the consent of all the Cities except that the covenant to make payments directly into the Bond Fund, the Reserve Fund and the Contingency Fund, the provision relating to re-creation of the Agency and certain other provisions may not be amended.

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

Pledge of Revenues and Funds; Application of Revenues

The payment of the principal of, premium, if any, and interest on the Bonds is secured by an irrevocable first lien on and pledge of (i) the Net Revenues and (ii) all funds, including investments thereof, confirmed by the Resolution, other than the Revenue Fund, and the Revenue Fund subject to the payment of Operating and Maintenance Expenses. The Resolution confirms the following funds for the application of the revenues of the Agency:

Funds	Held By
Revenue Fund	A Depository
Bond Fund	Custodian of the Bond Fund
Reserve Fund	Custodian of the Reserve Fund
Contingency Fund	A Depository
Construction Fund	A Depository

Mercantile National Bank at Dallas, Dallas, Texas, has been appointed Custodian of the Bond Fund and the Reserve Fund. Chemical Bank, New York, New York and National Bank of Commerce of Dallas, Dallas, Texas, have been appointed Paying Agents, and National Bank of Commerce of Dallas, Dallas, Texas, has been appointed Registrar for the Series 1980 Bonds. Under the Resolution, the Agency may change any Custodian for cause. There is no trustee appointed under the Resolution.

Revenue Fund

Pursuant to the Resolution, the Gross Revenues of the Agency shall be deposited as received into the Revenue Fund. Amounts on deposit in the Revenue Fund shall be used in the following order of priority:

(1) for the payment of Operating and Maintenance Expenses as they become due;

(2) for required deposits into the Bond Fund;

(3) for deposits in the Reserve Fund to the extent required by the Resolution;

(4) for deposits into the Contingency Fund to the extent required by the Resolution;

(5) to cure any deficiency in the Bond Fund, Reserve Fund or Contingency Fund, in that order;

(6) for other lawful purposes, including:

(a) deposits into a Fuel Reserve Account, established as part of the Revenue Fund for use in paying the cost of fuel acquisition or replacement or fuel working capital; and

(b) distribution to the Cities if the Board of Directors of the Agency determines that amounts so to be distributed are not required for the foregoing purposes.

Bond Fund

Amounts in the Bond Fund shall be used for the payment of the principal of, premium, if any, and interest on the Bonds as the same become due or are required to be called for redemption, and for the purchase of Bonds for credit against mandatory redemption requirements. On or before the 25th day of each month, the Board of Directors of the Agency shall cause to be transferred from the Revenue Fund to the Bond Fund in equal monthly installments the amount determined by the Board of Directors of the Agency to be necessary to provide for the payment of the principal of, premium, if any, and interest on the outstanding Bonds as the same become due or are required to be called for redemption. In the event the moneys in the Revenue Fund are not sufficient to permit the required transfers to the Bond Fund, the amount of the deficiency shall be transferred to the Bond Fund from other funds as provided in the Resolution.

Reserve Fund

The Agency shall maintain in the Reserve Fund an amount equal to the Average Annual Debt Service of the outstanding Bonds calculated as of the date of, and giving effect to, the last series of Bonds delivered. In the event that the moneys in the Revenue Fund are not sufficient to make any required transfer to the Bond Fund, an amount equal to the deficiency shall be transferred to the Bond Fund from the Reserve Fund, unless such amount has been transferred to the Bond Fund from the Contingency Fund. Any deficiency in the Reserve Fund resulting from transfers to the Bond Fund shall be made up by not more than 36 equal monthly deposits into the Reserve Fund. Any moneys in the Reserve Fund in excess of the amount required to be on deposit therein not required to be transferred to the Bond Fund to make up any deficiency therein may be transferred to the Revenue Fund.

Contingency Fund

The Agency shall deposit into the Contingency Fund not less than $2,000,000, or such greater amount as may be determined by the Agency and the Cities, from the proceeds of Bonds or other funds of the Agency available therefor, on or before the date of commercial operation of the initial electric generating facility owned in whole or in part or operated by or on behalf of the Agency. Any deficiency in the Contingency Fund shall be made up by not more than 36 equal monthly transfers from the Revenue Fund, and any moneys in the Contingency Fund in excess of the amount required shall be transferred to the Bond Fund or Reserve Fund to make up any deficiencies therein, and otherwise to the Revenue Fund. If funds are not otherwise available for such purposes, moneys in the Contingency Fund may be used to pay the cost of (a) extraordinary renewals, replacements and additions to and extensions of the System required for its continuing operation, and (b) extraordinary operation and maintenance costs of the System. If the amount of money on hand in the Bond Fund and the Reserve Fund is not sufficient to pay the principal of, premium, if any, or the interest on the Bonds when due, amounts on hand in the Contingency Fund shall be transferred to the Bond Fund to cure the deficiency.

Construction Fund

The Agency shall deposit into the Construction Fund such amounts as are required by the Resolution to be applied to the payment of the cost of acquisition and construction of facilities financed by the issuance of Bonds. Upon the substantial completion of a Project, moneys in the Construction Fund allocable to such Project shall be deposited in the Bond Fund or the Reserve Fund to make up any deficiencies therein, and, in the absence of any such deficiencies, may be deposited in the Bond

Fund for use in retiring Bonds prior to maturity or used for the payment of the cost of acquisition and construction of facilities financed by the issuance of Bonds, as the Agency may direct.

Investment of Moneys in Funds

Moneys in the Bond Fund and the Reserve Fund shall be invested by the Custodian in Investment Securities upon instruction from the Agency. Moneys in the Revenue Fund, Contingency Fund and Construction Fund may be so invested by the Agency. The Agency will prudently select investments based on the recognition of when the moneys being so invested will be needed for the purpose for which they were originally deposited. In computing the amount in any fund, obligations purchased shall be valued at the amortized cost thereof.

Additional Bonds

The Agency may issue additional Bonds in one or more series as needed from time to time for the lawful purposes of the Agency with respect to the System, including payment of the principal of, premium, if any, and interest on any subordinated indebtedness issued for such purposes. All additional Bonds shall be payable from the same source and secured in the same manner on a parity with all other Bonds.

Additional Bonds may be issued only if the following conditions have been met:

(a) The Agency is not in default under the Resolution or in the payment of subordinated indebtedness.

(b) The issuance of the additional Bonds is permitted under the laws of the State of Texas.

(c) The resolution authorizing the additional Bonds

(i) reaffirms the provisions of the Resolution with regard to deposits to be made into the Bond Fund for the payment of Debt Service and specifies the amount of Bond proceeds, if any, to be deposited in any fund established in the Resolution; and

(ii) provides for the deposit in the Reserve Fund of an amount such that the total amount on deposit therein is not less than the Average Annual Debt Service on all outstanding Bonds including the additional Bonds.

(d) The Agency has obtained a certificate from each City showing a forecast of operating results of its electric system which demonstrates the ability of each City to meet the obligations, including payments to the Agency, payable from the revenues of its electric system for the period of (i) ten ensuing fiscal years of each City or (ii) each ensuing fiscal year of each City until the third fiscal year after the latest estimated completion date of any Project previously approved by the Cities, whichever is later; and an independent engineer or engineering firm retained by the Agency has reviewed such forecast and has executed a certificate to the effect that in his opinion such forecast is reasonable and that the Agency will have the ability to meet its obligations during each fiscal year of the forecast period.

(e) The Agency has obtained a report from an independent certified public accountant indicating that the Net Revenues (i) for the fiscal year next preceding the date of the additional Bonds or (ii) for 12 consecutive months out of the 18 months next preceding the date of the additional Bonds were equal to at least 1.25 times the Debt Service for such period, excluding any Bond proceeds deposited in the Bond Fund for the payment of interest, except that such requirement is not applicable to additional Bonds issued for the purpose of completing the financing of a Project for which Bonds have been issued.

(f) The Agency has obtained an opinion from bond counsel, selected by it, that the additional Bonds are payable from the same sources and secured in the same manner as the then outstanding Bonds and that the obligation of the Cities to make payments directly into the Bond Fund, Reserve Fund and Contingency Fund under certain circumstances, as described in "Summary of Certain Provisions of the Power Sales Contract – Payments by Cities", is equally applicable to the additional Bonds.

(g) From and after one year from the date of commercial operation of an electric generating facility, the proceeds of Bonds (other than accrued interest) may not be used for the purpose of paying interest on any outstanding Bonds issued to provide funds for such facility.

Refunding Bonds

The Agency may issue Bonds to refund all or any part of its outstanding Bonds, provided that the requirements for the issuance of additional Bonds shall be met, except that if the Debt Service for the refunding Bonds will in each year be less than the Debt Service for the Bonds being refunded, the requirements described in paragraphs (d) and (e) under "Additional Bonds" above shall not apply.

Subordinated Indebtedness

The Agency may issue evidence of indebtedness for any purposes set forth in the Act secured by a pledge, subordinated in all respects to the pledge in favor of the Bonds, of Net Revenues as may from time to time be available for the purpose of payment thereof after the payments required to be made into the Bond Fund, the Reserve Fund, the Contingency Fund and any additional fund established by the Resolution.

Incurrence of Other Indebtedness

The Resolution does not restrict the incurrence of other indebtedness by the Agency payable out of any source other than the Net Revenues and funds pledged for the payment of the Bonds.

Covenant as to Rates and Charges

The Agency will, at all times while any of the Bonds are outstanding, establish, fix, prescribe and collect rates and charges for the sale or use of electric power and energy or services produced, transmitted, distributed or furnished by the System which, together with other income, are reasonably expected to yield Net Revenues equal to at least 1.25 times the Debt Service of all outstanding Bonds for the fiscal year for which such rates and charges shall apply, excluding Bond proceeds deposited in the Bond Fund for the payment of interest in such fiscal year, and promptly upon any material change in the circumstances which were contemplated at the time such rates and charges were most recently reviewed, but not less frequently than once in each fiscal year, shall review the rates and charges for electric power and energy and services and shall as necessary revise such rates and charges to comply with the foregoing requirement, provided that such rates, charges and income shall in any event produce moneys sufficient to enable the Agency to comply with all its covenants under the Resolution and to pay all obligations of the Agency, including any subordinated indebtedness.

Certain Other Covenants

Against Encumbrances. Except in connection with the acquisition of real property or fuel resources, the Agency will not create, and will use its best effort to prevent the creation of, any mortgage or lien on the System or any part thereof or any property needed for the proper operation of the System or for the maintenance of the revenues therefrom. The Agency will not create, or permit the creation of, any pledge, lien, charge, or encumbrance upon Net Revenues or funds pledged for payment of the Bonds except as provided in or permitted by the Resolution.

Disposition of Properties. The Agency will not sell or otherwise dispose of any property needed for the proper operation of the System or for the maintenance of the revenues therefrom, with the exception of fuel, which may be sold by the Agency at a reasonable price if the Board of Directors of the Agency determines that such sale is in the best interest of the Agency. The Agency will not enter into any lease or agreement which impairs or impedes the operation of the System or which impairs or impedes the rights of the Bondholders with respect to the Net Revenues.

Notwithstanding the foregoing, the Agency, with the prior written approval of the Cities, may sell an ownership interest in a portion of the System to another party and in consideration therefor acquire an ownership interest in property used in the generation or transmission of electric energy or other "electric facilities" as defined in the Act, provided that the ownership interest so acquired shall become a part of the System and shall be an Approved Project as that term is defined in the Contract.

Maintenance of Revenues; Power Sales Contract. The Agency will at all times comply with all terms, covenants and provisions, express and implied, of all contracts and agreements entered into by it for electric power and energy furnished by or available to the System and all other contracts and agreements affecting or involving the System or the business of the Agency with respect thereto. The Agency shall promptly collect all charges due for electric power and energy and services supplied by it as the same become due, and shall at all times maintain and promptly and vigorously enforce its rights against any party who does not pay such charges when due. The Agency shall enforce the provisions of the Contract and duly perform its covenants and agreements thereunder.

Insurance. Subject in each case to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions, the Agency will procure and maintain, or cause to be procured and maintained, at all times while any Bonds are outstanding, insurance on the System in such amounts and against such risks as are usually insurable in connection with similar systems and are usually carried by electric utilities operating similar systems and public liability and property damage insurance as is usually carried by municipal electric utilities operating similar properties. Such insurance shall be adequate in amount and as to the risks insured against, and shall be maintained with responsible insurers. The Agency may establish and create a special fund to be held by a depository for the purpose of providing a self insurance fund and the amount deposited in such fund in any fiscal year shall be charged as an Operating and Maintenance Expense. To the extent amounts may be held in such fund, the face amount of appropriate insurance policies may be reduced.

Books and Records. The Agency covenants that proper books of record and account will be kept in which full, true and correct entries will be made of all income, expenses and transactions relating to the System. On or before 120 days after the close of each fiscal year, a statement for the preceding fiscal year showing the gross operating income and revenues, the operating and maintenance charges and the net operating income of the System and a balance sheet of the Agency as of the end of such fiscal year, all certified by an independent certified public accountant, will be made available at the office of the Agency. The Agency further covenants that the System and all books, records, accounts, documents and vouchers relating to the construction, operation, maintenance, repair, improvement and extension thereof, will at all times be open to inspection by the holders of Bonds and their representatives.

Reconstruction of the System; Application of Insurance Proceeds. If any useful portion of the System shall be damaged or destroyed, the Agency shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the reconstruction or replacement thereof, unless the Agency determines that such reconstruction or replacement is not in the interests of the Agency and the Bondholders. The proceeds of any insurance paid on account of such damage or destruction, other than business interruption loss insurance, shall be paid into the Construction Fund and made available for, and to the extent necessary applied to, the cost of such reconstruction or replacement, if any.

No Free Use of Facilities. None of the net electric power and energy owned, controlled or supplied by the Agency or other services shall be furnished or supplied free. If the Agency sells fuel or water developed or made available by or for the System, a reasonable charge therefor shall be made.

Amendment of Contract. The Agency covenants that it will not permit any amendment to the Contract or give any consent permitted or required by the Contract unless the Agency has obtained an opinion of bond counsel, selected by it, to the effect that such amendment or consent will not adversely affect the security of Bondholders by lessening the amount to be paid to the

Agency thereunder or changing the source or nature of such payment. (See also "Summary of Certain Provisions of the Power Sales Contract, Amendments".)

Amendment of Resolution

The Resolution and the rights and obligations of the Agency and of the holders of the Bonds may be modified or amended at any time with the written consent (i) of the holders of at least sixty per cent in principal amount of outstanding Bonds, and (ii) in case less than all series of outstanding Bonds are affected by the modification or amendment, of the holders of at least sixty per cent in principal amount of the outstanding Bonds of each series so affected, provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified series remain outstanding, the consent of the holders of Bonds of such series shall not be required and Bonds of such series shall not be deemed to be outstanding for the purpose of any calculation of outstanding Bonds. No such modification or amendment shall (A) extend the maturity of any Bond, or reduce the principal amount or redemption price thereof, or reduce the rate or extend the time of payment of interest thereon, without the consent of the holder of each Bond so affected, or (B) reduce the aforesaid percentage of Bonds required for the affirmative vote or written consent to an amendment or modification of the Resolution without the consent of the holders of all of the outstanding Bonds.

The Resolution and the rights and obligations of the Agency and of the holders of the Bonds may be modified or amended at any time by a supplemental resolution, without the consent of any Bondholders, but only to the extent permitted by law and only (i) to add to the covenants and agreements of the Agency contained in the Resolution or other covenants and agreements thereafter to be observed, or to surrender any right or power herein reserved to or conferred upon the Agency; or (ii) to cure any ambiguity, or to cure or correct any defective provision contained in the Resolution, upon receipt by the Agency of an approving opinion of bond counsel, selected by the Agency, that the same is needed for such purpose and will more clearly express the intent of the Resolution.

Discharge of Indebtedness

All outstanding Bonds of any series and all coupons appertaining to such Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the Agency to the holders thereof shall thereupon cease, terminate and become void and be discharged and satisfied if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Agency shall have given notice of redemption of such Bonds on said date, and (ii) there shall have been deposited with the Paying Agents either (A) moneys in an amount which shall be sufficient, or (B) Investment Securities (including any Investment Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States), the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Paying Agents at the same time, shall be sufficient to pay when due the principal of, premium, if any, and interest to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be.

Notice of Redemption of Bonds

Notice of redemption (except as provided below) shall be given by publication at least once prior to the redemption date in a financial journal or newspaper of general circulation in The City of New York and a journal or newspaper published in Texas, such publication to be not less than 30 days before such redemption date. If any Bond called for redemption is registered as to principal, notice of redemption thereof shall also be mailed, not less than 30 days prior to the redemption date, to the registered owner thereof, but neither failure to mail such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption thereof. Each notice of redemption shall state the redemption date, the place of redemption, the principal amount and, if less than all, the distinctive numbers of the Bonds to be redeemed, and shall also state that the interest on the Bonds in such notice designated for redemption shall cease to accrue from and after such redemption date and that on said date the redemption price plus accrued interest will become due and payable on each of said Bonds. If at the time of giving notice of redemption there are no outstanding Bonds except Bonds registered as to principal, publication of such notice shall be deemed to have been waived if the Registrar executes a certificate to the effect that such notice was mailed to each registered owner of such Bonds at his address as it appears on a ledger kept by the Registrar or at such address as he may have filed with the Registrar for that purpose.

Events of Default and Remedies of Holders

Events of default specified in the Resolution include (i) failure to make any payment of principal of, premium, if any, or any installment of interest on, the Bonds, when the same become due and payable; (ii) default in any covenant, undertaking or commitment contained in the Resolution, the failure to perform which materially affects the rights of the holders of Bonds, and the continuation thereof for a period of 60 days after notice of such default by any holder of any Bonds; and (iii) the dissolution or liquidation of the Agency, other than re-creation as provided by the Act or the Contract, the filing by the Agency of a voluntary petition in bankruptcy, the commission by the Agency of any act of bankruptcy, adjudication of the Agency as a bankrupt or assignment by the Agency for the benefit of its creditors, the entry by the Agency into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Agency in a proceeding for its reorganization under any applicable law or statute.

Upon the happening and continuance of any such event of default, any holder of Bonds may proceed against the Agency for the purpose of protecting and enforcing the rights of the holders of Bonds under the Resolution, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained therein, or thereby to enjoin any act or thing which may be unlawful or in violation of any right of the holder of Bonds under the Resolution, or any combination of such remedies. Each such right or privilege shall be in addition to and cumulative of any other right or privilege and the exercise of any right or privilege by or on behalf of any holders of Bonds shall not be deemed a waiver of any other right or privilege thereof.

If an event of default has occurred, then moneys of the Agency shall be applied first to the payment of interest on Bonds that has become due and second to the pro rata payment of the principal amount of and premium, if any, on Bonds outstanding which have become due.

SUMMARY OF CERTAIN PROVISIONS OF THE JOINT OWNERSHIP AGREEMENT

The Joint Ownership Agreement grants the Agency a 6.2% undivided ownership interest in the Comanche Peak Station, and certain related nuclear fuel, the acquisition of such interest from DP&L having now been approved by the NRC.

The agreement establishes an Owners Committee, one member being designated by each owner, for the purpose of securing effective cooperation interchange of information, and providing consultation on a prompt and orderly basis among the parties. All decisions of the Owners Committee are by agreement of representatives of owners whose ownership shares in the aggregate exceed 50%, but the decision of such majority must not be arbitrary and capricious or contrary to the terms of the agreement. The representative of an owner who feels that a decision is arbitrary or capricious or is contrary to the terms of the agreement may require that the matter be submitted to a project consultant who will arbitrate the question.

TUGCO is designated project manager and as such is responsible for the licensing, construction, insuring, operation and maintenance of the Comanche Peak Station and for the procurement of nuclear fuel, the procurement of services for conversion, enrichment and fabrication of fuel, the licensing of the use of fuel, and its storage, transportation, disposition, use and reprocessing.

The Agency is obligated to pay 6.2% of all future (i) construction costs, (ii) nuclear fuel costs, and (iii) operating costs (after the station is placed into commercial operation) (iv) a management fee of five percent of its pro rata share of operating costs and (v) a management fee of five percent of its pro rata share of fuel cost (subject to certain cost escalation limitations). Subject to certain operational exceptions, the Agency is entitled to receive 6.2% of the net power output that the station is capable of producing at any given time.

The signatories to the agreement (i) with respect to third party tort and contract claims, are each responsible for its ownership share thereof as a part of the project costs, except each is totally responsible for its own willful action, breach of the agreement and claims of its own customers; (ii) have no cause of action or remedies against each other for injuries to others, or damage to project property or property of others, by reason of the construction, operation or ownership of the station except for willful action or breach of the agreement (unless the breach is the failure to follow Prudent Utility Practice); (iii) have the right to sell or otherwise dispose of its interest (subject to the right of first refusal of other owners); (iv) are relieved of the obligation to perform when the same is prevented by an uncontrollable force; (v) are required to pay any taxes due on their respective ownership interest in the project; and (vi) waive the right of partition.

The agreement is to continue in force, to the fullest extent permitted by law, so long as two or more parties continue to own an interest in the station.

If the station is damaged or destroyed in whole or in part and insurance proceeds plus any deductible cover the estimated cost of repair or replacement, the station must be repaired or replaced. If the estimated cost of repair or replacement is not so covered, and all of the owners do not agree that the same is to be repaired or replaced, then any owner who does not agree to do so is obligated to sell its interest to the approving owners at a price specified in the agreement.

The project manager is required to take necessary steps to surrender the operating license and to decommission or sell any affected portion of the Comanche Peak Station if directed to do so by final action of the NRC, or by a court of competent jurisdiction or by owners whose aggregate interests exceed 90% of the Comanche Peak Station.

If an owner defaults in making any payment or performing any obligation at the time and in the manner specified, after receiving thirty days notice of such default, the non-defaulting owners may (i) discontinue the project and liquidate the same, or (ii) make the payment or perform the obligations for the defaulting owner. If the default continues for six months, the non-defaulting owners may (A) pursue all remedies afforded by law, (B) require the defaulting owner to cease taking its share of energy, and (C) acquire the undivided interest and energy entitlements of the defaulting owner at the defaulting owner's cost, less depreciation and the amount necessary to remedy the default.

Before transmitting power and energy in interstate commerce, an owner is required to (i) give adequate notice thereof to the remaining owners so as to permit them to arrange their affairs to avoid federal regulation under the Federal Power Act and (ii) engage in such transmission only pursuant to sections 202(d), 210 or 211 of that Act. The Agency has waived its rights under this provision should the Companies transmit power and energy in interstate commerce. (See "Regulatory Bodies, Interstate Transmission").

FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The electric utility industry, of which the Agency and the Cities are a part, in general has been experiencing, or may in the future experience, problems including (a) increased costs of fuel, wages, materials, equipment and licensing requirements, (b) substantially increased capital outlays and longer construction periods for the larger and more complex new generating units, (c) uncertainties in predicting future load requirements, (d) increased financing requirements and costs coupled with limited availability of capital, together with interest rate limitations under State law, especially as they relate to the financing of public projects, (e) exposure to cancellation and penalty charges on new generating units under construction, (f) fuel availability, and uncertainty about disposal of spent nuclear fuel, (g) compliance with rapidly changing environmental, safety and licensing requirements, particularly for nuclear facilities after the TMI incident, (h) litigation and proposed legislation designed to delay or prevent construction of generating and other facilities and to limit the use of existing facilities and (i) uncertainties associated with the development of a national energy policy. Any of these factors may require modification of facilities and in some cases delay construction with resulting increases in construction and operating costs.

National energy legislation was enacted in November 1978. Such legislation seeks to achieve the conservation of energy and the development and use of more plentiful domestic fuels through various regulatory and tax provisions. Among other things, it is designed to increase the use of coal as boiler fuel and decrease the use of natural gas and oil. The legislation also regulates, at the federal level, intrastate gas prices. The Agency is presently unable to predict the ultimate effect of this legislation upon its operations and upon the operations of the Cities. (See "Cities Electric Systems").

REGULATORY BODIES

Public Utility Commission

The Public Utility Commission of Texas (the "Commission") was created in 1975 by the Texas Legislature to regulate certain utility rates, operations, and services within the State.

The Agency. The Agency has taken the position that under the Texas Public Utility Regulatory Act (the "Statute") the Commission does not have jurisdiction over the Agency. In Docket No. 41 of the Commission, issued on October 8, 1976, the Commission found that it did not have jurisdiction to require the Agency to obtain certificates of convenience and necessity before building facilities within the state. The Act, which reserves to the State the right to regulate the rates of the Agency, provides that the State will not limit the powers of the Agency to establish and collect rates and charges as will produce revenue sufficient to pay, among other things, operation and maintenance expenses and debt obligations of the Agency. In an opinion, dated July 22, 1980, the Attorney General of Texas advised the Commission that, in his opinion, the Agency is not a public utility as defined in the Statute and that the Commission has no original or appellate jurisdiction over the Agency's rates or services. (See "The Agency, Powers Under the Act, Rates and Charges").

The Cities. Within its boundaries, each City has exclusive jurisdiction over the electric rates, operations and services of its municipal system. The Cities also have exclusive original jurisdiction over their electric systems outside their City limits, although the Statute confers appellate jurisdiction on the Commission to determine retail municipal rates outside the City limits if a qualified petition is filed by retail ratepayers. In the opinion of counsel to the Commission, the Commission does not have appellate jurisdiction over wholesale rates or services of a municipal system outside the municipal boundaries. Under present law, the Cities can therefore sell, within their corporate limits, electricity provided to them by the Agency without being subject to the jurisdiction of the Commission. The Cities can also transfer wholesale power from their systems to other entities (including the Agency) without being subject to the jurisdiction of the Commission.

Interstate Transmission

Six major investor-owned and seven public electric utility systems in Texas, including the systems of the Companies and West Texas Utilities Company ("WTU"), are members of TIS and have historically operated solely within Texas and therefore have not been subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). In May of 1976, however, WTU began transmitting electric energy into Oklahoma. When this occurred, several major Texas electric utilities, including the Companies, broke off interconnections with WTU, and the State was divided into two major groups, one transmitting only inside the State, the other transmitting in interstate commerce. The Cities remained connected with the group that transmitted only within the State.

There are at present at least five proceedings regarding this dispute pending in the Securities and Exchange Commission (the "SEC"), the FERC, the United States Court of Appeals for the Fifth Circuit, a Texas state court, and the NRC. Two other proceedings, one in the Commission and an antitrust lawsuit in the United States District Court in Dallas, have held in favor of the intrastate group. These proceedings are being appealed. Certain of the parties to the NRC antitrust proceedings regarding the Comanche Peak operating licenses (see "Comanche Peak Regulatory Approvals") are attempting to settle the antitrust proceedings and the other proceedings regarding interstate transmission, but not all parties have agreed to the proposed settlement, and the approval of several different regulatory bodies and courts will be required before a settlement can become effective. The Agency is not a party to any of the pending proceedings, and their outcome, and whether the Agency will ultimately be interconnected in interstate commerce, cannot be predicted.

AVAILABLE INFORMATION REGARDING THE COMPANIES

The Companies and TU are subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith file reports and other information with the SEC. Certain information as of particular dates, concerning such companies, their respective corporate enterprises, their directors and officers and their remuneration and other matters, is disclosed in such reports and filed with the SEC. Such reports and other information can be inspected and copied at the offices of the SEC at Room 6101, 1100 L Street, N.W., Washington, D.C.; Room 1204, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois; Room 1100, 26 Federal Plaza, New York, New York; Suite 1710 Wilshire Boulevard, Los Angeles, California; and Room 800, Neil P. Anderson Building, 411 West Seventh Street, Fort Worth, Texas. Copies of such material can be obtained from the Public Reference Section of the SEC at 500 Capitol Street, N.W., Washington, D.C. 20549 at prescribed rates.

LITIGATION

No litigation is pending or, to the knowledge of the Agency threatened, challenging the existence of the Agency, the validity or delivery of the Bonds or the security provided for the Bonds in the Contract.

TAX EXEMPTION

In the opinion of Bond Counsel, interest on the Series 1980 Bonds is exempt from present federal income taxes under existing laws and regulations.

The Agency will issue its certificate to the effect that on the basis of the facts, estimates and circumstances in existence on the date of the delivery of the Series 1980 Bonds, it is not expected that the proceeds of the Series 1980 Bonds will be used in a manner that would cause the Series 1980 Bonds to be "arbitrage bonds" under Section 103(c) of the Internal Revenue Code of 1954, as amended.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 1980 Bonds are subject to the unqualified approving opinion of Messrs. Dumas, Huguenin, Boothman & Morrow, Dallas, Texas, Bond Counsel. Said opinion in substantially the form attached as Exhibit I will be printed on the Bonds. The delivery of the Series 1980 Bonds is also subject to the unqualified opinion of the Attorney General of Texas that such Bonds have been issued in accordance with the Constitution of the State of Texas and the Act and will be binding special obligations of the Agency. Certain legal matters will be passed upon for the Underwriters by Messrs. Hutchison Price Boyle & Brooks, Dallas, Texas, and for the Agency by its General Counsel, Naman, Howell, Smith, Lee & Muldrow, P.C., Waco, Texas.

LEGAL INVESTMENT IN TEXAS

The Act provides that the Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations and insurance companies and are eligible to secure the deposit of any and all public funds of the State of Texas and any and all public funds of cities, towns, villages, counties, school districts or other political corporations or subdivisions of the State of Texas, and that such obligations shall be lawful and sufficient security for said deposits to the extent of the principal amount thereof, or their value on the market, whichever is the lesser, when accompanied by all unmatured coupons, if any, appurtenant thereto.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Corporation have given the Bonds ratings of "A" and "A+", respectively. Such ratings reflect only the views of the respective rating agencies. Any further explanation of the significance of such ratings may be obtained from such firms. 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 such organizations, if in the judgment of said organizations, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed to purchase all, but not less than all, of the Series 1980 Bonds at a price representing an aggregate discount of 1.772% from the initial public offering prices set forth on the cover page hereof.

The Underwriters may offer and sell Bonds to certain dealers and others at prices lower than the initial public offering prices and the initial public offering prices may be changed from time to time by the Underwriters.

This Official Statement has been approved by the Texas Municipal Power Agency.

TEXAS MUNICIPAL POWER AGENCY

By /s/ RICHARD SMITH
President of the Board of Directors

R. W. BECK AND ASSOCIATES

ENGINEERS AND CONSULTANTS

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FILE NO. SS-2166-EF4-MX

July 28, 1980

Texas Municipal Power Agency
600 Arlington Downs Tower
2225 E. Randol Mill Road
Arlington, Texas 76011

Gentlemen:

Subject: Supplemental Letter to Consulting Engineer's Report for Texas Municipal Power Agency Series 1980 Revenue Bonds

Since we prepared our July 18, 1980 report relating to the Series 1980 Revenue Bonds, TUSI has publicly announced the results of its review of the estimates of costs and projected commercial operating dates for Comanche Peak, which we referred to on page A-12 of our report. We received and reviewed this new information and our conclusions follow.

TUSI now estimates that the construction cost of CPSES will be $1,841,000,000. This new estimate would require the Agency to provide $27.6 million for its 6.2% share of the increased cost of CPSES. As was reflected on page A-13 of our report, the cost estimates we used for the Comanche Peak Project included $36 million of Agency contingency funds. After providing for the $27.6 million increase, the Agency will still have $8.4 million of contingency funds available for the Comanche Peak Project. This $8.4 million is equal to 27% of the Agency's share of TUSI's forecast for remaining expenditures for CPSES.

The other differential of information received related to commercial operating dates. We assumed April 1982 for Unit #1; TUSI forecasts June 1982. For Unit #2 we assumed October 1983; TUSI forecasts March 1984. The principal impact of these extensions is to increase the amounts needed to fund interest during construction and to make required deposits into the Reserve Fund.

Integrating the implications of the new commercial operating dates and assuming that all direct construction costs presently estimated by TUSI and the $8.4 million Agency contingency fund will be expended results in an increase in the estimated financing requirements for the Comanche Peak Project of $4.7 million or 2.3% of the amount used in our report. Compared to the estimated Agency financing requirements for all presently authorized projects the increase is .43%. The modification to estimated Agency power costs is an average increase of less than .1% for the period 1984 through 1990. The cost of power to the Cities for the same period would increase an average of .03%.

Considering the above cited information, we are of the opinion that the TUSI information furnished to us by TUSI on July 22, 1980, will not materially alter the Agency's financing requirements or the cost of power to the Cities as estimated in our July 18, 1980 report.

Very truly yours,
/s/
R. W. BECK AND ASSOCIATES

Seattle, WA • Denver, CO • Phoenix, AZ • Orlando, FL • Columbus, NE • Wellesley, MA • Indianapolis, IN • Minneapolis, MN • Nashville, TN • Sacramento, CA

R. W. BECK AND ASSOCIATES

ENGINEERS AND CONSULTANTS

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FILE NO. SS-2166-EF4-MX

July 18, 1980

Texas Municipal Power Agency
600 Arlington Downs Tower
2225 E. Randol Mill Road
Arlington, Texas 76011

Gentlemen:

Subject: Consulting Engineer's Report
for Texas Municipal Power Agency
Series 1980 Revenue Bonds

Submitted herewith are the results of our review, investigation and analysis of the proposal of the Texas Municipal Power Agency (the "Agency") to issue Revenue Bonds, Series 1980 (the "Series 1980 Bonds"), in the principal amount of $250,000,000. This is the fourth such report we have prepared for the Agency in relation to securing funds for executing the principal projects recommended in a Power Supply Study we prepared in 1974.

The proceeds of the Series 1980 Bonds will be used primarily for continuing the acquisition and/or construction of the Gibbons Creek Project and the Comanche Peak Project, both of which are hereinafter defined. Funds are also to be used for interest from March 1, 1981 to September 1, 1981 on outstanding bonds and to September 1, 1981 on the Series 1980 Bonds, and for deposits into the Reserve Fund and the Contingency Fund as required by the Bond Resolution.

The Projects

The power supply program presently being implemented by the Agency is in accord with authorization given by the Cities of Bryan, Denton, Garland and Greenville (the "Cities"), as required by provisions of identical Power Sales Contracts between the Agency and each of the Cities dated September 1, 1976 (the "Power Sales Contract"). The Agency will be responsible for additional projects to the extent that the Cities elect to authorize and participate in same.

In developing the projects described herein, the Agency has acquired, or is acquiring, ownership in land, mineral rights, equipment, and facilities and has acquired contractual rights to use facilities of others. Additional details of the components of the projects are presented in subsequent sections of this report.

As used herein, the Gibbons Creek Project refers to a 443 MW lignite-fueled steam electric station, an adjacent surface lignite mine and certain transmission facilities (the "Gibbons Creek Project").

The Comanche Peak Project is the Agency's 6.2% ownership interest (142MW) in the Comanche Peak Steam Electric Station ("CPSES"), the nuclear fuel supply thereof and an undivided ownership interest in certain related transmission facilities (the "Comanche Peak Project").

The balance of the CPSES, nuclear fuel supply and certain transmission facilities are owned by Texas Electric Service Company ("TESCO"), Dallas Power & Light Company ("DP&L") and Texas Power & Light Company ("TP&L"), sometimes collectively referred to herein as the "Companies", and the Brazos Electric Power Cooperative, Inc. ("Brazos"). Tex-La Electric Cooperative of Texas, Inc. ("Tex-La") a federation of rural electric distribution cooperatives in East Texas, has indicated interest in owning 4.35% of CPSES, the nuclear fuel supply thereof and related transmission facilities by purchase from TP&L. The initial steps toward this end have been taken and it is possible that Tex-La may ultimately become a joint owner.

As indicated, some transmission facilities are included in each of the above-cited projects. Additional transmission facilities are required to reinforce the area transmission grid, to facilitate delivery of power to the Cities and to allow the coordination of City-owned and Agency-owned generating facilities. The proposed Agency transmission facilities consist principally of 138 kV and 345 kV facilities and a small amount of 69 kV facilities. These transmission facilities, together with equipment for communications and economic dispatch functions and investigative activities for additional fuel supplies, are collectively authorized as System Development and Reliability Expenditures, a Project under the Power Sales Contract, referred to herein as the "SDRE Project".

The Gibbons Creek Project, the Comanche Peak Project and the SDRE Project are sometimes referred to herein collectively as "Projects".

Power Requirements and Resources

The Cities individually own electric utility systems serving customers within and without their corporate limits and at the present time, through an economic dispatch arrangement, collectively meet the joint power supply requirements from units owned by the individual Cities. The principal fuel being used is natural gas with oil used only to a limited extent during periods when problems of natural gas delivery occur.

The rapid cost increases, both historical and forecasted, of natural gas and oil provide ample incentive for developing generating units capable of using lower cost alternative energy sources. The present natural gas contracts between the Cities and the Lone Star Gas Company provide a supply of natural gas through 1984 at consistently increasing price levels. The average 1979 cost of natural gas to the Cities was $2.00 per million Btu. Projected escalation is estimated to result in a 1984 contract price of approximately $3.10 per million Btu. Beyond 1984, the cost is expected to continue to increase in view of the scheduled partial price de-regulation and the present indications of declining long-term reserves.

In addition to the problem of rapidly increasing costs of petroleum fuels, the Cities must comply with limitations and requirements of governmental rules, regulations and laws. The Federal Government, except for certain potential exemptions, prohibits the construction of new base load generating units that would plan on using natural gas or oil as their primary fuel source. Existing generating units are also subject to meeting Federal mandates, also with potential exemptions, to reduce the consumption of oil and terminate the use of natural gas by 1990. A previous order from the Texas Railroad Commission (GUD 600) requiring reductions by 1981 and 1985 of the quantity of natural gas used as a boiler fuel has been rescinded, thus eliminating any State mandated reduction in gas consumption prior to 1990.

Existing City-owned units have a combined capability of approximately 932 MW. A comparison of the forecasted combined load levels prepared by each of the Cities plus transmission losses with the total City-owned generating capacity indicates that a capacity deficiency can be anticipated to occur, starting in 1984. Without appropriate action to supply the forecasted deficiency, indicated to continue and increase in subsequent years, the Cities would collectively experience conditions requiring service interruptions to substantial numbers of customers.

The Cities thus have three reasons for securing additional generating capacity: to realize the benefits of less costly fuel; to meet forecasted load growth; and to replace base load units using fuel subject to governmental regulations for reduction or elimination.

The magnitude of the estimated loads, as developed by the Cities for the Agency, is shown in the following table:

Projected Peak and Energy Requirements(1)

Peak (MW)

	Bryan	Denton	Garland	Greenville	Total(2)
1980	117	119	317	64	617
1981	124	128	338	67	657
1982	134	140	360	69	703
1983	143	152	380	72	747
1984	152	164	401	75	792
1985	158	177	423	77	835
1986	164	185	445	80	874
1987	171	192	468	84	915
1988	177	199	490	87	953
1989	184	207	513	89	993
1990	191	214	536	92	1,033
Average Annual Growth Rate	5.02%	6.04%	5.39%	3.70%	5.29%

Energy (MWh x 1,000)

	Bryan	Denton	Garland	Greenville	Total
1980	463	503	1,388	243	2,597
1981	509	545	1,481	261	2,796
1982	551	594	1,575	275	2,995
1983	595	644	1,663	288	3,190
1984	634	697	1,756	301	3,388
1985	661	751	1,853	314	3,579
1986	684	784	1,949	328	3,745
1987	710	814	2,049	343	3,916
1988	736	845	2,148	356	4,085
1989	763	873	2,247	370	4,256
1990	791	909	2,348	382	4,430
Average Annual Growth Rate	5.50%	6.10%	5.40%	4.63%	5.49%

(1) Twelve months ending September 30.

(2) The Cities' peak demands are considered to be essentially coincidental.

Actual 1979 combined loads of the Cities were lower than forecasted in 1979. The peak load was 88.8% and the energy load was 97.2% of that forecasted.

The Cities' 1980 load forecasts start with lower initial levels and increase at a somewhat lesser rate than previous forecasts. In general, the loads reflect factors that are considered most significant by the particular City preparing the forecast. Denton, as an example, indicates a considerable increase in the forecasted number of residential customers and sales but a reduction in commercial and industrial sales. Conversely, Bryan forecasts a lesser increase in the number and average consumption of residential customers than previously forecast. Greenville has changed its forecast very little.

Generally, the load forecasts reflect a utility industry trend for more conservative increases in recognition of the recent changes in historical load growth trends, unsettled economic conditions, conservation and other factors.

Combining the forecasted peak loads with estimated transmission losses and reserve requirements provides an indication of the level of capacity that the Cities must plan to meet. The development of the Gibbons Creek and Comanche Peak Projects will provide the Cities new capacity with which to supply their combined peaks that would otherwise exceed the capacity of the City-owned units.

The following table indicates the load-resource balance using previously cited combined peak load figures:

Projected Peak Loads and Resources

(MW)

Year(1)	Cities' Peak Requirements	Transmission Losses(2)	15% Reserve(4)	Total Requirements	Cities' Resources	Agency's Resources	Total Resources	Load-Resource Balance
1980	617	(3)	93	710	932	0	932	222
1981	657	20	99	776	932	0	932	156
1982	703	21	105	829	932	71(5)	1,003	174
1983	747	22	112	881	932	471(6)	1,403	522
1984	792	24	119	935	932	542(7)	1,474	539
1985	835	25	125	985	932	542	1,474	489
1986	874	26	131	1,031	932	542	1,474	443
1987	915	27	137	1,079	932	542	1,474	395
1988	953	28	143	1,124	932	542	1,474	350
1989	993	30	149	1,172	932	542	1,474	302
1990	1,033	31	155	1,219	932	542	1,474	255

(1) Twelve months ending September 30.

(2) Assumed at 3% of load.

(3) Most Agency transmission facilities do not start service until 1981, thus no losses are assumed in 1980.

(4) As required by Texas Interconnected System, a statewide utility coordinating group.

(5) 71 MW of Comanche Peak, Unit # 1 added.

(6) 400 MW of Gibbons Creek added.

(7) 71 MW of Comanche Peak, Unit # 2 added.

The Cities are presently operating their generating units according to a system of economic dispatch which is limited due to the inadequate capacity of certain transmission facilities. This dispatching arrangement is expected to continue on an improved basis as a result of certain SDRE Project facilities and the availability and use in base load status of the Agency generating capability presently under construction. The future operating arrangement will assist the City-owned units in complying with governmental requirements relating to reducing consumption of oil and natural gas. It is thus expected that the capacity indicated as excess in the above table (Load-Resource Balance Column) will be in the units owned by the Cities. Although the Cities have the authority to sell power from the capacity indicated as excess, no revenue has been assumed to be so derived. Additionally, since fuel is a major component of generating costs, lower fuel costs will make the use of the Comanche Peak and Gibbons Creek Projects in base load status the most economically attractive operation. The relative fuel cost levels per million Btu's forecast for 1984, as an example, are: lignite, $1.35; nuclear, $0.72; and natural gas, $3.10.

Present Power Supply Program

The Agency is presently implementing the Projects that the Cities have formally approved in accord with the Power Sales Contract. These Projects, as previously cited, are the Gibbons Creek Project, the Comanche Peak Project and the SDRE Project.

Included in the Agency's activities relevant to completing these Projects was the development of certain transmission agreements. The Agency also is coordinating activities with the Cities through which economic dispatch will be continued and optimized using both Agency and City-owned facilities.

The Projected Peak Load and Resources table indicates that the presently authorized generating Projects are adequate, together with some use of City-owned units, to supply the combined loads of the Cities through 1990. Load flow studies also indicate that the transmission facilities planned for construction and those available through contractual arrangements will be adequate to allow the reliable delivery of power from said Projects to the Cities at least until 1991.

Certain Agreements or Contracts

The following is the status of contracts considered necessary but pending at the time of the Agency's last financing.

Contractual agreements with the Companies and Houston Lighting & Power Company ("HL&P") herein referred to respectively as the "Transmission Agreement" and "Interconnection Agreement" have been consummated. These agreements and the construction of certain SDRE Project facilities will provide adequate transmission capacity to deliver Agency power at the time the Agency generating units begin commercial operation.

The present construction schedules eliminate a previous need for a contract which would have allowed the Agency to use 69 kV facilities of Brazos.

A contract has been executed with Brazos River Authority to provide back-up cooling water if precipitation is inadequate to maintain an acceptable reservoir elevation of the Gibbons Creek Project cooling pond.

Another arrangement relating to Agency operations has also been recently initiated whereby the Agency has been designated as a member of the Texas Interconnected System ("TIS"), an intra-state arrangement for mutual operating and planning of facilities to ensure reliability of electric utility operations.

Even though economic dispatch is now operating on a limited basis, an arrangement is needed to effectively provide for the scheduling of all City-owned units in coordination with those of the Agency, and to develop a method for distribution of [illegible] Initial activities are in the preliminary development stage with several options available to implement such an arrangement including a modification of the Interchange Agreement, the document originally executed by the Cities and Brazos for coordinating planning and operation of their respective utility facilities.

Gibbons Creek Project

The Gibbons Creek Project includes a lignite-fired steam electric generating station with 400 MW of net generating capability, an adjacent surface lignite mine and certain transmission facilities to interconnect the generating station to the TIS transmission system. The Gibbons Creek Project, scheduled to be in commercial operation in October, 1982, is located in Grimes County, Texas near the community of Carlos, about 20 miles east of the City of Bryan.

The Agency has contracted with several organizations in regard to various facets of the Project. Tippett & Gee, Inc. of Abilene, Texas is responsible for the design of the generating station, Freese and Nichols, Inc., Fort Worth is responsible for design of the dam, make up-water facilities, mine surface water control and railroad facilities; Austin Power, Inc., Dallas is the general contractor for the generating station; and several other major construction entities are involved in major works such as the reservoir and dam, miscellaneous buildings, etc.

The Paul Weir Company, Inc. of Chicago was responsible for initially determining the location and quantity of lignite fuel, preparing a mining plan and estimating capital and annual costs. Based on a report prepared by the Paul Weir Company, ("Weir Report"), the Agency initiated the procurement of lignite reserves and subsequently requested proposals for the operation of the mine and other mine-related work. The Agency executed a contract with the Morrison-Knudsen Company ("M-K") of Boise, Idaho under which M-K will construct and operate the mine, prepare optimized mining plans, prepare capital and annual cost estimates, and monitor the assembly of the draglines.

Environmental analysis and geotechnical services have been previously accomplished by the TERA Corporation, Berkeley, California and National Soils Services, Dallas, respectively. The Agency now has "in-house" environmental staff which handles the environmental matters.

Responsibility for supervising, coordinating and managing the generating station construction has been retained by the Agency. Agency personnel located at the construction field office adjacent to the generating station site include the construction manager, engineers, inspectors, accountants, surveyors, and warehouse operators. This Agency staff is supplemented by personnel from Tippett & Gee, Freese and Nichols and the J. A. Jones Construction Company of Charlotte, North Carolina, a construction management entity.

Design activities for major elements of the Gibbons Creek Project are completed to the extent indicated by the entities responsible for design in the following tabulation:

Steam Electric Generating Station	89%
Dam and Reservoir	97%
Railroad Spur	100%
Transmission Facilities	80%

Gibbons Creek Generating Station

The Gibbons Creek Generating Station ("Gibbons Creek Station") utilizes an outdoor design concept with the boiler and turbine generator exposed to the elements. Also included are a switchyard, lignite and ash handling facilities, precipitator, flue gas desulfurization system, a dam and reservoir on Gibbons Creek, buildings to house office, warehouse and maintenance activities, and a railroad spur.

The boiler is designed to burn pulverized lignite with the characteristics found in the mine. The steam generator is intended to provide gross station generating capability of about 443 MW. Station and mine use is expected to be about 43 MW which would give a net station capability of 400 MW which has been used for the purpose of this report.

The Agency environmental staff has indicated that all permits necessary for the construction of the Gibbons Creek Station have been issued. At the appropriate time in the future, the applications will be submitted for the remaining operating permits. Combustion control techniques, electric particulate precipitation, and limestone slurry scrubbers will be used in the operation of Gibbons Creek Station to meet stack emission regulations. The Agency staff foresees no obstacles in obtaining the operating permits under present regulations.

Construction of the Gibbons Creek Station was initiated in July, 1977. Since that time, several construction contracts have been awarded and substantial progress is evident by the facilities in place. Access roads, railroads, coal silos, chimney, site work, boiler house foundations and structural steel and four plant warehouses are complete. Major highway work which will facilitate the transportation of lignite from the mine to the station, is progressing on schedule. Most construction facilities are in place and operational. The Agency construction management staff is operating in office space occupying a portion of the building ultimately to be used as the principal Station warehouse.

The general contract was awarded to Austin Power, Inc. ("Austin") and their work was initiated in September, 1979. As of the first of June, 1980, Austin indicated their work was 8.2% complete compared to the forecast of 15% for that date. These comparative figures indicate that Austin was behind schedule as of June 1, 1980, but it should not be concluded that completion of the Station will be delayed a similar amount of time. Several options are available to bring the work back on schedule. Austin has recently instituted a schedule for working six days a week with four, ten-hour and three, thirteen-hour days with one day overlap of both schedules.

In addition to the general contractor, there are other contractors on site carrying out construction of the dam and reservoir, sludge treating ponds, etc. The total station work force as of June 1, 1980 was approximately 715.

Plans for start-up and operation of the generating station have been initiated. Some operating personnel have been hired and will begin training during the coming year. A full complement of plant operating and maintenance personnel is presently forecasted to require 186 employees.

The Agency has entered into 23 major Gibbons Creek Station contracts that involve $256.6 million, and 511 other contracts and purchase orders for $9.6 million relating to a multitude of miscellaneous items of material, equipment and services. The major contracts include amounts for escalation. The estimated costs for structures and improvements, boiler plant equipment, turbine generator and accessories, accessory electrical equipment and miscellaneous power plant equipment amounting to $290.9 million represents 79% of total Station construction cost, excluding contingencies. The $256.6 million plus the $9.6 million ($266.2 million) of contracts and purchase orders represent about 91% of the estimated construction costs of the principal items cited. Based on the revised Agency estimate, the total generating Station construction cost is $386.7 million.

The Agency staff reports that as of June 1, 1980 the total station is 32% complete and that construction on the principal components is shown in the following table:

Physical Completion of Gibbons Creek Station

(June 1, 1980)

Site Development and Preparation	100%
Railroad Spur	100%
Dam and Reservoir	39%
Coal Silos	100%
Boiler House Foundations and Steel	100%
Chimney	100%
General Contract and Other Facilities	9%

Gibbons Creek Lignite Mine

Data secured from an extensive drilling program resulted in the Paul Weir Company identifying substantial recoverable lignite in the Gibbons Creek deposit. It is estimated by the Paul Weir Company that approximately 100 million tons with less than 140 feet of overburden and an additional 39.7 million tons with up to 200 feet of overburden are available.

The primary mine activities thus far have related to acquiring and perfecting title to the lignite reserves; the award of a contract for the acquisition of two walking draglines; the selection of M-K as the mine operator; extensive exploratory drilling; review and evaluation of drilling data for the purpose of developing a mining plan and method of operation; preparation of applications relating to mine operations; and participation in hearings relating thereto.

The Agency reports that an evaluation of lignite ownership by its General Counsel based upon summaries of title information provided by landmen or local abstract companies from the public land records in Grimes County, and subject to certain liens and rights of surface use, indicates that as of June 1, 1980 the Agency, by deed or lease in the mining area, owned 70.3 million tons of lignite with less than 140 feet of overburden based on the Weir Report. To operate the Gibbons Creek Project at an average lifetime plant factor of 75% would require an average of approximately 2,900,000 tons of lignite per year. Accordingly, the 100 million tons of lignite in the Gibbons Creek deposit and the 70.3 million tons of lignite with less than 140 feet of overburden under land leased or purchased by the Agency would fuel the Gibbons Creek Project for an estimated 34.5 years and 24.2 years, respectively.

It has also been necessary to follow extensive procedural requirements in securing permits and authorization from various governmental agencies. In this regard, the Agency staff indicates that applications for permits related to the proposed first five-year mine plan (limited by statute to five years) were submitted on schedule. Hearings before the Railroad Commission of Texas ("Railroad Commission") were held in April, 1980. It is anticipated that the formal order approving the plan will be issued in early August. Receipt of this order will allow specific arrangements to be consummated for the erection of the dragline and other mine-related activities. Additional applications will be submitted as required for remaining permits.

The Paul Weir Company prepared the initial mining plan, subsequently modified and refined it as land ownership and other influencing factors and developments occurred. M-K is presently reevaluating the geological information, sequence and operational details of the mine. Additional exploratory drilling is under way to more completely establish details of lignite seams and characteristics of the lignite. The M-K review is expected to be completed about the second quarter of 1981.

Consideration is being given to the manner in which certain mining areas can be protected from surface water runoff. The Weir Report estimates that about 16 million of the 100 million tons of lignite may require protective facilities against flooding. Freese and Nichols has evaluated the situation and concludes that conventional flood control methods can be used. Funds have been included in the mine cost estimate for protection facilities.

The two draglines, the major long-lead time equipment items, have been purchased for a total estimated cost of about $28,000,000, exclusive of escalation and contingencies, of which $11,794,000 has been paid in the form of progress payments as of June 1, 1980. Present indications are that these massive units will be delivered for assembly on a slightly delayed schedule due to delays in obtaining the mining permit. Other equipment has not yet been purchased since it requires substantially less lead time and may be subject to modification as a result of the investigation and review now under way by M-K.

The capital mine costs based on equipment required by the Weir mine plan have been updated by M-K. The Agency staff has also revised other capital cost items in view of the most recent status of land acquisition in anticipation of mine permit provisions and in recognition of the forecasted Agency staff and organizational requirements.

Based on the Weir Report and mining plan, the Agency and M-K estimate that the initial cost of developing the Gibbons Creek mine up to the time of initial operation will be $145,553,000 exclusive of interest during construction and financing costs.

Annual operation and maintenance costs have been prepared by M-K on the basis of the Weir mining plan as submitted to the Railroad Commission.

Gibbons Creek Transmission Facilities

The power produced at the Gibbons Creek Station will be introduced into the TIS transmission system at two different points of connection. One connection will be made through a ten-mile segment of double circuit 345 kV transmission line from Gibbons Creek Station east to an existing HL&P 345 kV line which extends from the Houston area northward toward the TP&L Jewett Switching Station. The second connection will be via a 345 kV double circuit line to be constructed to the north from the Gibbons Creek Station to the Twin Oak Substation owned by the Companies. Facilities beyond those points of connection can be utilized by the Agency in accord with provisions contained in contracts with HL&P and the Companies.

Construction power to the Gibbons Creek Station will be provided by a 23-mile, 138 kV transmission line to Bryan. This line will subsequently be used to deliver power to Bryan. Electrically powered mining equipment in the mine area will require an additional 138 kV line extending from the Gibbons Creek Station.

The construction cost of the Gibbons Creek transmission facilities has been estimated by the Agency to be $57.3 million. The substation-switchyard as of June 1, 1980, is estimated to be 24% complete and the 345 kV transmission facilities 5% complete.

Gibbons Creek Project Financing Requirements

As major construction activity started, it was necessary to establish a budget-cost control system compatible with the FERC System of Accounts and in addition provide a method of determining construction progress. Design of the Gibbons Creek Station had progressed to a point that allowed a very detailed estimate of material quantities and labor requirements. Transmission facilities were also more completely identified as a result of several factors.

In mid-1979, the Agency's new Construction Management Division initiated a detailed cost review. These cost estimates recognized not only the extensive new, detailed information available but also the substantially higher inflationary factors experienced in recent years. In addition, cost revisions were made to reflect Agency staff and related expenses based on organizational requirements for construction management and administrative activities.

The net result of the cost review was an increase in the Gibbons Creek construction cost estimate for the Station of $51.6 million, or 15%. The mine cost estimate increased $35.2 million, or 32%, and the Gibbons Creek transmission facilities increased $10.8 million, or 23%. The overall increase of $97.6 million represents an increase of almost 20% on the Gibbons Creek Project over the estimate used in the Official Statement for the 1979 financing.

In addition to the $51 million of Contingencies shown in the following table, the Agency has also included in the individual cost items $42.7 million for escalation which together with the Contingencies amount represents almost 16% of the estimated $589.6 million total Project construction cost.

Based on the foregoing construction cost estimates and on cash flow schedules from the Agency, the total financing requirements for the Gibbons Creek Project are estimated to be as shown in the following table:

Gibbons Creek Project
Estimated Total Financing Requirements
($000)

Generating Station(1)	
Land and Land Rights	$ 14,632
Structures and Improvements	71,300
Boiler Plant Equipment	155,117
Turbine Generator and Accessories	24,322
Accessory Electrical Equipment	29,594
Miscellaneous Power Plant Equipment	10,558
Engineering	11,789
Construction Management	12,023
Owner's Costs	37,853
Contingencies	19,524
Total Generating Station	$386,712
Mine(2)	
Land and Land Rights	$ 24,900
Structures and Improvements	28,426
Mine Equipment and Supplies	61,223
Engineering	6,338
Construction Management	4,814
Owner's Costs	4,238
Contingencies	15,614
Total Mine	$145,553
Transmission(1)	
Construction and Equipment	$ 38,284
Construction Management and Engineering	1,345
Owner's Costs	1,424
Contingencies	16,265
Total Transmission	$ 57,318
Total Construction	$589,583
Other	
Reserve Fund(3)	$ 67,060
Working Capital(4)	10,000
Impact Payments(5)	2,113
Net Interest During Construction(6)	103,901
Financing, Legal and Other Costs(7)	20,143
Total Other	$203,217
TOTAL FINANCING REQUIRED	$792,800

(1) Based on detailed estimates by the Agency.

(2) Based on estimates by M-K and the Agency.

(3) An amount equal to the estimated average annual debt service allocated to the Gibbons Creek Project based on actual debt service on the outstanding bonds and assumed level debt service, with 28-year amortization and an assumed 8.0% average interest rate, on the Series 1980 Bonds and additional bonds.

(Footnotes continued on following page)

(4) Estimated to provide adequate cash during initial operation.

(5) Impact payments required to be paid during construction pursuant to a settlement agreement with Grimes County, Texas and three school districts in the vicinity of the Gibbons Creek Project.

(6) Computed at actual interest rates on the outstanding bonds and an assumed 8.0% average interest rate on the Series 1980 Bonds and additional bonds, adjusted for estimated investment income.

(7) Based on actual costs to April 1, 1980 and an assumed 3% for the Series 1980 Bonds and additional bonds allocated to the Gibbons Creek Project.

Based on projected operating expenses and assumed level debt service for 28 years at actual interest rates on presently outstanding bonds and assumed 8% average interest rate on the Series 1980 Bonds and additional bonds, we estimate the cost of power at the high voltage bus of the Gibbons Creek Station will average approximately 49.5 mills per kWh for the eight years 1983 (first full year of operation) through 1990.

Comanche Peak Project

In January, 1979, the Agency executed the Joint Ownership Agreement with the Companies and Texas Utilities Generating Company ("TUGCO"), a Texas Utilities Company ("TU") subsidiary which is responsible for the planning, construction and operation of the CPSES. TUGCO is supported by Texas Utilities Service, Inc. ("TUSI"), another TU subsidiary, in design, equipment procurement and construction phases of Comanche Peak. The Joint Ownership Agreement, through which the Agency acquired a 6.2% ownership interest in the CPSES and nuclear fuel, was executed on January 2, 1979. Subsequently, the Agency has been officially identified as a Joint Owner by a Nuclear Regulatory Commission ("NRC") order amending the Comanche Peak Construction Permits.

A Transmission Agreement executed simultaneously with the Joint Ownership Agreement provides for the acquisition of an ownership interest in certain transmission facilities and also for the use of transmission facilities of the Companies not only in relation to the Comanche Peak Project but for the transmission of power from other sources.

Comanche Peak Station

The CPSES is a nuclear-fueled generating station consisting of two 1,150 MW units which use steam developed by two pressurized water nuclear reactors. The station is located about 40 miles southwest of Fort Worth near Glen Rose, Texas. The steam turbine-electric generator portion of the plant is of outdoor design.

TUSI has indicated that, as of July, 1980, Unit #1 was 82% complete, Unit #2 was 45% complete and overall station construction is indicated to be 70% complete.

For purposes of this report, commercial operations are assumed to start with Unit #1 in April 1982 and Unit #2 in October 1983. The application for operating licenses has been submitted.

There is a distinct possibility, in view of the TMI incident, that modifications of station design may be mandated by appropriate regulatory authority. Subsequent to the TMI incident there have been several reports prepared or in the process of being completed which relate to almost every conceivable facet of the incident. The implication of these reports as it might impact the design, completion and operation of the CPSES is not yet fully determined. Certain findings have been endorsed by NRC and are now licensing requirements for all pending operating license applications.

The Companies have reviewed the TMI incident and compared the components of the critical items of TMI with those of the CPSES. Among other things, it was determined that the CPSES steam supply systems are of a different design than those of TMI. The TUSI report pertaining to the investigative activities makes many recommendations in relation to plant design and operation and training of personnel who will be operating the plant. It also states that certain changes had previously been incorporated into CPSES construction.

In recognition of the unpredictable factors which could influence the completion dates and the magnitude of construction costs, the Agency has previously included in its cost estimate the amount of $16,034,000 as Agency contingency funds. This amount is in addition to the contingency funds included in the Agency's allocated amount of the TUSI estimate of $1,395,000,000 CPSES cost of construction. As a result of the additional uncertainties precipitated in part by the TMI incident, the indication by TUSI that the dates of commercial operation will be delayed and the absence of any recent TUSI cost estimate revision, the Agency has increased the amount for contingencies in its cost estimate to $36 million. Additionally the previous cash flow has been extended and escalated to reflect an assumed commercial operating date for Unit #1 of April 1982 and for Unit #2 of October 1983. The $36 million Agency contingency funds would be sufficient to pay the Agency's share of an increase in construction costs of up to 41.6% of the $1,395,000,000 TUSI estimate.

If TUSI makes available, prior to the delivery of the Series 1980 Bonds, revised cost estimates and commercial operating dates which would materially affect the assumptions used for this report, it may be necessary to revise the results set forth herein. Based on the preliminary indication given the Agency on July 18, 1980, we believe that such revisions will not materially impact the Agency's financing requirements or the cost of power to the Cities as presently estimated in this report.

Comanche Peak Fuel

TUSI has contracted for adequate uranium concentrates to support the operation of Unit #1 for the first eleven years and an option to extend the contract for another six years. For Unit #2 there is presently an unfilled uranium concentrate requirement for a major portion of the initial core and the first reload. However, for the purpose of forecasting annual operating cost used herein an assumed expenditure schedule has been used for this unfilled uranium concentrate. There are contractual commitments for uranium concentrates required subsequent to the first reload to support operation for the balance of the first eleven years and an option to extend the contract for another six years. TUSI expects that these unfilled uranium requirements may be purchased on the open market as spot purchases. Therefore, it may be necessary to purchase a portion of the uranium requirements for Unit #2 at prices other than presently forecasted by TUSI.

TUSI has also contracted for all other materials and services for the initial core loading and reloads to support the operation of Units #1 and #2 through November, 1989 and anticipates no difficulty in obtaining the necessary additional materials and services beyond that time.

At the present time, no operating facilities are available for the reprocessing of spent fuel. In the absence of such facilities, TUSI is providing on-site spent fuel storage capacity for both Units adequate for about 17 years. By then, it is expected that definitive guidelines will be available to determine whether fuel would be reprocessed, consigned to an off-site storage facility or disposed of in some other manner.

Comanche Peak Transmission

The transmission facilities directly related to integrating the output of the Comanche Peak Station into the high-voltage transmission system of the Companies to allow ultimate delivery of power to the Cities are identified in a contract entitled "Transmission Agreement" between the Agency and the Companies. These facilities include both 138 kV and 345 kV transmission lines and station equipment. TUSI has estimated that the Agency's 6.2% ownership share in certain Comanche Peak transmission facilities, which are acquired through provisions of the Transmission Agreement, will cost approximately $2,200,000, excluding interest during construction.

As a result of certain provisions of the Transmission Agreement, other transmission facilities of the Companies may be used to deliver Agency power to the Cities. The method of calculating the charge to be made by the Companies gives recognition to the fact that at times the Companies will use the Agency transmission facilities to transmit the Companies' share of Comanche Peak power.

Comanche Peak Financing Requirements

The total financing requirements of the Comanche Peak Project are estimated to be as shown in the following table:

Comanche Peak Project
Estimated Total Financing Requirements
($000)

Direct Construction Costs	$ 53,852
Indirect Construction Costs and Overheads	12,279
Companies' Costs	19,128
Contingencies	1,231
Subtotal(1)	$ 86,490
Carrying Charges and Development Fee(2)	6,857
Agency Contingency(3)	36,000
Nuclear Fuel(4)	14,576
Transmission(1)	2,200
Total Construction Cost	$146,123
Reserve Fund(5)	17,277
Contingency Fund(6)	2,000
Working Capital(7)	2,200
Net Interest During Construction(8)	33,786
Financing, Legal and Other Costs(9)	6,014
Total Other	$ 61,277
Estimated Total Financing Requirements	$207,400

(1) – Agency's share, based on estimate supplied by TUSI.

(2) – Development fee and interest paid to DP&L.

(3) – Included by the Agency to provide for potential cost increases.

(4) – Includes the cost of fuel for the initial core and payments for reload fuel costs scheduled during construction for both units as supplied by TUSI and adjusted by us.

(5) – An amount equal to the estimated average annual debt service allocated to the Comanche Peak Project based on actual debt service on the outstanding bonds and assumed level debt service, with 28-year amortization and an 8.0% average interest rate, on the Series 1980 Bonds and additional bonds.

(6) – As required by the Bond Resolution.

(7) – Estimated to provide adequate cash during initial operations.

(8) – Computed at actual interest rates on the outstanding bonds and an assumed 8.0% average interest rate on the Series 1980 Bonds and additional bonds, adjusted for estimated investment income.

(9) – Based on actual costs to April 1, 1980 and an assumed 3% for the Series 1980 Bonds and additional bonds allocated to the Comanche Peak Project.

After the Project becomes operational, the Agency will pay 6.2% of all operation and maintenance costs including fuel, but excluding taxes, plus a management fee, subject to certain limitations, equal to 5% of said Agency costs. Using actual debt service on outstanding bonds and an assumed level debt service for 28 years at 8% average interest rate on the Series 1980 Bonds and additional bonds, excluding the long-term debt obligation relating to transmission, and using estimates of annual operation and maintenance expenses we consider reasonable for nuclear plants, we estimate the average cost of power to the Agency at the high-voltage bus of Comanche Peak to be 26.6 mills/kWh for the period 1984 (first full year of operation of both units) through 1990.

Other Transmission Facilities and Projects

The Agency's ten-year transmission program includes facilities necessary to reinforce the area transmission grid, to provide the desired level of reliability in delivery of power to the Cities and to allow the coordination of the generating facilities of the Agency and the Cities. These facilities are authorized by the Cities in the SDRE Project and some of them are presently under construction, with one scheduled to be operative in late 1980. The major investments will be for facilities scheduled to become operative in 1981 and 1982.

As a result of the consummation of the Transmission Agreement and the Interconnection Agreement, the Agency has eliminated plans to construct certain major transmission facilities previously anticipated to be part of an independent Agency transmission system. Eliminating these facilities reduces the transmission capital funding requirement substantially, although cost increases have been estimated for some facilities still scheduled for completion.

Funds are also included in the SDRE Project for microwave communication facilities, equipment for economic dispatch and investigative activities relating to potential fuel for future generating resources. As of June 1, 1980, the Agency had expended $1,176,000 of the funds authorized in the SDRE Project for microwave, economic dispatch equipment and fuel investigation for future projects. As of June 1, 1980, the Agency had expended $4,636,000 of the funds estimated to be required for construction of the transmission facilities authorized in the SDRE Project.

The costs of the proposed facilities and expenditures for fuel investigation (excluding interest during construction and other financing costs) are estimated by the Agency to be approximately $64,038,000. Additionally, funds have been included as estimated expenditures for Development Projects for feasibility studies of future generating sources.

Total Agency financing requirements for the SDRE Project and Development Projects are estimated to be as shown in the following table:

System Development and Reliability Expenditures
and Development Projects
Estimated Total Financing Requirements
($000)

Transmission Facilities(1)	$50,667
Fuel Acquisition(2)	5,000
Economic Dispatch(3)	680
Microwave(3)	1,113
Owner's Cost(3)	1,400
Contingencies(3)	5,178
Subtotal – SDRE Project	$64,038
Development Projects	722
Subtotal	64,760
Reserve Fund(4)	6,998
Working Capital(5)	800
Net Interest During Construction(6)	6,178
Financing, Legal And Other Costs(7)	1,864
Total Other	$15,840
Total Financing Requirements – SDRE and Development Projects	$80,600

(Footnotes continued on following page)

(1) A major portion of engineering and construction costs of transmission facilities was estimated by Black & Veatch; the balance was estimated by the Agency.

(2) Estimated by the Agency. Includes fuel acquisition for future generating projects.

(3) Estimated by the Agency.

(4) An amount equal to the estimated average annual debt service allocated to the SDRE Project and Development Projects based on actual debt service on the outstanding bonds and assumed level debt service, with 28-year amortization and an assumed 8.0% average interest rate on the Series 1980 Bonds and additional bonds.

(5) Estimated to provide adequate cash during initial operations.

(6) Computed at actual interest rates on the outstanding bonds and an assumed 8.0% average interest rate on the Series 1980 Bonds and additional bonds, adjusted for estimated investment income.

(7) Based on actual costs to April 1, 1980 and an assumed 3% for the Series 1980 Bonds and additional bonds allocated to the SDRE Project and Development Projects.

Summary of Financing Requirements

Based on the financing requirements as previously presented herein, the total Agency financing requirements for presently authorized Projects are estimated to be as shown in the following table:

Estimated Agency Financing Requirements
Presently Authorized Projects

($000)

Construction Cost:	
Gibbons Creek Project	$ 589,583
Comanche Peak Project	146,123
SDRE Project and Development Projects	64,760
Subtotal – Construction Cost	$ 800,466
Reserve Fund	$ 91,335
Contingency Fund	2,000
Working Capital	13,000
Impact Payments	2,113
Net Interest During Construction	143,865
Financing, Legal and Other Costs	28,021
Subtotal – Other Cost	$ 280,334
Estimated Agency Financing Requirements	$1,080,800

The Gibbons Creek Project and some facilities of the SDRE Project reflect forecasted cost increases. Other facilities of the SDRE Project have been removed from the Agency construction program. Additional funds for contingencies have been included in the Comanche Peak Project construction cost estimate. The net result is that the estimated Agency financing requirements for authorized Projects is indicated to be less than the prior estimate by $81.8 million, or about 7%.

Cost of Agency Power

Presently, the Cities' generating units are meeting the combined load of the Cities by partial economic dispatch of the City-owned units. This economic dispatch arrangement has already benefited the Cities by allowing savings in fuel costs in fiscal year 1979 of about $486,000 which was allocated among the Cities. As the Agency units become commercially operable, they will be integrated into the economic dispatch operation. Thereafter, it is expected that some of the City units will be operated to supply intermediate and peak load levels or used only at times of scheduled maintenance outages of the Agency units.

The estimated cost of power supplied by the Agency from Agency units includes fuel and other variable costs, fixed operation and maintenance expenses of all Agency facilities, insurance, administrative and general expenses, costs of using transmission facilities owned by other utilities, debt service and debt service coverage in accord with the provisions of the Bond Resolution. It is assumed that each City will operate its own units as requested by the economic dispatch control center, that they will be reimbursed for power they supply for the purpose of meeting combined loads and that a system will be developed to equitably distribute cost savings experienced by each City as a result of being supplied power from units of other Cities. Details of the economic dispatch arrangement should stipulate how these items will be treated. Absent such an arrangement, for purposes of this report, the cost of Agency power does not treat or include the cost of operating the Cities' units. It has been assumed that each City will be reimbursed a pro rata share of the remainder of Agency debt service coverage funds collected during the preceding year after payments for renewals and replacements.

As has been indicated previously, the annual operating expenses of the Agency and the resulting cost of Agency power are based on the assumption that all in-service generating units owned by the Agency and by the Cities will be operated to serve the total power requirements of the Cities on an economic dispatch basis. This means that a central control center will determine at all times which generating units are to be operated and at what level of load. We have assumed that, as a result of the economic dispatch arrangement, the Agency generating units will be operated at high load factors and that City generating units will provide the balance required to supply the total power requirements of all Cities each year, delivered at the respective points of delivery. A further assumption is that, for operational purposes, the economic dispatch arrangement will be integrated into the operation of the TIS transmission system which would provide mutual spinning reserves and emergency service.

Agency Operating Expenses Other Than Fuel

The operating expenses of the Agency (except for fuel) for Agency-owned generation and transmission facilities have been estimated on the basis of costs experienced at comparable facilities. Transmission expenses include the cost of dispatching, wheeling and fixed charges on certain TU transmission facilities. Administrative and general expenses were developed by reference to the Agency's projection of its operation and construction budget for the period 1982-1985, together with its 1980-1981 budget, which provided detailed information as to personnel, salaries and various expenses, all adapted, on the basis of our judgment, as to applicable operating expenses if no generation and transmission facilities were to be constructed other than those considered in this report. Annual insurance expenses are based on data secured by the Agency from insurance industry sources. Renewals and replacements have been estimated as a percentage of the total capital cost of the Projects.

Agency Fuel Costs

The fuel expense for the Gibbons Creek Project is based on M-K's forecasted equipment and facilities expenditures for the Gibbons Creek lignite mining operation from 1981 through 1990 and operation and maintenance expenses starting in 1981. Based on the M-K figures and the estimated annual energy production from the Gibbons Creek Project, the present estimate of the fuel cost of the Gibbons Creek Project, including debt service on the total estimated financing requirements for the mine, is $1.35 per million Btu in 1984.

We have modified the estimates provided to us by TUSI for the Comanche Peak Project in December, 1979, to reflect the assumed April, 1982, and October, 1983, dates of commercial operation and adjusted TUSI's nuclear fuel estimates for escalation, contingencies and the management fee. It has been assumed that the costs of the initial core and portions of reload of nuclear fuel will be capitalized. Based on this assumption, the Agency's cost of fuel for the Comanche Peak Project is estimated to be approximately \$0.72 per million Btu in 1984.

Cities Fuel Costs

The estimated cost of natural gas for the Cities' generating plants is \$3.10 per million Btu in 1984, based on the Lone Star Gas contract and information supplied by the Agency's gas consultants.

Based on the quantity of natural gas indicated to be required in 1982 as a result of the delay in commercial operation of Comanche Peak Unit #1 it appears that the Lone Star contract will need to be supplemented or the amount to be supplied by Lone Star increased above the amount presently authorized. However, the quantities of gas indicated to be required by City units in 1983 and 1984 are less than the amount required to be used or partially paid for by terms of the Lone Star contract. The result is an indicated gas penalty payment in 1983 and 1984. These penalty payments have been included in City gas costs.

Unit Cost to Cities

Based on the projected operating results of the Agency, as indicated in Table 1 attached hereto, and estimated costs of fuel and other variable costs of City generating units, the unit cost of power, determined by dividing total Agency costs plus total City variable costs (Total Power Costs) by the combined net energy requirements of the Cities, is as follows:

Fiscal Year Ending Sept. 30,	Costs of Agency Power (\$000)	City Fuel and Other Variable Costs (\$000)	Total Power Costs (\$000)	Cost of Power (Mills/kWh)	Cost in 1980 Dollars(1) (Mills/kWh)
1981	2,064	66,525	68,589	24.53	22.93
1982	7,267	76,704	83,971	28.04	24.49
1983	100,044	22,192	122,236	38.32	31.28
1984	136,820	22,119	158,939	46.91	35.79
1985	148,143	22,677	170,820	47.73	34.03
1986	149,312	29,274	178,586	47.69	31.78
1987	155,257	37,930	193,187	49.33	30.72
1988	159,465	47,711	207,176	50.72	29.52
1989	164,238	60,525	224,763	52.81	28.73
1990	169,391	74,962	244,353	55.16	28.04

(1) Discounted at 7%.

The actual unit costs ultimately paid by the Cities will be determined by the application of the rates and charges, established by the Agency in accord with terms of the Power Sales Contract, to the power actually delivered to each City and by a method of sharing cost savings provided for in an economic dispatch arrangement.

Assumptions

Many significant basic assumptions have been made by us and are reflected herein and in our studies, including the following:

1. That the Comanche Peak Unit #1 will be available for commercial operation in April 1982 and that Unit #2 will be available for commercial operation in October 1983.

2. That the Gibbons Creek Project will be available for commercial operation in October 1982.

3. That the generating units of the Agency and the Cities will be operated on a full economic dispatch basis through a central dispatch center and coordinated with the overall operation of TIS.

4. That transmission arrangements and/or facilities will be available to deliver the power from the Agency to the Cities and between Cities, as and when needed.

5. That the Agency will own, operate and maintain the Gibbons Creek Station and will own, operate and maintain or pay for the operation and maintenance of the transmission facilities related to the Gibbons Creek Project or approved as a part of the SDRE Project or included in the Comanche Peak Project.

6. That the Agency will own the Gibbons Creek Mine and pay all annual costs including the payment of a fee to M-K who will operate the Mine.

7. That all licenses and permits for construction and operation of the Gibbons Creek Project and the Comanche Peak Project will be obtained in a timely manner.

8. That the Gibbons Creek Project, Comanche Peak Project and SDRE Project will be completed within the cost estimate levels as used herein.

9. That the Agency will pay 6.2% of Comanche Peak annual costs of operation and maintenance, including fuel but excluding taxes, plus a management fee, subject to certain limitations, equal to 5% of said Agency costs.

10. That the surplus of monies after payment of debt service and after deducting the cost of (or provision for) renewals and replacements will be refunded to the Cities.

11. That adequate quantities of Gibbons Creek lignite fuel will be secured from identified reserves and that supplies of natural gas and/or oil will be sufficient to generate the amount of energy forecasted to be required from the Cities' generating units.

12. That the Agency property, including its 6.2% ownership interest of Comanche Peak, and receipts and revenues from the sale of power and energy are exempt from taxation, but that the Federal Strip Mine Reclamation Tax is applicable to the Gibbons Creek Mine.

13. That additional bonds, including the Series 1980 Bonds, will be issued to finance the facilities included in our studies and will bear a weighted average interest rate of 8% and will be amortized on a level debt service basis over a 28-year period beginning in 1985.

14. That the present projections of the electric power and energy requirements by the Cities as used herein will be substantially realized.

15. That each City will establish, maintain and collect such rates and charges from time to time as necessary to provide revenues from its electric system sufficient to meet its obligations in accordance with the terms of the Power Sales Contract.

16. That no revenues will be received from the sale of capacity and/or energy presently indicated to be in excess of that required by City loads from 1982 through the end of the study period, 1990.

In general, escalation rates used by us have been based on inflation rates and other conditions which appear to be presently prevailing in the economy, and, in our opinion, are reasonable to use for the purpose of the projections set forth herein. However, we can give no assurance that such rates will not be exceeded.

Opinions

Based on our studies, reviews, analyses and assumptions as summarized herein, we are of the opinion that:

1. Without additional power supply resources, the combined load of the Cities will be in excess of their combined electric generating capacity starting in 1984 and continuing, in increasing magnitude, thereafter.

2. The Agency's efforts with respect to developing additional generating resources and related facilities for the near future have been and continue to be reasonable and appropriate and reflect definite progress toward acquiring economically desirable projects.

3. The present estimated cost of construction of the Gibbons Creek Project and the Comanche Peak Project are comparable to costs expected for similar projects being developed within the same general time period.

4. The cost of power from the Gibbons Creek and the Comanche Peak Projects continues to be economically attractive when compared to that which could be anticipated from City-owned units using natural gas (or oil), if available, at an average efficiency.

5. Even if no governmental restrictions or prohibition existed or were imminent, the rapid cost increases of natural gas and oil, both historical and forecasted, provide substantial incentive for developing generating units capable of using lower-cost alternative energy resources.

6. The Cities' estimates of loads furnished for this report continue to reflect a more conservative overall rate of growth than previously projected but also continue to indicate a need for the Projects herein treated as desirable increments of power supply to meet future loads of the Cities and to reduce dependency on natural gas as a basic fuel

7. Operating forecasts prepared by the Cities and shown in Appendix B of the Official Statement are reasonable and, based on such forecasts, the Agency will have the ability to meet its obligations during each fiscal year of the forecast period.

8. The Agency's proposed transmission system and those transmission facilities available under provisions of existing contractual arrangements with TU and HL&P will be adequate to provide for delivery of Agency power to the Cities and for operation of the Cities' resources in conjunction with those of the Agency on an economic dispatch basis.

9. The execution of the Interconnection Agreement by the Agency and HL&P allows the Agency to eliminate plans for the construction of certain transmission facilities which were previously anticipated to be required to transmit Agency power to the Cities.

10. The acquisition and construction of the Gibbons Creek Project and the Comanche Peak Project within the context of the power supply program described herein are feasible.

Information appearing in the Official Statement which was taken from or based upon data prepared by us, is properly and accurately reflected in the Official Statement.

Respectfully submitted,

/s/

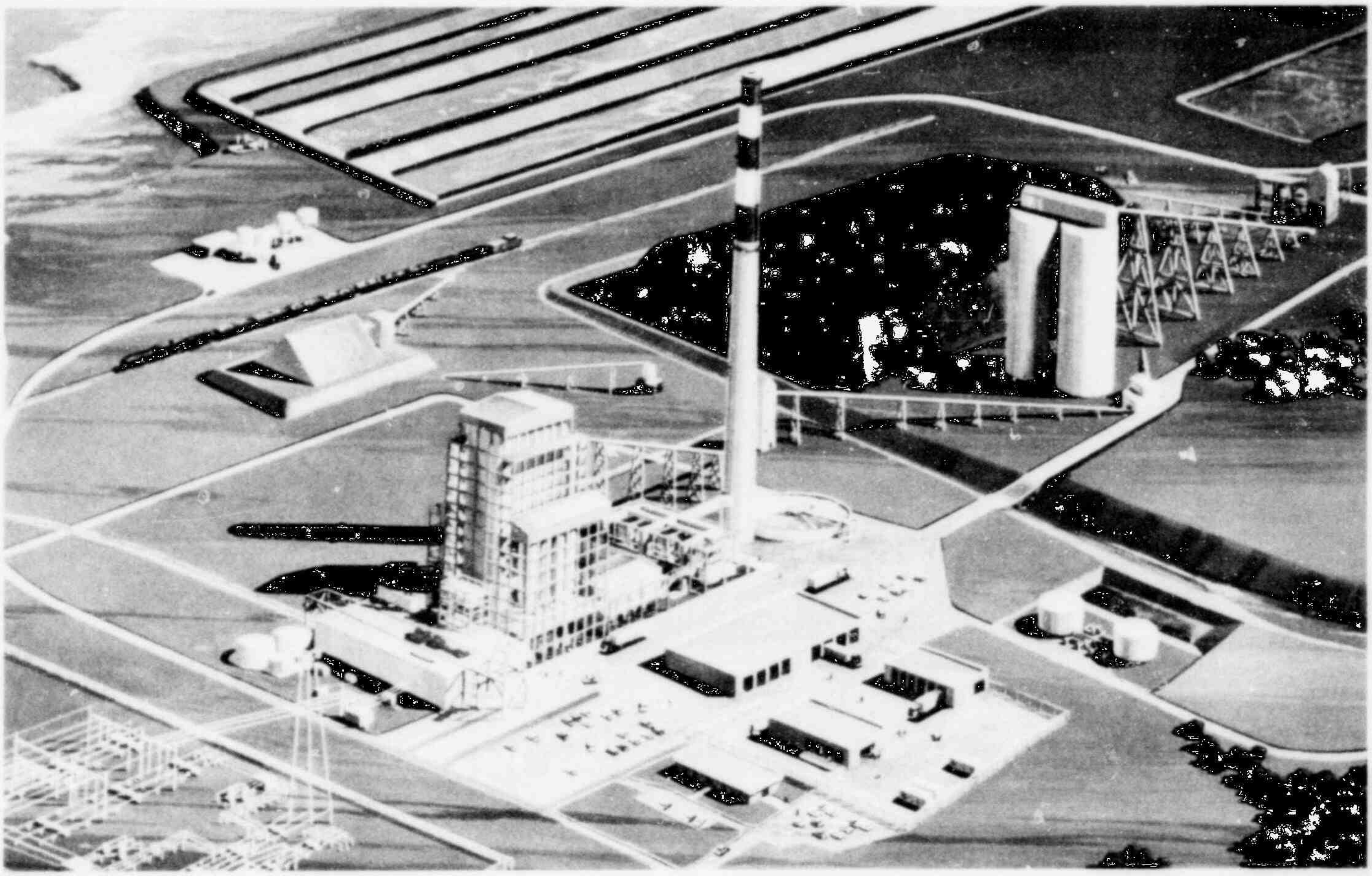
R. W. BECK AND ASSOCIATES

TEXAS MUNICIPAL POWER AGENCY
PROJECTED OPERATING RESULTS (PRO FORMA)
($000)

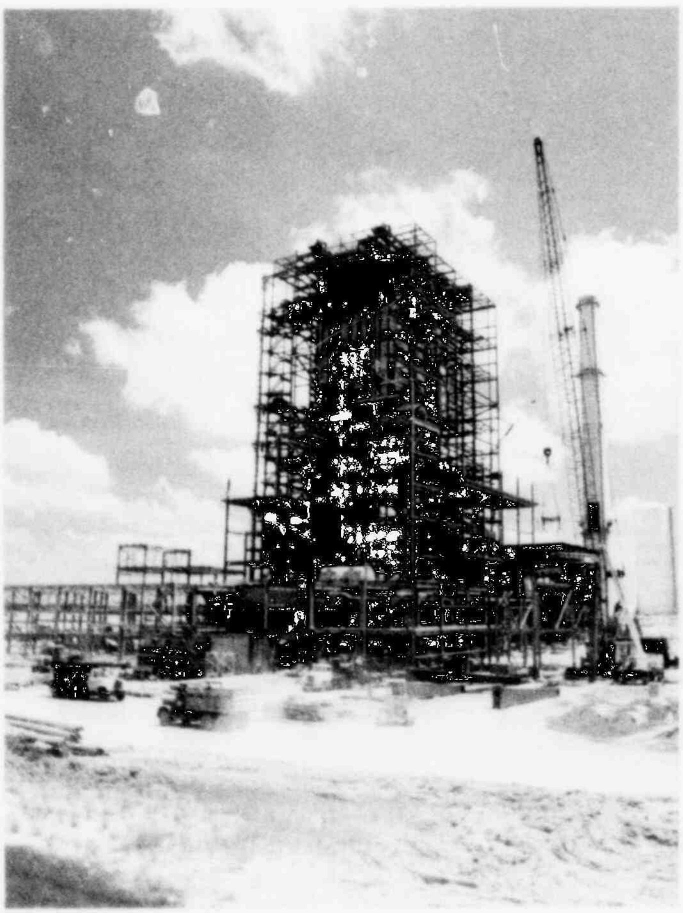
	Fiscal Years Ending September 30,									
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Operating Revenues, from Sales to Cities	$2,064	$7,267	$100,044	$144,526	$164,336	$168,250	$173,876	$177,739	$182,139	$186,893
Operating Deductions										
Production Expenses:										
Fuel	$ —	$ 940	$ 20,207	$ 24,606	$ 27,263	$ 28,446	$ 31,085	$ 31,774	$ 32,59[illegible]	$ 33,334
Operation and Maintenance	—	175	11,819	13,357	14,678	16,456	18,201	20,044	22,16[illegible]	24,605
Total Production Expenses	$ —	$1,115	$ 32,026	$ 37,963	$ 41,941	$ 44,902	$ 49,286	$ 51,818	$ 54,75[illegible]	$ 57,939
Non-Production Expenses:										
Transmission, Operation and Maintenance	1,824	5,266	8,566	8,853	9,386	9,951	10,563	11,229	11,936	12,701
Insurance	77	293	1,958	2,519	2,750	2,943	3,150	3,371	3,605	3,859
Administrative and General	47	141	3,531	3,832	4,163	4,528	4,928	5,364	5,854	6,388
Total Non-Production Expenses	1,948	5,700	14,055	15,204	16,299	17,422	18,641	19,964	21,395	22,948
Total Operating Deductions	1,948	6,815	46,081	53,167	58,240	62,324	67,927	71,782	76,150	80,887
Net Operating Revenues	116	452	53,963	91,359	106,096	105,926	105,949	105,957	105,989	106,006
Plus: Interest Income	—	—	85	8,260	8,718	8,888	8,872	8,855	8,835	8,818
Total Available for Debt Service	—	452	54,048	99,619	114,814	114,814	114,821	114,812	114,824	114,824
Debt Service	—	57	43,238	79,695	91,851	91,851	91,857	91,850	91,859	91,859
Coverage of Debt Service	—	7.93	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Balance of Revenues	116	395	10,810	19,924	22,964	22,964	22,964	22,963	22,965	22,965
Less: Renewals and Replacements	116	395	3,104	3,731	4,026	4,345	4,690	5,062	5,463	5,901
Net Revenue Available for Other Purposes	$ 0	$ 0	$ 7,706	$ 16,193	$ 18,938	$ 18,619	$ 18,274	$ 17,901	$ 17,502	$ 17,064
Cost of Power to Cities										
Operating Revenues, from Sales to Cities	2,064	7,267	100,044	144,526	164,336	168,250	173,876	177,739	182,139	186,893
Less: Prior Year's Revenues Available for Other Purposes	—	0	0	7,706	16,193	18,938	18,619	18,274	17,901	17,502
Cost of Agency Power to the Cities	$2,064	$7,267	$100,044	$136,820	$148,143	$149,312	$155,257	$159,465	$164,238	$169,391
Sales of Agency Power (GWH)		144	2,520	2,775	2,967	3,040	3,097	3,168	3,216	3,282
Cost of Agency Power (Mills/kWh)		50.47	39.70	49.30	49.93	49.12	50.13	50.34	51.07	51.62
Cost of Agency Power (Mills/kWh — 1980 Dollars)		44.08	32.41	37.61	35.60	32.73	31.22	29.30	27.78	26.24

Table 1

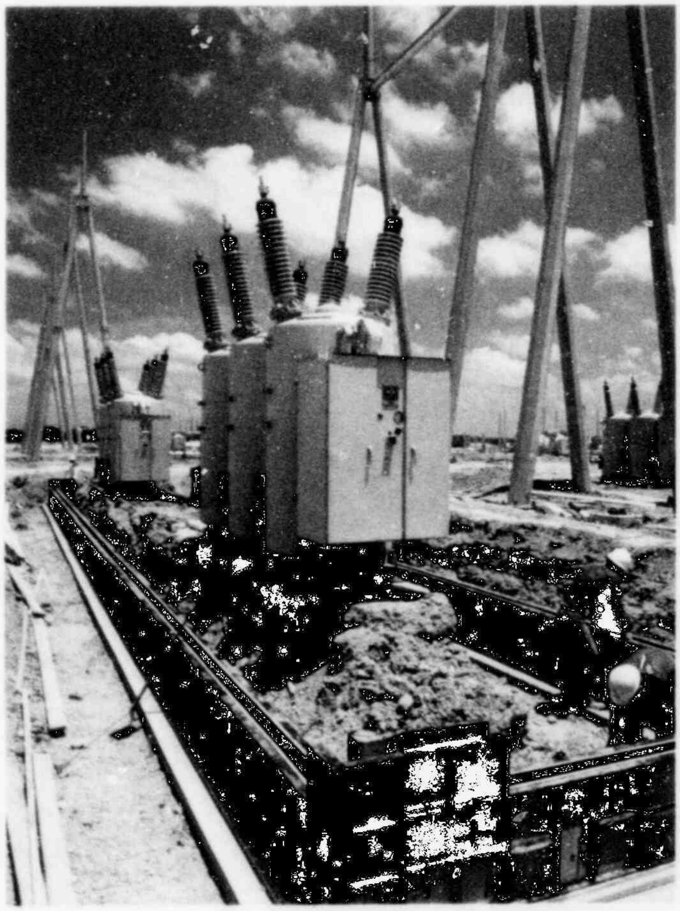
Gibbons Creek Steam Electric Station



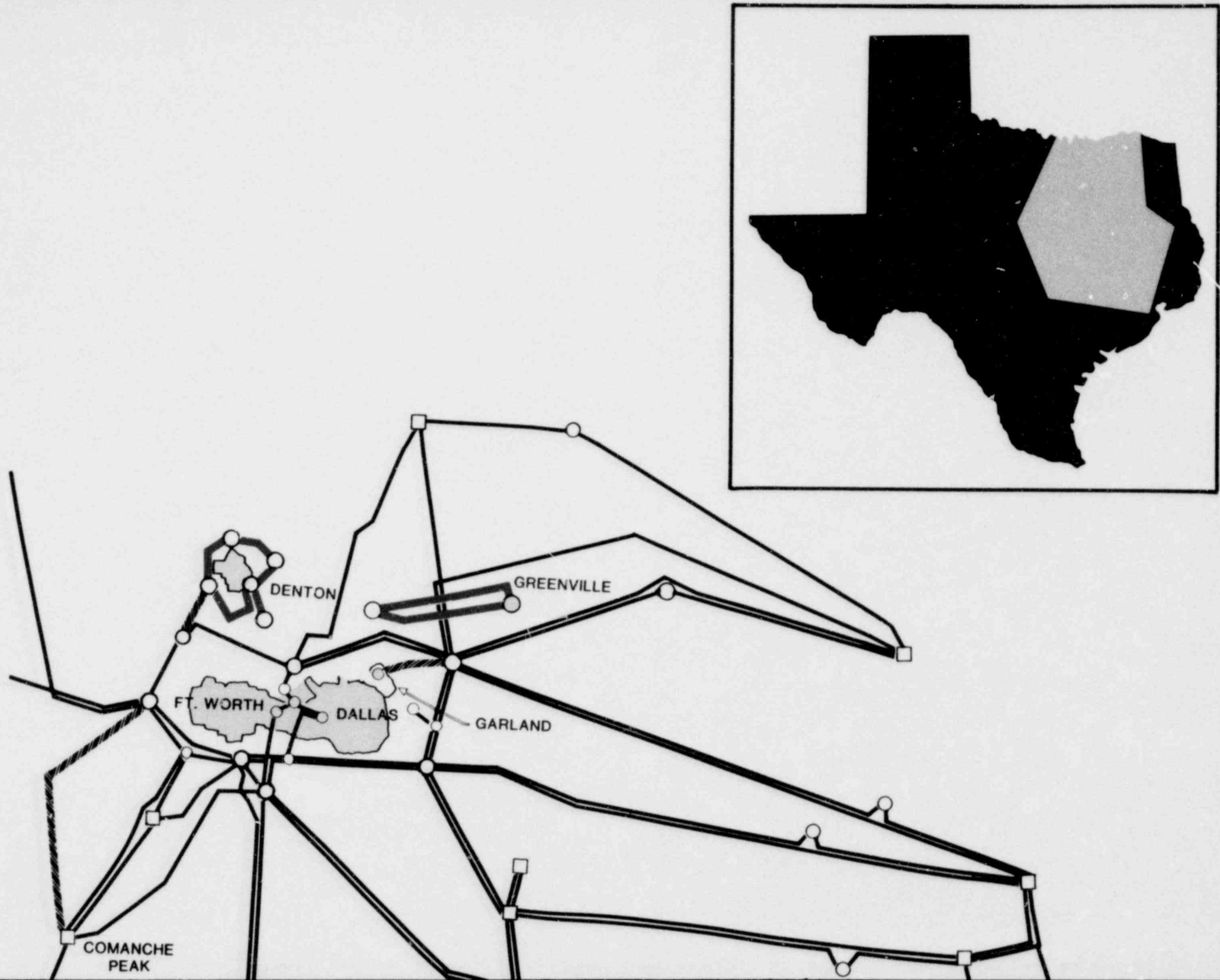
Artist's Rendering

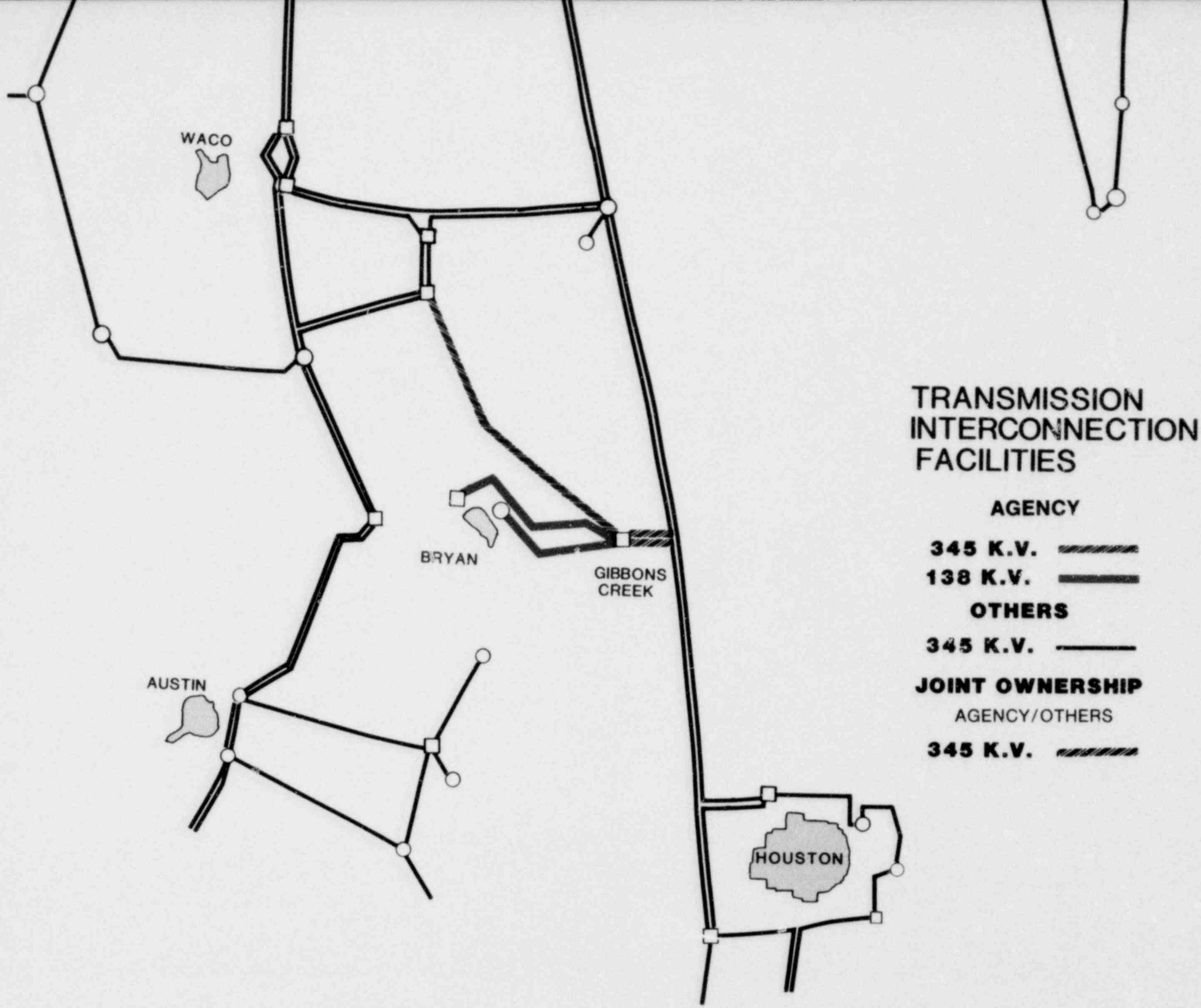


June, 1980

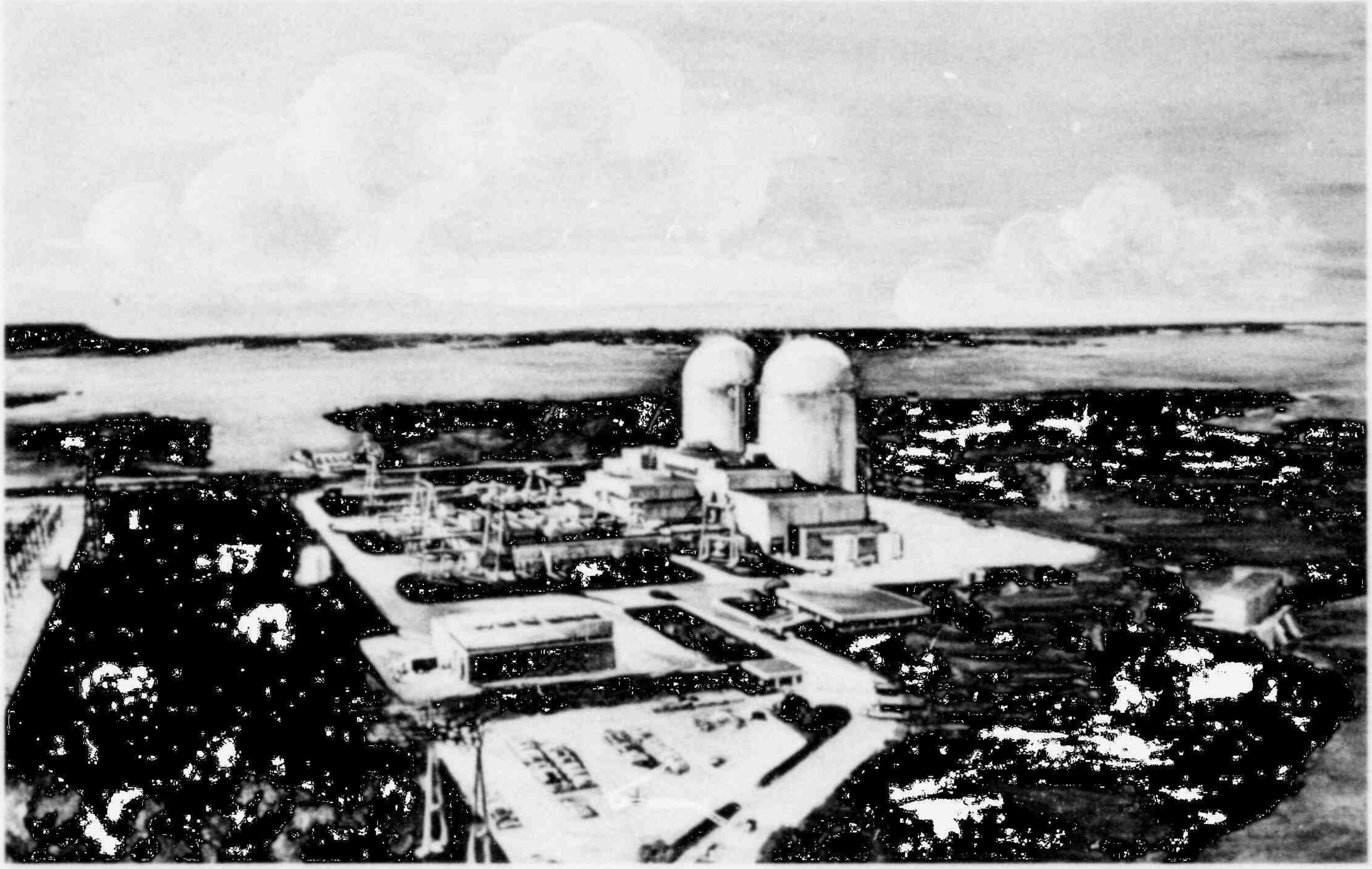


June, 1980

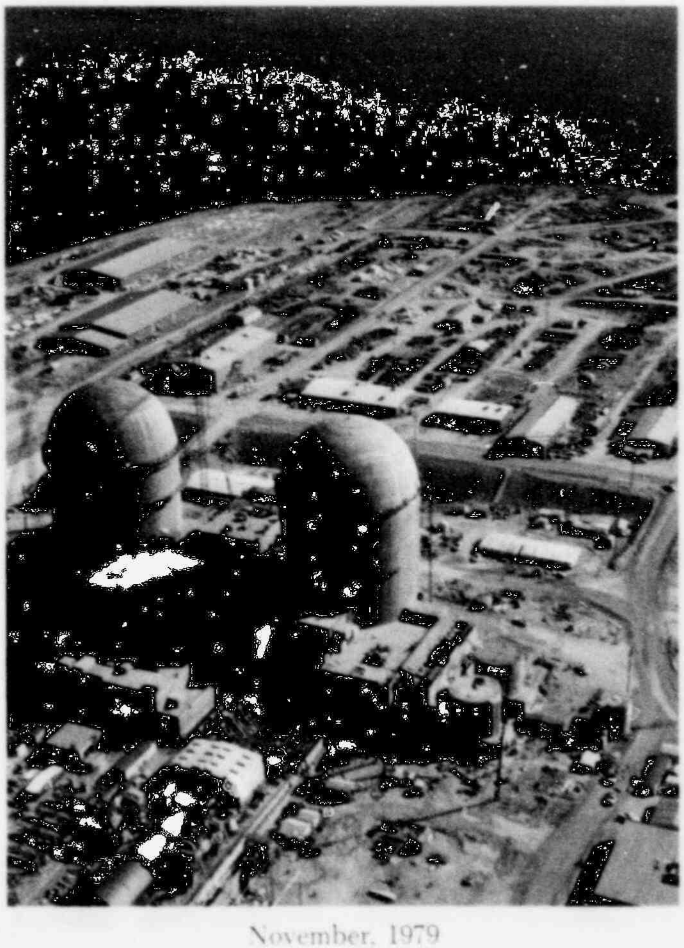

DENTON
GREENVILLE
FT. WORTH
DALLAS
GARLAND
COMANCHE PEAK



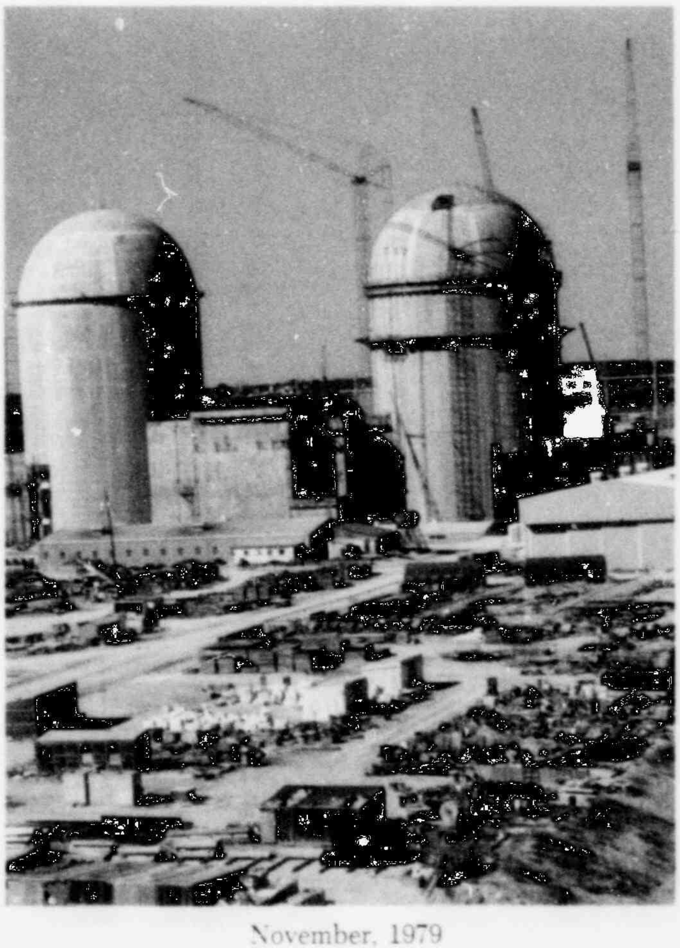
WACO
BRYAN
GIBBONS CREEK
AUSTIN
HOUSTON
TRANSMISSION INTERCONNECTION FACILITIES
AGENCY
345 K.V.
138 K.V.
OTHERS
345 K.V.
JOINT OWNERSHIP
AGENCY/OTHERS
345 K.V.



Artist's Rendering



November, 1979



November, 1979

Photographs Courtesy Texas Utilities Services, Inc.

APPENDIX B

Cities' Operating Forecasts

(All information supplied by the Agency in preparing the accompanying forecasts was compiled upon the assumption that all generating units of the Cities will be operated on the basis of full economic dispatch for each period forecast. Under an economic dispatch arrangement the Cities are assumed to sell power to each other using the most efficient generating units first. Actual budgeted amounts for costs of Purchased Power and Fuel and Other Variables for each of the Cities may differ from full economic dispatch projections. Such a variance for one City could affect the forecasts of one or more of the other Cities).

CITY OF BRYAN, TEXAS ELECTRIC UTILITY

PROJECTED NUMBER OF CUSTOMERS, KILOWATT-HOUR & SYSTEM DEMAND

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Average Number of Customers												
Residential	14,281	15,002	15,676	16,352	17,031	17,713	18,397	18,958	19,521	20,086	20,653	21,223
Commercial & Industrial	1,965	2,026	2,085	2,143	2,200	2,255	2,309	2,346	2,383	2,418	2,452	2,486
Public Street & Hwy Lighting	39	40	42	44	46	48	50	52	54	56	59	60
Other	140	141	142	143	144	145	146	147	148	149	150	151
Subtotal	16,425	17,209	17,945	18,682	19,421	20,161	20,902	21,503	22,106	22,709	23,314	23,920
Resale	(1) 4	(2) 2	2	2	2	2	2	2	2	2	2	2
Total Customers	16,429	17,211	17,947	18,684	19,423	20,163	20,904	21,505	22,108	22,711	23,316	23,922
Kilowatt-Hour Sales (000)												
Residential	136,439	155,541	164,410	173,070	181,482	189,813	198,246	204,974	211,530	218,375	225,035	231,755
Commercial & Industrial	143,163	164,077	184,721	196,160	207,624	211,791	215,903	217,979	220,054	222,018	223,925	225,833
Public Street & Hwy Lighting	2,457	2,535	2,616	2,699	2,785	2,874	2,965	3,059	3,156	3,257	3,361	3,467
Other	21,402	25,169	25,969	26,795	27,647	28,525	29,433	30,369	32,432	33,463	34,526	35,625
Subtotal	303,461	347,322	377,716	398,724	419,538	433,003	446,547	456,381	467,172	477,113	486,847	496,680
Resale												
TMPA	110,654	--	--	31,100	--	--	--	--	--	--	--	--
Other	(1)109,327	(2)97,249	110,938	130,680	152,555	176,650	188,355	201,054	214,833	229,784	246,005	263,605
Total Sales	523,442	444,571	488,654	560,504	572,093	609,653	634,902	657,435	682,005	706,897	732,852	760,285
System Demand & Energy Req'd												
Total Sales Before TMPA Resale	(3)396,031	444,571	488,654	529,404	572,093	609,653	634,902	657,435	682,005	706,897	732,852	760,285
Losses & Unaccounted	13,955	18,066	19,937	21,600	23,341	24,593	25,923	26,823	27,826	28,841	29,900	31,020
Energy Requirements	409,986	462,637	508,591	551,004	595,434	634,246	660,825	684,258	709,831	735,738	762,752	791,305
Sale for Resale (TMPA)	(4)127,411	--	--	--	--	--	--	--	--	--	--	--
Total Energy Accounted For	537,397	462,637	508,591	551,004	595,434	634,246	660,825	684,258	709,831	735,738	762,752	791,305
System Demand (KW)	99,200	116,500	124,200	133,700	143,300	151,800	158,200	164,100	170,500	177,000	183,800	190,900
Annual Load Factor	47.18	45.33	46.75	47.05	47.43	47.70	47.69	47.61	47.53	47.45	47.38	47.31

(1) RED, C/Sta, C/Hearne
(2) RED, C/Sta
(3) Omitting TMPA C/Hearne
(4) TMPA, C/Hearne

City of Bryan, Texas Electric Utility

PROJECTED OPERATING RESULTS

	*1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Operating Revenues:												
Residential ......$	6,947,599	7,642,854	8,580,912	9,611,515	12,095,325	14,354,472	15,200,756	15,691,626	16,550,742	17,390,515	18,405,744	19,496,416
Commercial & Industrial	6,566,532	7,957,603	8,416,287	9,593,288	12,461,077	14,612,368	15,131,905	15,242,013	15,758,725	16,208,650	16,830,333	17,500,955
Public Street & Hwy. Lighting..	92,076	102,717	99,701	111,888	146,401	176,878	185,718	191,104	202,498	213,515	227,575	242,845
Other	741,208	870,965	911,568	1,030,145	1,370,118	1,669,690	1,754,989	1,805,869	1,983,314	2,092,977	2,233,851	2,388,126
Subtotal	14,367,415	16,574,139	18,008,468	20,346,836	26,072,921	30,813,408	32,281,368	32,930,612	34,495,279	35,905,657	37,697,503	39,628,342
Sale for Resale:												
TMPA & Hearne	2,645,188	3,131,009	--	815,000	--	--	--	--	--	--	--	--
Other	3,319,201	3,637,198	4,141,555	5,315,463	7,900,446	10,734,010	11,650,998	12,403,872	13,616,760	14,884,493	16,465,257	18,258,632
Total from Sales	20,331,804	23,342,346	22,150,023	26,477,299	33,973,367	41,547,418	43,932,366	45,334,484	48,112,039	50,790,150	54,162,760	57,886,974
Miscellaneous Revenues	440,397	539,154	590,000	619,500	650,475	682,999	717,149	753,006	790,656	830,189	871,699	915,284
Interest Income	354,996	524,369	583,392	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000
Total Operating Revenues...$	21,127,197	24,405,869	23,323,415	27,646,799	35,173,842	42,780,417	45,199,515	46,637,490	49,452,695	52,170,339	55,584,459	59,352,259
Revenue per KWH of Sales	3.88¢	4.55¢	4.53¢	4.72¢	5.94¢	6.81¢	6.92¢	6.90¢	7.05¢	7.18¢	7.39¢	7.61¢
Operating Expenses:												
Production -												
Fuel & Other Variable ......$	12,292,559	13,922,618	11,146,000	14,657,000	2,645,000	1,123,000	2,341,000	1,733,000	4,212,000	3,792,000	6,885,000	7,324,000
Other O&M	968,898	1,116,672	1,224,138	1,334,310	1,454,398	1,585,294	1,727,971	1,883,488	2,053,002	2,237,772	2,439,172	2,658,697
Other Production Expense....	12,088	13,588	--	--	--	--	--	--	--	--	--	--
Purchase Power	91,602	123,336	1,218,000	1,323,000	20,100,000	28,588,000	29,294,000	30,918,000	30,811,000	33,494,000	33,349,000	36,131,000
Total Production ......$	13,365,147	15,065,214	13,588,138	17,314,310	24,208,398	31,296,294	33,362,971	34,534,488	37,076,002	39,523,772	42,673,172	46,173,697
Transmission & Distribution...	378,632	640,966	765,180	862,358	971,877	1,095,306	1,234,410	1,368,343	1,516,808	1,631,382	1,863,812	2,066,035
Customer Accounts & Sales	623,261	711,603	806,718	899,222	1,002,332	1,117,267	1,245,380	1,372,824	1,513,309	1,668,171	1,838,881	2,027,060
Administrative & General	498,805	560,727	624,654	680,873	742,151	808,945	881,750	961,108	1,047,607	1,141,892	1,244,662	1,356,672
Total Operating Expense...$	14,865,845	16,978,510	15,784,690	19,756,763	26,924,758	34,317,812	36,724,511	38,236,763	41,153,726	44,015,217	47,620,527	51,623,474
Net Operating Revenues	6,261,352	7,427,359	7,538,725	7,890,036	8,258,084	8,462,605	8,475,004	8,400,727	8,298,969	8,155,122	7,963,932	7,728,784
Other Income	--	--										
Balance for Debt Service ......$	6,261,352	7,427,359	7,538,725	7,890,036	8,258,084	8,462,605	8,475,004	8,400,727	8,298,969	8,155,122	7,963,932	7,728,784
Debt Service ......$	3,725,945	3,894,006	4,051,053	4,006,976	4,005,180	4,030,290	4,015,559	4,004,521	4,022,179	4,014,279	3,981,627	3,889,689
Balance of Revenues ......$	2,535,407	3,533,353	3,487,672	3,883,060	4,252,904	4,432,315	4,459,445	4,396,206	4,276,790	4,140,843	3,982,305	3,839,095
Debt Service Coverage	1.68	1.91	1.86	1.97	2.06	2.10	2.11	2.10	2.06	2.03	2.00	1.99

*Actual

CITY OF DENTON, TEXAS
ELECTRIC UTILITY
PROJECTED NUMBER OF CUSTOMER, KILOWATT-HOUR SALES AND SYSTEM DEMAND

	Twelve Months Ended September 30										
AVERAGE NUMBER OF CUSTOMERS	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Residential	13,891	15,132	16,203	17,274	18,345	19,416	19,876	20,337	20,798	21,259	21,719
Commercial & Industrial	2,451	2,670	2,859	3,048	3,237	3,426	3,508	3,589	3,670	3,751	3,833
Public Authorities & Others	315	320	325	330	335	340	345	350	355	360	365
Street & Highway Lighting	2	2	2	2	2	2	2	2	2	2	2
TOTAL CUSTOMERS	16,659	18,124	19,389	20,654	21,919	23,184	23,731	24,278	24,825	25,372	25,919
KILOWATT-HOURS SALES (000)											
Residential	155,707	174,282	191,649	209,845	228,856	248,635	261,269	274,312	287,890	301,896	316,410
Commercial & Industrial	293,272	313,338	341,854	371,083	401,073	431,680	450,021	464,485	479,476	494,836	510,710
Public Authorities & Others	19,120	19,377	19,634	19,890	20,147	20,404	20,661	20,918	21,174	21,432	21,689
Street & Highway Lighting	4,780	4,844	4,908	4,973	5,039	5,101	5,165	5,229	5,294	5,358	5,422
TOTAL SALES	472,879	511,841	558,045	605,791	655,113	705,820	737,116	764,944	793,834	823,522	854,231
SYSTEM DEMAND & ENERGY REQUIREMENTS											
Losses and Unaccounted	30,184	32,671	35,620	38,668	41,816	45,052	47,050	48,826	50,670	52,565	54,326
Energy Requirements for System	503,063	544,512	593,665	644,459	696,929	750,872	784,166	813,770	844,504	876,087	908,757
System Demand (MW)	118.7	128.4	140.0	152.0	164.4	177.1	185.0	191.9	199.2	206.6	214.3
Annual Load Factor,%	48.4	48.4	48.4	48.4	48.4	48.4	48.4	48.4	48.4	48.4	48.4

July 1980

CITY OF DENTON
ELECTRIC UTILITY
PROJECTED OPERATING RESULTS

OPERATING REVENUES (1)	1980(2)	1981(3)	1982	1983	1984	1985	1986	1987	1988	1989	1990
Residential	$ 7,915	8,859	9,742	10,666	11,633	12,638	13,280	13,943	14,633	15,345	16,083
Commercial	11,159	11,935	13,021	14,135	15,277	16,443	17,141	17,692	18,263	18,848	19,453
Public Authorities & Others	720	765	785	796	806	816	826	837	847	857	868
Street & Highway Lighting	202	183	187	190	192	195	197	200	202	205	207
TOTAL FROM SALES	$ 19,996	21,742	23,735	25,787	27,908	30,092	31,444	32,672	33,945	35,255	36,611
Misc. Revenues	323	259	279	286	300	315	331	348	365	383	402
SUB-TOTAL	$ 20,319	22,001	24,014	26,073	28,208	30,407	31,775	33,020	34,310	35,638	37,013
Additional Revenue Required		1,034	682	7,837	15,364	16,807	16,970	18,948	21,341	24,195	27,424
TOTAL OPERATING REVENUES (5)	$ 20,319	23,035	24,696	33,910	43,572	47,214	48,745	51,968	55,651	59,833	64,437
Revenues per KWH of Sales (5)	4.22¢	4.50	4.38¢	5.55¢	6.61¢	6.64¢	6.57¢	6.75¢	6.96¢	7.22¢	7.50¢
OPERATING EXPENSE											
Production:											
Fuel & Other Variables (4)	$ 8,400	9,871(7)	5,973	240	211	149	343	465	805	1,685	2,212
Purchased Power (4)	4,800	6,092(7)	11,096	24,401	32,364	35,553	37,082	39,750	42,101	44,701	48,064
Other O&M	1,267	933	1,043	1,095	1,150	1,207	1,268	1,331	1,398	1,468	1,541
TOTAL PRODUCTION	$ 14,467	16,896	18,112	25,736	33,725	36,909	38,693	41,546	44,304	47,854	51,817
Trans. & Distribution O&M	905	1,046	1,210	1,393	1,598	1,826	2,019	2,231	2,464	2,720	3,006
Customer Accounts & Sales	700	849	936	1,079	1,237	1,414	1,563	1,728	1,908	2,107	2,324
Administrative & General	437	694	631	732	842	925	1,018	1,119	1,231	1,354	1,490
TOTAL OPERATING EXPENSE	$ 16,509	19,485	20,889	28,940	37,402	41,074	43,293	46,624	49,907	54,035	58,637
Net Operating Revenues (6)	$ 3,810	3,550	3,807	4,970	6,170	6,140	5,452	5,344	5,744	5,798	5,800
Other Income	600	570	470	420	400	405	722	1,048	1,062	1,069	1,075
Balance for Debt Service	$ 4,410	4,120	4,277	5,390	6,570	6,545	6,174	6,392	6,806	6,867	6,875
Debt Service	$ 1,885	1,972	2,115	2,190	2,312	2,349	2,577	2,966	3,191	3,221	3,222
Balance of Revenues	$ 2,525	2,148	2,162	3,200	4,258	4,196	3,597	3,426	3,615	3,646	3,653
Debt Service Coverage	2.0	1.8	1.8	2.3	2.7	2.6	2.1	1.8	1.8	1.8	1.8

(1) Revenues by classes are on basis of basic rates and fuel cost adjustment, effective 9-30-78. The "Additional Revenues Required" represents the difference between revenues by classes at such rates and what is estimated to be required to meet all costs plus a fixed coverage of debt service.
(2) From Electric Department 1979-80 Budget Estimate as Updated June, 1980
(3) Revenue and expense figures for 1981-1990 are from 1980 Power Supply Study by Gilbert Associates, except for (4) and (7).
(4) As provided by Agency for years 1981-1990
(5) Excluding "Miscellaneous Revenues".
(6) Before depreciation, tax equivalents and for contributions to the City's general fund.
(7) Represent actual budgeted amounts. Upon the basis of full economic dispatch "Fuel and Other Variables" would be $2,251,000, and "Purchased Power" would be $11,302,000. The actual budgeted amount for Denton in these categories would have an insignificant net effect upon the other Cities' 1981 forecasts of Sales for Resale and Fuel costs, since under full economic dispatch it is assumed that power would be purchased from another City.

CITY OF GARLAND - ELECTRIC UTILITY

PROJECTED NUMBER OF CUSTOMERS

KILOWATT-HOUR SALES AND SYSTEM DEMAND

FISCAL YEAR 1975 - 1990

	1980	1981	1982	1983
Average Number of Customers:				
Residential	35,646	37,606	39,651	41,514
Commercial and Industrial:				
Small	2,126	2,256	2,386	2,516
Large	600	629	659	688
Public Street and Highway Lighting	1	1	1	1
Other	3	3	3	3
Total Customers	38,376	40,495	42,700	44,722
Kilowatt-Hours Sales (000):				
Residential	616,676	661,866	711,815	760,165
Commercial and Industrial:				
Small	58,538	62,658	66,778	70,897
Large	556,558	589,217	619,679	647,257
Public Street and Highway Lighting	7,755	8,453	9,129	9,768
Other	57,679	61,619	64,416	66,171
Total Sales	1,297,206	1,383,813	1,471,817	1,554,258
System Demand and Energy Requirements:				
Total Sales	1,297,206	1,383,813	1,471,817	1,554,258
Losses and Unaccounted For	90,804	96,867	103,027	108,798
Total Energy Accounted For	1,388,010	1,480,680	1,574,844	1,663,056
System Demand (kW)	317,000	338,000	360,000	380,000
Annual Load Factor (1)	50.00%	50.00%	50.00%	50.00%

(1) Based on Energy Requirements for System.

1984	1985	1986	1987	1988	1989	1990
43,441	45,432	47,185	48,916	50,682	52,446	54,237
2,633	2,746	2,864	2,986	3,114	3,248	3,373
717	747	776	805	835	864	893
1	1	1	1	1	1	1
3	3	3	3	3	3	3
46,795	48,929	50,829	52,7110	54,635	56,562	58,507
811,359	865,516	916,891	969,538	1,024,631	1,081,500	1,140,801
75,017	79,137	83,257	87,420	91,791	96,381	101,199
676,204	706,585	738,473	771,945	803,069	831,382	859,676
10,452	11,079	11,633	12,214	12,703	13,212	13,608
67,961	69,787	71,650	73,553	75,494	77,478	79,503
1,640,993	1,732,104	1,821,904	1,914,670	2,007,688	2,099,953	2,194,787
1,640,993	1,732,104	1,821,904	1,914,670	2,007,688	2,099,953	2,194,787
114,870	121,247	127,533	134,026	140,538	146,997	153,635
1,755,863	1,853,351	1,949,437	2,048,696	2,148,226	2,246,950	2,348,422
401,000	423,000	445,000	468,000	490,000	513,000	536,000
50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%

CITY OF GARLAND
ELECTRIC UTILITY
PROJECTED OPERATING RESULTS
1980 THRU 1990

	1980	1981	1982	1983	1984
Operating Revenues:					
Residential	$26.146,008	$30,041,260	$33,826,910	$36,105,898	$ 40,184,866
Commercial	20,244,076	23,606,257	26,479,000	27,795,633	30,713,013
Public Street & Highway Lighting	289,735	309,075	355,018	380,805	429,953
Other Sales	2,106,157	2,253,037	2,505,074	2,579,676	2,795,644
Subtotal	$48,785,976	$56,209,629	$63,166,002	$66,862,012	$ 74,123,476
Sales for Resale	--	17,620,000	14,755,000	8,108,000	9,598,000
Total from Sales	$48,785,976	$73,829,629	$77,921,002	$74,970,012	$ 83,721,476
Miscellaneous Revenue	757,148	323,812	358,391	373,255	401,819
Total Operating Revenue	$49,543,124	$74,153,441	$78,279,393	$75,343,267	$ 84,123,295
Additional Revenue Required	--	(7,371,454)	(5,830,866)	10,832,643	23,062,733
	$49,543,124	$66,781,987	$72,448,527	$86,175,910	$107,186,028
Revenue Per KWH	3.76¢	3.53¢	3.90¢	5.00¢	5.92¢
Operating Expenses:					
Production					
Fuel	$32,898,887	$52,774,000	$54,680,000	$19,290,000	$ 20,751,000
Other Operation & Maintenance	2,767,068	2,735,509	2,907,721	2,680,101	2,838,124
Purchased Power	--	1,103,000	3,849,000	52,611,000	71,327,000
Total Production	$35,665,955	$56,612,509	$61,436,721	$74,581,101	$ 94,916,124
Transmission & Distribution	1,591,191	1,696,827	1,810,353	1,932,424	2,063,753
Customer Accounts & Sales	2,657,782	2,807,634	3,039,104	3,155,852	3,284,835
Administrative & General	548,056	602,862	663,121	729,462	802,408
Total Operating Expenses	$40,462,984	$61,719,832	$66,949,299	$80,398,839	$101,067,120
Net Operating Revenues (1)	$ 9,080,140	$ 5,062,155	$ 5,499,228	$ 5,777,071	$ 6,118,908
Other Income	830,850	858,668	791,647	906,984	982,900
Amount Available for Debt Service	$ 9,910,990	$ 5,920,823	$ 6,290,875	$ 6,684,055	$ 7,101,808
Debt Service	$ 4,864,607	$ 4,736,659	$ 5,032,700	$ 5,347,244	$ 5,681,447
Debt Service Coverage	2.04	1.25	1.25	1.25	1.25

	1985	1986	1987	1988	1989	1990
	$ 43,939,866	$ 48,198,753	$ 53,535,943	$ 59,114,499	$ 64,763,324	$ 70,995,692
	33,210,486	36,326,067	40,383,509	44,390,925	48,187,828	52,303,426
	470,813	516,703	576,354	632,406	688,279	742,521
	2,965,669	3,182,478	3,470,819	3,758,394	4,036,217	4,338,082
	$ 80,586,834	$ 88,224,001	$ 97,966,625	$107,896,224	$117,675,648	$128,379,721
	8,528,000	11,609,000	12,970,000	17,449,000	19,578,000	24,946,000
	$ 89,114,834	$ 99,833,001	$110,936,625	$125,345,224	$137,253,648	$153,325,721
	446,115	473,414	502,340	533,033	565,601	600,159
	$ 89,560,949	$100,306,415	$111,438,965	$125,878,257	$137,819,249	$153,925,880
	23,578,109	21,448,230	21,010,854	20,171,722	21,359,233	22,845,550
	$113,139,058	$121,754,645	$132,449,819	$146,049,979	$159,178,482	$176,771,430
	6.01¢	6.02¢	6.21¢	6.38¢	6.62¢	6.89¢
	$ 20,169,000	$ 27,140,000	$ 33,191,000	$ 42,925,000	$ 51,792,000	$ 64,919,000
	2,977,416	3,138,257	3,307,786	3,486,473	3,674,814	3,873,328
	76,782,000	77,305,000	80,800,000	83,438,000	86,361,000	89,432,000
	$ 99,928,416	$107,583,257	$117,298,786	$129,849,473	$141,827,814	$158,224,328
	2,205,120	2,356,171	2,517,568	2,690,022	2,874,288	3,071,176
	3,577,532	3,797,348	4,030,670	4,278,328	4,541,203	4,820,231
	882,648	970,912	1,068,003	1,174,803	1,292,283	1,421,511
	$106,593,716	$114,707,688	$124,915,027	$137,992,626	$150,535,588	$167,537,246
	$ 6,545,342	$ 7,046,957	$ 7,534,792	$ 8,057,353	$ 8,642,894	$ 9,234,184
	1,000,329	970,319	983,563	993,399	973,531	983,267
	$ 7,545,671	$ 8,017,276	$ 8,518,355	$ 9,050,752	$ 9,616,425	$ 10,217,451
	$ 6,036,537	$ 6,413,821	$ 6,814,684	$ 7,240,602	$ 7,693,140	$ 8,173,961
	1.25	1.25	1.25	1.25	1.25	1.25

City of Greenville, Texas
Electric Utility

PROJECTED NUMBER OF CUSTOMERS,
KILOWATT-HOUR SALES AND SYSTEM DEMAND

	12 Months Ending September 30,										
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Average Number of Customers:											
Residential	8,017	8,106	8,197	8,288	8,381	8,474	8,568	8,663	8,760	8,858	8,956
Commercial and Industrial:											
Small	1,030	1,044	1,056	1,067	1,078	1,085	1,094	1,106	1,115	1,122	1,133
Large	23	27	31	33	35	37	41	44	47	51	54
Public Street and Highway Lighting	4	4	6	6	6	6	8	8	8	8	8
Other (Municipal)	63	63	63	66	66	[illegible]	68	68	68	69	70
Subtotal	9,137	9,244	9,353	9,460	9,566	9,668	9,779	9,889	9,998	10,108	10,221
Resale (TMPA) (1)	2	2	2	2	2	2	2	2	2	2	2
Total Customers	9,139	9,246	9,355	9,462	9,568	9,670	9,781	9,891	10,000	10,110	10,223
Kilowatt-Hour Sales (000):											
Residential	83,936	88,240	92,544	96,848	101,151	105,455	109,759	114,063	118,367	122,670	126,974
Commercial and Industrial:											
Small	67,316	69,648	71,980	74,312	76,645	78,977	81,309	83,641	85,973	88,305	90,637
Large	77,483	83,065	88,647	94,230	99,812	105,395	110,977	116,560	122,142	127,725	133,307
Public Street and Highway Lighting	4,454	4,677	4,910	5,156	5,414	5,685	5,969	6,267	6,581	6,909	7,255
Other (Municipal)	3,104	3,259	3,422	3,594	3,772	3,961	4,159	5,877	6,171	6,479	6,804
Subtotal	236,293	248,889	261,503	274,140	286,794	299,473	312,173	3[illegible]6,408	339,234	352,088	364,977
Resale (TMPA) (1)	–	–	–	–	–	–	–	–	–	–	–
Total Sales	23[illegible],293	248,889	261,503	274,140	286,794	299,473	312,173	326,408	339,234	352,088	364,977
System Demand and Energy Requirements:											
Total Sales Before Resale	236,293	248,889	261,503	274,140	286,794	299,473	312,173	326,408	339,234	352,088	364,977
Losses and Unaccounted	7,089	12,444	13,075	13,707	14,340	14,973	15,608	16,320	16,961	17,604	18,248
Energy Requirements for System (2)	243,382	261,333	274,578	287,847	301,134	314,446	327,781	342,728	356,195	369,692	382,225
System Demand KW	64,380	67,350	69,150	72,250	75,150	77,160	80,350	83,950	86,650	89,390	92,360
Annual Load Factor (3)	43.16%	44.29%	45.33%	45.48%	45.74%	46.19%	46.57%	46.60%	46.93%	47.22%	47.24%

(1) - In the present analysis, prospective deliveries to TMPA have been handled as a credit to expense and therefore are not included in sales.
(2) - For Customers of City's system. Assumes that all Losses and Unaccounted are related to sales before resale to TMPA.
(3) - On Energy Requirements for System.

City of Greenville, Texas
Electric Utility

PROJECTED OPERATING RESULTS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Operating Revenue (1):											
Residential	$ 4,446,189	$ 4,827,497	$ 5,208,806	$ 5,590,114	$ 5,971,422	$ 6,352,731	$ 6,734,039	$ 7,115,348	$ 7,496,656	$ 7,877,965	$ 8,259,273
Commercial & Industrial	6,728,028	7,614,840	8,501,204	9,387,122	10,272,593	11,157,617	12,042,196	12,926,329	13,810,017	14,693,261	15,576,062
Street Lighting	81,912	97,486	113,780	130,074	146,369	162,664	178,957	195,251	211,545	227,839	244,134
Other	66,401	77,128	87,849	98,564	109,274	119,978	130,677	141,372	152,059	162,742	173,421
Total From Sales	$11,322,530	$12,616,951	$13,911,639	$15,205,874	$16,499,658	$17,792,989	$19,085,869	$20,378,300	$21,670,277	$22,961,807	$24,252,890
Miscellaneous Revenues	196,045	233,618	271,193	308,767	346,341	383,914	421,488	459,062	496,636	534,210	571,784
Subtotal	$11,518,575	$12,850,569	$14,182,832	$15,514,641	$16,845,999	$18,176,903	$19,507,357	$20,837,362	$22,166,913	$23,496,017	$24,824,674
Additional Revenue Required	-	-	-	700,702	2,704,279	2,447,398	1,903,376	2,108,753	2,237,340	2,659,283	3,254,877
Total Operating Revenues	$11,518,575	$12,850,569	$14,182,832	$16,215,343	$19,550,278	$20,624,301	$21,410,733	$22,946,115	$24,404,253	$26,155,300	$28,079,551
Revenue Per KWH of Sales (2)	4.7¢	4.8¢	5.1¢	5.5¢	6.4¢	6.4¢	6.4¢	6.6¢	6.7¢	6.9¢	7.2¢
Operating Expenses:											
Production											
Fuel and Other Var.	$ 6,314,668	$ 354,000	$ 1,394,000	$ 17,000	$ 34,000	$ 18,000	$ 58,000	$ 62,000	$ 189,000	$ 163,000	$ 447,000
Other O & M	828,930	922,420	1,026,454	1,142,220	1,271,044	1,414,396	1,573,916	1,751,428	1,948,960	2,168,770	2,413,370
Other Prod. Expense	-	-	-	-	-	-	-	-	-	-	-
Purchased Power (3)	957,000	6,061,000	6,569,000	11,042,000	14,139,000	15,013,000	15,596,000	16,870,000	17,916,000	19,393,000	20,714,000
Total Production	$ 8,100,598	$ 7,337,420	$ 8,989,454	$12,201,220	$15,444,044	$16,445,396	$17,227,916	$18,683,428	$20,053,960	$21,724,770	$23,574,370
Transmission & Dist.	492,224	540,828	589,433	638,037	686,641	735,245	783,850	832,454	881,053	929,663	978,267
Customer Accounts, Sales & Adm. & General	409,845	454,793	499,739	544,686	589,633	634,580	679,527	724,473	769,420	814,367	859,314
Total Opr. Exp.	$ 9,002,667	$ 8,333,041	$10,078,626	$13,383,943	$16,720,318	$17,815,221	$18,691,293	$20,240,355	$21,704,433	$23,468,800	$25,411,951
Net Operating Revenues (4)	$ 2,515,908	$ 4,517,528	$ 4,104,206	$ 2,831,400	$ 2,829,960	$ 2,809,080	$ 2,719,440	$ 2,705,760	$ 2,699,820	$ 2,686,500	$ 2,667,600
Other Income	-	-	-	-	-	-	-	-	-	-	-
Balance for Debt Service	$ 2,515,908	$ 4,517,528	$ 4,104,206	$ 2,831,400	$ 2,829,960	$ 2,809,080	$ 2,719,440	$ 2,705,760	$ 2,699,820	$ 2,686,500	$ 2,667,600
Debt Service (5)	$ 1,397,800	$ 1,575,800	$ 1,570,300	$ 1,573,000	$ 1,572,200	$ 1,560,600	$ 1,510,800	$ 1,503,200	$ 1,499,900	$ 1,492,500	$ 1,482,000
Balance of Revenues	$ 1,118,108	$ 2,941,728	$ 2,533,906	$ 1,258,400	$ 1,257,760	$ 1,248,480	$ 1,208,640	$ 1,202,560	$ 1,199,920	$ 1,194,000	$ 1,185,600
Debt Service Coverage	1.80	2.87	2.61	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80

(1) Revenues by classes are on basis of basic rates and fuel cost adjustment, effective 9-30-79. The "Additional Revenue Required" represents the difference between revenues by classes at such rates and what is estimated to be required to meet all costs plus a fixed coverage of Debt Service.
(2) Excluding "Miscellaneous Revenues".
(3) As provided by TMPA for the years 1981 thru 1990.
(4) Before depreciation, tax equivalents or contributions to City's general fund.
(5) Represents an allocation of total debt service to the electric utility - based upon electric bonds to total.

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APPENDIX C

Cities' Utility Systems Condensed Balance Sheets

The following balance sheets for the Cities of Bryan, Denton, Garland and Greenville, Texas, have been condensed from each City's audited financial statements by the Agency and reviewed by each of the Cities. However, these financial statements have not been examined by independent public accountants and are incomplete in that relevant footnotes, income statements and statements of changes in financial position are not presented as would be required for a presentation in accordance with generally accepted accounting principles.

CITY OF BRYAN, TEXAS
UTILITY FUND

BALANCE SHEETS
At Dates Indicated
(Amounts in Thousands)

ASSETS

	June 30, 1976	Sept. 30, 1977	Sept. 30, 1978	Sept. 30, 1979
Current Assets:				
Cash	$ 256	$ 817	$ 1,506	$ 494
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	1,237	1,863	3,859	4,433
Accrued Interest Receivable	64	55	127	89
Due from Rural Electric Division	54	76	57	58
Due from Other Funds	7	17	14	23
Investments	305	—	—	1,635
Inventory of Fuel Oil	433	485	763	813
Prepaid Expenses	43	48	3	3
Total Current Assets	2,399	3,361	6,329	7,548
Restricted Assets:				
Cash	2,784	1,485	779	2,427
Investments	5,797	8,168	9,891	7,646
Accrued Interest Receivable	—	—	5	5
Total Restricted Assets	8,581	9,653	10,675	10,078
Deferred Charges	141	130	165	159
Fixed Assets:				
Property, Plant and Equipment	61,851	72,976	77,930	82,533
Less Accumulated Depreciation	11,864	13,390	15,061	19,535
	49,987	59,586	62,869	64,998
Total Assets	$ 61,108	$ 72,730	$ 80,038	$ 82,783

(Not examined by independent public accountants).

LIABILITIES, RESERVES, CONTRIBUTIONS AND RETAINED EARNINGS

	June 30, 1976	Sept. 30, 1977	Sept. 30, 1978	Sept. 30, 1979
Current Liabilities (Payable from Current Assets):				
Accounts Payable	$ 870	$ 1,278	$ 2,816	$ 3,146
Due to Rural Electric Division	5	138	83	39
Due to Other Funds	143	258	169	232
	1,018	1,674	3,068	3,417
Current Liabilities (Payable from Restricted Assets):				
Matured Bonds and Coupons Payable	576	1,446	719	2,353
Revenue and Tax Bonds due within one year	1,148	1,378	1,493	1,573
Interest Payable Thereon	1,115	668	731	717
Customer's Deposits	211	361	475	544
Accounts Payable for Construction	681	572	290	287
Contractors' Funds Withheld	556	869	257	444
	4,287	5,294	3,965	5,918
Revenue and Tax Bonds Payable (Net of Current Portion)	40,827	47,956	51,263	49,690
Total Liabilities	46,132	54,924	58,296	59,025
Reserves for Debt Service, Contingencies, Emergencies and Encumbrances	2,478	3,939	3,785	4,954
Contributions	2,829	3,225	4,145	4,456
Retained Earnings	9,669	10,642	13,812	14,348
Total Liabilities, Reserves, Contributions and Retained Earnings	$ 61,108	$ 72,730	$ 80,038	$ 82,783

(Not examined by independent public accountants).

CITY OF DENTON, TEXAS
ELECTRIC SYSTEM FUND

BALANCE SHEETS
At Dates Indicated
(Amounts in Thousands)

ASSETS

	Sept 30, 1976	Sept 30, 1977	Sept 30, 1978	Sept 30, 1979
Current Assets:				
Equity in Pooled Cash	$ –	–	1,428	1,424
Time Deposits and Accrued Interest	–	–	5,047	6,112
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	2,463	3,342	3,898	4,160
Due from other funds	38	79	13	24
Inventory of fuel	356	1,141	973	1,005
Prepaid Expenses	1,248	825	47	36
Total Current Assets	4,105	5,387	11,406	12,761
Restricted Assets:				
Cash	2,929	6,279	125	3
Time Deposits and Accrued Interest	4,045	2,040	212	213
Due from other funds	80	311	–	–
Investments and Accrued Interest	–	–	3,009	3,652
Total Restricted Assets	7,054	8,630	3,346	3,868
Utility Plant:				
In Service and Construction in Process	44,070	44,994	45,542	46,724
Less Accumulated Depreciation	16,333	17,667	19,045	20,440
	27,737	27,327	26,497	26,284
Investment in Internal Service Funds	305	181	181	181
Total Assets	$ 39,201	41,525	41,430	43,094

(Not examined by independent public accountants).

LIABILITIES AND SYSTEM EQUITY

	Sept 30, 1976	Sept 30, 1977	Sept 30, 1978	Sept 30, 1979
Current Liabilities (Payable from Current Assets):				
Accounts Payable	$ 4,914	5,529	1,534	2,029
Accrued Liabilities	36	106	126	145
Due to Other Funds	93	402	258	305
Customers' Deposits	169	197	232	167
	5,212	6,234	2,150	2,646
Current Liabilities (Payable from Restricted Assets):				
Bonds Payable Within One Year	1,032	1,044	—	—
Accrued Interest	361	342	604	346
Accounts Payable	61	80	83	30
Due to Other Funds	—	43	5	25
	1,454	1,509	692	401
Bonds Payable (Net of Current Portion and Unamortized Debt Discount)	17,946	16,902	18,905	18,917
System Equity:				
Reserves	4,854	6,733	2,573	2,548
Unrealized Increment in Valuation of Utility Plant in Service	2,303	2,020	1,737	1,454
Contributions	125	161	170	213
Retained Earnings	7,307	7,966	15,203	16,915
	14,589	16,880	19,683	21,130
Total Liabilities and System Equity	$ 39,201	41,525	41,430	43,094

(Not examined by independent public accountants).

CITY OF GARLAND, TEXAS
ELECTRIC, WATER AND SEWER FUND

BALANCE SHEETS
At Dates Indicated
(Amounts in Thousands)

ASSETS

	Sept. 30, 1976	Sept. 30, 1977	Sept. 30, 1978	Sept. 30, 1979
Current Assets:				
Cash	$ 105	$ 125	$ 245	$ 54
Investments	–	–	1,276	3,263
Accrued Interest	–	–	–	68
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	5,549	6,405	7,948	9,229
Inventories	4,971	5,198	4,057	4,874
Prepaid Expenses	35	87	138	109
Due from other funds	–	811	4,661	1,038
Total Current Assets	10,660	12,626	18,325	18,635
Restricted Assets:				
Cash	1,028	1,236	1,491	2,104
Investments and Accrued Interest	7,337	12,906	12,144	12,827
Federal Grants Receivable	2,065	1,783	1,783	1,783
Due from (to) other funds	1,012	(811)	(4,661)	(1,038)
Total Restricted Assets	11,442	15,114	10,757	15,676
Fixed Assets:				
Property, Plant and Equipment	167,307	176,327	186,723	197,872
Less Accumulated Depreciation	25,057	28,975	33,720	38,866
Total Fixed Assets	142,250	147,352	153,003	159,006
Total Assets	$164,352	$175,092	$182,085	$193,317

(Not examined by independent public accountants).

LIABILITIES, CONTRIBUTIONS AND RETAINED EARNINGS

	Sept. 30, 1976	Sept. 30, 1977	Sept. 30, 1978	Sept. 30, 1979
Current Liabilities (Payable from Current Assets):				
Accounts Payable & Accrued Liabilities	$ 4,251	$ 7,013	$ 7,750	$ 7,952
General Obligation Bonds Payable	–	–	155	161
Accrued Interest Payable	108	18	16	14
Customers' Deposits	542	657	696	769
Due to Other Funds	3,526	2,176	2,469	1,214
	8,427	9,864	11,086	10,110
Current Liabilities (Payable from Restricted Assets):				
Bonds Payable within one year	–	–	2,785	3,075
Accrued Interest	334	387	374	467
Accounts Payable	–	–	238	1,996
Accrued Liabilities	–	–	7	5
Due to Federal Government	–	–	69	136
	334	387	3,473	5,679
Bonds Payable (Net of Current Position)	80,748	86,677	80,961	86,212
Construction Contracts Payable	1,955	436	274	428
Total Liabilities	91,464	97,364	95,794	102,429
Contributions	38,396	39,949	43,058	44,119
Retained Earnings	34,492	37,779	43,233	46,769
Total Liabilities, Contributions and Retained Earnings	$164,352	$175,092	$182,085	$193,317

(Not examined by independent public accountants).

CITY OF GREENVILLE, TEXAS
UTILITY FUND

BALANCE SHEETS
At Dates Indicated
(Amounts in Thousands)

ASSETS

	Sept. 30, 1976	Sept. 30, 1977	Sept. 30, 1978	Sept. 30, 1979
Current Assets:				
Cash	$ 582	$ 102	$ 1	$ (500)
Time Deposits	261	275	–	–
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	362	935	1,838	2,077
Inventories	889	1,181	1,075	1,240
Prepaid Expenses	–	12	–	27
Due from other funds	54	47	26	–
Total Current Assets	2,148	2,552	2,940	2,844
Restricted Assets:				
Cash	1,905	1,011	239	647
Time Deposits	5,365	3,873	5,631	3,753
Interest Receivable	–	44	–	8
Grant Receivable	14	–	–	–
Due from other funds	203	92	92	–
Total Restricted Assets	7,487	5,020	5,962	4,408
Fixed Assets:				
Property, Plant and Equipment	34,262	38,599	40,195	44,152
Less Accumulated Depreciation	12,729	13,481	14,571	15,643
Total Fixed Assets	21,533	25,118	25,624	28,509
Total Assets	$ 31,168	$ 32,690	$ 34,526	$ 35,761

(Not examined by independent public accountants).

LIABILITIES, RESERVES, CONTRIBUTIONS AND RETAINED EARNINGS

	Sept. 30, 1976	Sept. 30, 1977	Sept. 30, 1978	Sept. 30, 1979
Current Liabilities (Payable from Current Assets):				
Accounts Payable	$ 270	$ 446	$ 657	$ 636
Accrued Liabilities	59	42	70	38
Customers' Deposits	162	181	205	224
Due to Other Funds	82	21	377	383
	573	690	1,309	1,281
Current Liabilities (Payable from Restricted Assets):				
Bonds Payable within one year	359	380	498	630
Matured Bond Coupons	9	11	12	7
Accrued Interest	—	—	68	29
Accounts Payable	667	748	261	448
	1,035	1,139	839	1,114
Bonds Payable (Net of current portion)	23,445	24,815	26,190	25,560
Reserves	3,576	3,419	3,946	3,145
Contributions	772	787	884	3,038
Retained Earnings	1,767	1,840	1,358	1,623
Total Liabilities, Reserves, Contributions and Retained Earnings	$ 31,168	$ 32,690	$ 34,526	$ 35,761

(Not examined by independent public accountants).

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STATUS OF MAJOR PERMITS AND APPROVALS

Gibbons Creek Project

Major permits and approvals that have been requested and are to be obtained are listed herein. Presentation is listed under the approving agency and identified as to service for the Mine or Steam Electric Station. Status of each is identified.

All necessary construction permits for Gibbons Creek Steam Electric Station have been issued by the applicable regulatory authorities. Permitting activities associated with the lignite mine are progressing in a timely manner. No delays are anticipated related to permitting procedures or requirements.

The Agency is of the opinion that construction and initiation of commercial operation of this power plant facility will not be delayed by federal or state regulatory actions.

Department of the Army

U. S. Corps of Engineers

- 404 Permit for Intake on Navasota River
  - Application March 5, 1980
  - Permit No. SWF-80-Grimes-306 effective May 27, 1980

Environmental Protection Agency

- Negative Declaration and Environmental Impact Appraisal of Power Plant issued on July 9, 1977
- Prevention of Significant Deterioration of Air Quality Construction Permit – Power Plant
  - Permit applied for April 1, 1977
  - Public Comment period ended July 9, 1977
  - Permit granted July 22, 1977
  - Final PSD-TX-18 granted March 30, 1978
- National Pollution Discharge Elimination System (NPDES) Permit – Power Plant Permit No. TX 0074438
  - Permit applied for June 19, 1977
  - Sent to Texas Water Quality Board by Environmental Protection Agency on June 27, 1977
  - Public Notice of Proposed NPDES Permit issued on November 26, 1977
  - Additional Public Notice of Proposed NPDES Permit issued on December 16, 1977
  - Permit issued January 16, 1979, valid until January 15, 1984
- Demonstrate Compliance with Section 316(a) and 316(b) of the Federal Water Pollution Control Act Amendments of 1972 – Power Plant

Environment Protection Agency (Cont'd)

- An integrated 316 Demonstration Study was submitted May 6, 1977
- Approved January 16, 1979 as part of NPDES

- Prevention of Significant Deterioration of Air Quality Construction Permit, Gibbons Creek Lignite Mine
  - Application submitted to Environmental Protection Agency September 11, 1979
  - Administratively complete for processing (November 15, 1979) PSD TX 269
  - Determination on March 10, 1980 that PSD Permit not required, pending final regulations, or court order.
- National Pollution Discharge Elimination System (NPDES) Permit, Gibbons Creek Lignite Mine
  - Application was submitted to Environmental Protection Agency October 17, 1979
  - Hearing in Anderson, Texas, on June 16, 1980

Federal Aviation Administration

- Notice of Construction and Request for Approval of Chimney Height and Lighting, Power Plant
  - FAA Form 7460-1 issued on March 6, 1978
  - FAA notified of chimney completion February 14, 1980

Texas Air Control Board

- Permit for Lignite Handling System, Power Plant
  - Permit No. C-5698 issued effective February 27, 1978
  - Operating permit will be requested in early-1982
- Permit for Boiler, Lignite-Fired, Power Plant
  - Permit No. C-5699 issued effective February 28, 1978
  - Operating permit will be requested in early-1982
- Exemptions X1057 and X1058 for 2 – 1,250,000 gallon fuel oil storage tanks at Gibbons Creek Steam Electric Station, dated August 15, 1979, Power Plant

Texas Department of Health

- Application for Sanitary Landfill Permit, Power Plant and Mine Maintenance Area
  - Application February 8, 1980
  - Public Hearing April 30, 1980
  - Division Brief filed June 13, 1980
  - Permit expected mid-July 1980

Texas Railroad Commission

Surface Mining and Reclamation Division

- Permit for Surface Mining Operations
  - Initial Permit Application June 7, 1979 (construction and operations).
  - Supplemental Information November 7, 1979
  - Permit Hearing April 16, 1980
  - Hearing Examiners Report May 30, 1980
  - Full Commission consideration no earlier than July 21, 1980
- Exploration Permit No. 106 Application March 6, 1980
  - Permit No. 106 issued March 13, 1980

Texas Department of Water Resources

- Temporary Permit to Appropriate Lake Carlos Water for Construction of Gibbons Creek Steam Electric Station, Power Plant
  - Permit TP 2877 granted August 15, 1977. Expires August 15, 1980
  - Request is being prepared for permanent utilization for mine operations
- Water Impoundment and Use Permit – Gibbons Creek Reservoir, for Power Plant
  - Permit No. 3489 granted August 15, 1977
- Application to Texas Water Commission to Appropriate Public Waters from the Navasota River. To provide make up water for assuring ample water in Gibbons Creek Reservoir
  - Application Number 4056, Public Hearing July 25, 1980
- Water Impoundments – Gibbons Creek Lignite Mine – Surface Water Control
  - Permit will be applied for in mid-1980
- Texas Water Commission Temporary Diversions Rock Lake Creek to Gibbons Creek and Dry Creek to Dinner Creek Application late 1980
- Texas Waste Control Order (related to NPDES Permit TX 0074438), for Power Plant
  - Waste Control Order No. 02120 granted November 28, 1977 Expiration – November 28, 1982
- Registration of Industrial Solid Waste Management Sites to serve Power Plant and Mine Area
  - Permit will be applied for in 1981

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APPENDIX E

Agency Financial Statements

Included herein are the financial statements and Auditors' Report of the Agency for the fiscal years ended September 30, 1978 and 1979.

Peat, Marwick, Mitchell & Co.

Certified Public Accountants

Suite 1500, 2001 Bryan Tower
Dallas, Texas 75201

The Board of Directors
Texas Municipal Power Agency:

We have examined the balance sheets of Texas Municipal Power Agency (TMPA) (A Development Stage Enterprise) as of September 30, 1979 and 1978 and the related statements of operations and retained earnings accumulated during the development stage and changes in financial position for the years ended September 30, 1979 and 1978 and cumulative from inception to September 30, 1979. 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.

As explained in note 5, the Texas Supreme Court has held that, depending upon the fact questions which may require jury trial, lignite deposits may be a part of either the surface estate or mineral estate. TMPA has acquired rights to mine lignite deposits primarily from surface estate owners where in some cases interests in the mineral estate are owned by others. No provision has been made in the financial statements for the additional cost of obtaining these rights nor the amount already invested which may not be recoverable.

In our opinion, subject to the effect of such adjustments, if any, as might have been required had the ultimate resolution of the matter discussed in the preceding paragraph been known, the aforementioned financial statements present fairly the financial position of Texas Municipal Power Agency at September 30, 1979 and 1978 and the results of its operations and the changes in its financial position for the years ended September 30, 1979 and 1978 and cumulative from inception to September 30, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

The supplementary data included in Schedules 1 and 2 were not audited by us and, accordingly, we do not express an opinion on them.

Peat, Marwick, Mitchell & Co.

November 30, 1979, except as to the second
paragraph of note 2 which is as of
December 13, 1979

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Balance Sheets

September 30, 1979 and 1978

Assets	1979	1978
Electric plant:		
In service:		
Transportation equipment	$ 177,000	157,000
Furniture and fixtures	235,000	107,000
Electric plant leased to others	403,000	403,000
Intangible plant (note 11)	445,000	445,000
	1,260,000	1,112,000
Less accumulated depreciation	239,000	127,000
	1,021,000	985,000
Land held for future use	289,000	289,000
Construction in progress (notes 2, 4, 8, 11 and 12)	237,336,000	59,122,000
Total electric plant	238,646,000	60,396,000
Other assets:		
Fuel stock (notes 5, 8, 11 and 12)	12,133,000	8,937,000
Unamortized borrowing costs	12,907,000	7,292,000
Total other assets	25,040,000	16,229,000
Restricted assets (note 6):		
Cash	212,000	215,000
Time deposits	1,000,000	4,500,000
Securities purchased under an agreement to resell, at cost	168,508,000	181,015,000
U.S. Government and Government Agency obligations, at amortized cost	187,459,000	49,969,000
Special deposits	1,290,000	1,910,000
Accrued interest	9,521,000	1,584,000
Accounts receivable	-	9,000
Advance payments to contractors	119,000	-
Due from current assets	-	243,000
Total restricted assets	368,109,000	239,445,000
Current assets:		
Cash	212,000	423,000
Time deposits	242,000	142,000
Accounts receivable	6,000	9,000
Prepaid expenses	18,000	26,000
Accrued interest	-	3,000
Due from agency accounts (note 2)	-	17,000
	478,000	620,000
	$ 632,273,000	316,690,000

Liabilities and Retained Earnings	1979	1978
Retained earnings (deficit) accumulated during the development stage	$ (38,000)	(41,000)
Long-term debt:		
Revenue bonds (note 7):		
Series 1976 (net of unamortized discount of $157,000 and $163,000 and including unamortized premium of $36,000 and $44,000 in 1979 and 1978, respectively)	49,879,000	49,881,000
Series 1978	250,000,000	250,000,000
Series 1979 (net of unamortized discount of $98,000)	299,902,000	-
Notes payable, excluding current installments (note 8)	2,390,000	1,623,000
Total long-term debt	602,171,000	301,504,000
Current and accrued liabilities:		
Payable from restricted assets (note 6):		
Current installments of notes payable (note 8)	275,000	216,000
Securities sold under agreement to repurchase	14,742,000	-
Accounts payable	7,510,000	10,692,000
Retainage payable	3,302,000	621,000
Accrued interest	3,482,000	3,091,000
Other	-	103,000
	29,311,000	14,723,000
Payable from current assets:		
Accounts payable	99,000	110,000
Accrued compensation and pension benefits (note 10)	316,000	151,000
Due to restricted assets (note 6)	-	243,000
Due to agency accounts (note 2)	414,000	-
Total current and accrued liabilities	30,140,000	15,227,000
Commitments and contingencies (notes 5, 11 and 12)		
	$ 632,273,000	316,690,000

See accompanying notes to financial statements.

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Statements of Operations and Retained Earnings
Accumulated During the Development Stage

Years ended September 30, 1979 and 1978
and cumulative from inception to September 30, 1979

	1979	1978	Cumulative
Operating revenues:			
Charges to participating members (note 9)	$ 412,000	544,000	1,857,000
Other operating income	17,000	4,000	41,000
	429,000	548,000	1,898,000
Operating revenue deductions:			
Operating and general expenses	369,000	443,000	1,782,000
Depreciation and amortization	24,000	9,000	37,000
	393,000	452,000	1,819,000
Net operating revenues	36,000	96,000	79,000
Other income (deductions):			
Revenues of electric plant leased to others	51,000	9,000	69,000
Expenses of electric plant leased to others, including depreciation of $19,000 in 1979 and 1978 and allocated interest of $27,000 in 1979 and $25,000 in 1978	(51,000)	(53,000)	(155,000)
Interest income	27,541,000	3,733,000	34,108,000
Interest on long-term debt	(30,397,000)	(5,953,000)	(40,377,000)
Amortization of debt discount, premium and borrowing costs, net	(524,000)	(119,000)	(785,000)
Allowance for funds used in projects	3,380,000	2,324,000	7,056,000
Total other income (deductions)	-	(59,000)	(84,000)
Net income (loss)	36,000	37,000	(5,000)
Retained earnings (deficit) accumulated during the development stage:			
At beginning of period	(41,000)	(78,000)	-
Distributions to member cities	(33,000)	-	(33,000)
At end of period	$ (38,000)	(41,000)	(38,000)

See accompanying notes to financial statements.

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Statements of Changes in Financial Position

Years ended September 30, 1979 and 1978
and cumulative from inception to September 30, 1979

	1979	1978	Cumulative
Sources of working capital:			
Net income (loss)	$ 36,000	37,000	(5,000)
Depreciation and amortization	43,000	28,000	93,000
Working capital provided by operations	79,000	65,000	88,000
Proceeds of revenue bonds	299,899,000	250,000,000	610,329,000
Proceeds of notes payable (net of current installments)	1,110,000	-	2,949,000
Decrease in working capital	467,000	1,791,000	351,000
	$ 301,555,000	251,856,000	613,717,000
Uses of working capital:			
Additions to electric plant in service and land held for future use	78,000	526,000	1,405,000
Additions to construction in progress	177,716,000	47,043,000	236,660,000
Additions to fuel stock	3,170,000	1,291,000	12,022,000
Increase in net restricted assets	114,076,000	196,843,000	338,798,000
Borrowing costs	6,139,000	5,937,000	13,615,000
Repayment of notes payable	343,000	216,000	559,000
Refunds to members of excess operating charges	33,000	-	33,000
Refunding of revenue bonds, Series 1975	-	-	10,625,000
	$ 301,555,000	251,856,000	613,717,000
Changes in components of restricted assets:			
Increase (decrease) in restricted assets:			
Cash, investments and special deposits	120,860,000	208,501,000	358,469,000
Accrued interest	7,937,000	1,217,000	9,521,000
Accounts receivable and advance payments to contractors	110,000	(201,000)	119,000
Due from current assets	(243,000)	243,000	-
	128,664,000	209,760,000	368,109,000
Increase (decrease) in liabilities payable from restricted assets:			
Accounts and retainage payable	(501,000)	10,173,000	10,812,000
Accrued interest	391,000	2,749,000	3,482,000
Current installments of notes payable	59,000	(24,000)	275,000
Securities sold under agreement to repurchase	14,742,000	-	14,742,000
Due to current assets	-	(84,000)	-
Other	(103,000)	103,000	-
	14,588,000	12,917,000	29,311,000
Increase in net restricted assets	$ 114,076,000	196,843,000	338,798,000

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Statements of Changes in Financial Position, Continued

	1979	1978	Cumulative
Changes in components of working capital:			
Increase (decrease) in current assets:			
Cash and investments	$ (111,000)	(1,272,000)	454,000
Accounts receivable	(3,000)	(18,000)	6,000
Due from agency accounts	(17,000)	(63,000)	-
Due from restricted assets	-	(84,000)	-
Other	(11,000)	4,000	18,000
	(142,000)	(1,433,000)	478,000
Increase (decrease) in current liabilities:			
Accounts payable	(11,000)	45,000	99,000
Accrued compensation and related benefits	165,000	70,000	317,000
Due to agency accounts	414,000	-	414,000
Due to restricted assets	(243,000)	243,000	-
	325,000	358,000	829,000
Decrease in working capital	$ 467,000	1,791,000	351,000

See accompanying notes to financial statements.

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

September 30, 1979 and 1978

(1) General

The Texas Municipal Power Agency (TMPA) was created in July 1975 by concurrent ordinances of the Texas cities of Bryan, Denton, Garland and Greenville (Cities) pursuant to Chapter 166, Acts of the 63rd Legislature of Texas, Regular Session, 1973 as amended by Chapter 143, Acts of the 64th Legislature, Regular Session, 1975 (Act). Under the provisions of the Act, TMPA is a separate municipal corporation, a political subdivision of the State, and body politic and corporate.

TMPA was created to act on behalf of the Cities for the purpose of obtaining the economic advantages of jointly financing, constructing and operating large electric generating units and related facilities to supply the Cities' future energy needs.

(2) Nature of Development Stage Activities

TMPA is undertaking, as projects approved by the Cities on August 27, 1976 and June 13, 1978, respectively, construction of the Gibbons Creek Steam Electric Station, a lignite fueled generating plant located in Grimes County, Texas and a 6.2% ownership interest in the Comanche Peak Plant, a nuclear fueled generating plant being constructed by a subsidiary of Texas Utilities Company (see note 4). In addition to these projects, TMPA is planning or undertaking a number of "System Development and Reliability Expenditures" which primarily relate to transmission and communication facilities. Such expenditures cannot exceed the amounts authorized by the Cities.

The financing requirements for TMPA to complete the above-mentioned projects and the facilities for which System Development and Reliability Expenditures are planned or undertaken as of December 13, 1979 are estimated by TMPA, as follows:

Gibbons Creek Steam Electric Station and related mining and transmission facilities	$ 748,537,000
Acquisition of a 6.2% interest in the Comanche Peak Plant and related transmission facilities	180,933,000
System Development and Reliability Expenditures (substantially all of which have been approved by TMPA and the Cities as of December 13, 1979)	81,989,000

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(3) Summary of Significant Accounting Policies

(a) Electric Plant

Electric plant is stated at the historical cost of construction. Such cost includes payroll related costs such as taxes and employee benefits, general and administrative costs and an allowance for funds used in projects.

The cost of construction performed by contractors is recorded on the basis of billings from the contractors.

Certain facilities, primarily transmission facilities, have been or will be completed prior to the completion of any generating plant. These completed facilities will remain in construction in progress until such time as any generating plant is placed in service. At September 30, 1979 and 1978, construction in progress included $774,000 of such completed facilities.

(b) Allowance for Funds Used in Projects

TMPA has capitalized to electric plant and lignite rights the net cost of borrowed funds used for such purposes. The net cost of borrowed funds includes amortization of bond discounts, bond premiums and borrowing costs and net interest expense.

(c) Federal Income Taxes

As a political subdivision of the State of Texas, any income of TMPA is exempt from Federal income tax under Section 115 of the Internal Revenue Code.

(d) Lignite Rights

Lignite rights include the costs of all preliminary and exploration studies, leasehold or fee acquisitions, delay rentals and advance royalties.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

The cost of lignite rights will be amortized by the unit-of-production method when mining of the lignite is commenced.

(e) Depreciation

Depreciation of electric plant in service is calculated by the straight-line method using the following rates:

Transportation	33%
Furniture and fixtures	20%
Electric plant leased to others	5%
Intangible plant	3%

(f) Revenue Bonds

Issuance costs, discounts and premiums of Revenue Bonds are being amortized by the straight-line method over the period of the related maturities.

(g) Reclassifications

Certain 1978 amounts have been reclassified to conform to the 1979 presentation.

(4) Acquisition of Interest in Comanche Peak

On January 2, 1979, TMPA executed the Joint Ownership Agreement (Agreement) to acquire a 6.2% undivided ownership interest in the Comanche Peak Steam Electric Station, consisting of two 1,150 MW nuclear-fueled pressurized water reactor steam electric units together with associated nuclear fuel, switchyard, substation, railroad spur and reservoir and an interest in a certain associated transmission line.

Under the terms of the Agreement, TMPA is obligated to pay 6.2% of all future (i) construction costs, (ii) nuclear fuel costs, (iii) operating costs (after the station is placed into commercial operation), (iv) a management fee of five percent of its pro rata share of operating costs and (v) a management fee of five percent of its pro rata share of fuel cost (subject to certain cost escalation limitations). Subject to certain operational exceptions, TMPA is entitled to receive 6.2% of the net power output that the station is capable of producing at any given time.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(5) Fuel Stock

In conjunction with the construction of the Gibbons Creek Steam Electric Station TMPA has acquired rights to near surface lignite deposits primarily from surface estate owners where in some cases the mineral estates are owned by others. The Texas Supreme Court has held that, depending on determination of fact questions which may require jury trial, lignite deposits may be a part of either the surface estate or the mineral estate.

TMPA has a program underway to acquire any lignite rights within the boundaries of the mining area which it has not heretofore acquired in this property. TMPA cannot presently determine the additional cost which may be involved to obtain the rights to mine these areas nor the portion of amounts already paid which will not be recoverable if necessary mining rights cannot be obtained. In the opinion of TMPA's legal counsel, there is only a remote possibility that TMPA has the power of eminent domain to acquire rights to lignite deposits.

(6) Restricted Assets

Restricted assets presented in the accompanying balance sheets include those assets comprising the Bond, Reserve and Construction Funds which are established and maintained pursuant to the Bond Resolutions of September 1, 1976, August 1, 1978 and March 1, 1979. All assets in the Bond Fund and substantially all assets in the Reserve Fund are available only to meet the principal and interest payments on the Revenue Bonds. Assets in the Construction Fund are primarily available for the payment of construction and acquisition costs of those projects and "System Development and Reliability Expenditures" described in note 2. The aggregate amount of assets in each of these Funds at September 30, 1979 and 1978 is as follows:

	September 30	
	1979	1978
Bond Fund	$ 63,506,000	42,014,000
Reserve Fund	47,975,000	23,796,000
Construction Fund	256,628,000	173,635,000
	$ 368,109,000	239,445,000

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

TMPA has purchased and sold investment securities under repurchase agreements whereby TMPA will resell or rebuy, at its cost plus accrued earnings, specified amounts of the securities on or before specified dates. The securities are primarily obligations of the United States Treasury, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association and Federal Home Loan Banks. These agreements bear interest at rates ranging from 10.125% to 11.30% and mature at various dates between October 1979 and March 1980.

U.S. Government and Government Agency obligations include United States Treasury bills and notes and securities issued by the Federal Home Loan Bank, the Federal Land Banks, and the Federal National Mortgage Association. The securities bear interest at rates ranging from 6.875% to 10.15% and mature at various dates between October 1979 and April 1991. TMPA intends to hold these securities to maturity.

(7) Revenue Bonds

TMPA has three issues of Revenue Bonds outstanding, described as follows:

	Revenue Bonds		
	Series 1976	Series 1978	Series 1979
Issue date	October 7, 1976	August 15, 1978	March 15, 1979
Range of interest rates	5% - 6-3/8%	5.35% - 7%	5-1/2% - 7%
Range of annual serial maturities	1983-2011	1984-2011	1985-2012
Earliest redemption date	September 1, 1986	September 1, 1988	September 1, 1989
Latest redemption date requiring a premium	August 31, 1998	August 31, 2000	August 31, 1995
Redemption premium range	3% to 1/2%	3% to 1/2%	3% to 1/2%

The Bonds are payable solely from and are secured by an irrevocable first lien on the net revenues of TMPA and the funds established by the Bond Resolutions.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

The Bond Resolutions require the establishment of certain funds restricted to specified purposes (Bond Fund, Reserve Fund, Construction Fund and Contingency Fund - see note 6) and provide that the gross operating revenue of TMPA shall be applied as follows:

First - for payment of the operating and maintenance expenses of the system;

Second - for monthly deposits into the Bond Fund so as to provide the full amount required to pay the principal, premium and interest on outstanding bonds when due;

Third - for equal monthly deposits (not to exceed 36) into the Reserve Fund to reinstate the balance of the fund to the average annual debt service on bonds outstanding following any transfers from this fund to the Bond Fund;

Fourth - for deposits into the Contingency Fund so that on or before the date of commercial operation of the initial electric generating facility the balance of the fund shall be not less than $2,000,000;

Fifth - for deposits to cure deficiencies in the Bond Fund, Reserve Fund and Contingency Fund; and

Sixth - for any lawful purpose.

(8) Notes Payable

As a part of the consideration paid for certain tracts of land, TMPA has issued notes payable which are secured by the land purchased. The notes are accounted for at stated or imputed interest rates and are due in annual or quarterly installments over periods ranging from three to sixteen years. The costs of the land securing the notes aggregated $4,417,000 at September 30, 1979.

The notes payable described above which have been made by TMPA with no stated interest rate have been accounted for using an imputed rate to recognize the time value of periodic payments of money. At September 30, 1979 these notes had an unpaid face amount of $1,411,000 and an imputed discount of $332,000 for a net payable of $1,079,000. The imputed rates used to discount these notes ranged from 5.7% to 8% at September 30, 1979.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(9) Power Sales Contracts

The Cities, under the power sales contracts with TMPA, are required to pay, for the benefits received or to be received by them from the activities described in note 2, an amount sufficient to pay TMPA's operating and maintenance expenses and the Bond Fund, Reserve Fund and Contingency Fund requirements of the Revenue Bonds (see notes 7 and 12).

(10) Retirement and Deferred Compensation Plans

The retirement plan is structured so that TMPA contributes 10% of gross wages to the fund for participants. Employees may contribute an additional amount up to 10% from their earnings on a voluntary basis. Interest is earned on each individual's account until retirement or termination. The employee becomes a participant after six months of service and becomes vested as to the amounts described above upon becoming a participant. A participant has various payment options upon retirement or termination. Retirement plan expense for 1979 and 1978 was $105,000 and $88,000, respectively. Benefits earned exceeded the fund assets by $19,000 at September 30, 1979.

During 1979 TMPA approved a deferred compensation plan for certain key employees. The plan provides for certain amounts to be computed for participating employees based on their salaries up to a maximum provision each year. Various payment options are available to the employee upon retirement or termination. The accompanying financial statements include a charge of $2,000 for such deferred compensation cost for the year ended September 30, 1979.

(11) Settlement of Litigation

A suit filed in 1977 on behalf of a group known as the Grimes County Taxpayers Association sought to have declared unconstitutional the statute under which TMPA was created. The 12th Judicial District Court of Grimes County, Texas entered a summary judgment in favor of TMPA and on March 2, 1978 the Court of Civil Appeals affirmed the trial court's decision. As a result of the settlement agreement discussed below, plaintiffs waived motion for rehearing and the decision of the Appeals Court became final. The issues in the suit were resolved in favor of TMPA.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

The Grimes County Taxpayers' Association filed another suit in 1977 against TMPA and the Environmental Protection Agency (EPA) protesting the proposed issuance of a permit by the EPA to TMPA for discharging waste water from TMPA's Gibbons Creek Steam Electric Station. As a result of the settlement agreement discussed below, an agreed judgment was entered by the U.S. District Court, Southern District of Texas, denying the relief sought by the plaintiffs. The judgment is binding on all parties as the plaintiffs have waived all rights of appeal or other complaints.

In order to obtain certain property and confirm certain rights necessary to complete the Gibbons Creek Steam Electric Station and to settle various controversies with certain local government units and others, TMPA entered into a settlement agreement with the Grimes County Taxpayers' Association and others on July 19, 1978. A legal proceeding in the District Court of Grimes County confirmed the terms of the settlement agreement and made those terms applicable between TMPA, the Taxpayers' Association, the County of Grimes, Texas, the State of Texas and three school districts. Under terms of the agreement TMPA, on July 19, 1978, made payments to the County and the three school districts aggregating $270,000. TMPA also agreed to make annual payments to the County and the three school districts so long as the Gibbons Creek Unit No. 1 is in operation as follows: 1979 - $320,000, 1980 - $370,000, 1981 - $420,000, 1982 and thereafter - $520,000. TMPA was also required to pay the County an amount not to exceed $500,000 for the upgrading of two county roads in 1979. Proceeds from the Revenue Bonds, Series 1978 aggregating $1,610,000 have been placed in trust accounts to fund the payments due in 1979, 1980 and 1981. The payments due in 1982 and thereafter are to be made out of the gross revenue from the sale of electricity from the Gibbons Creek Steam Electric Station. The amount of annual payments to be made each year is subject to adjustments specified in the agreement. The estimated total payments to be made by TMPA under this agreement are approximately $17,000,000.

In exchange for these payments, the Grimes County Taxpayers' Association, the County and the three school districts settled their controversies with TMPA. The suits by the Grimes County Taxpayers' Association were resolved in the manner described above. The County and the school districts have agreed that TMPA is not liable for ad valorem taxes under existing Texas law and that TMPA has a power of eminent domain which extends over public property. The County further agreed to convey certain property to TMPA and to make available for leasing on a competitive bid basis certain County land which is believed to contain lignite deposits.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

Annual payments made to the County and the three school districts will be capitalized during the period of construction; annual payments made after the plant becomes operational will be expensed as operating expenses. Legal fees and expenses of $473,000 incurred in connection with the Grimes County Taxpayers' Association suits have been capitalized as intangible plant and construction costs.

(12) Commitments and Contingencies

In connection with the projects and activities described in note 2, TMPA has entered into contracts for goods and services which aggregate approximately $457,000,000 and $194,000,000 at September 30, 1979 and 1978, respectively.

A suit filed in the 196th District Court of Hunt County against the City of Greenville and TMPA alleges that the power sales contract between the City and TMPA is void and of no force and effect, seeks $1,000,000 in damages and seeks an injunction to prevent the City and TMPA from attempting to perform any provisions of the power sales contract and to prevent the City and TMPA from creating additional indebtedness for bonds. On December 22, 1978, the District Court granted summary judgment in favor of the City and TMPA. The plaintiff subsequently appealed to the Court of Civil Appeals, Fifth District, at Dallas. On July 9, 1979, the Court of Civil Appeals dismissed the suit holding that plaintiff had no standing to assert the claims made in the case. The plaintiff thereafter made application to the Supreme Court of Texas for writ of error. On November 21, 1979, the Supreme Court upheld the judgment and opinion of the Court of Civil Appeals by refusing plaintiff's application. The legal contention and relief requested pertaining to the power sales contract, the creation of additional indebtedness for bonds and the $1,000,000 damages to the plaintiff are without merit in the opinion of TMPA's legal counsel.

A suit filed in the 134th District Court of Dallas County against the City of Garland, TMPA and certain individuals seeks to declare that the power sales contract between the City and TMPA is null and void, to declare all previous payments made by the City to TMPA null and void and unlawful, to recover $750,000 previously paid by the City to TMPA, to recover $300,000,000 in punitive damages and for such treble damages

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

as may be provided by law. Additionally, the plaintiffs seek an injunction to prevent the City from performing the power sales contract, to prevent the City from making any further payment of funds from municipal revenues to TMPA and to prevent TMPA from spending any money received from the City. The District Court granted summary judgment in favor of the City, TMPA and all the individual defendants on December 7, 1978. The plaintiffs subsequently appealed to the Cout of Civil Appeals, Fifth District, at Dallas. On May 23, 1979, the Court of Civil Appeals affirmed the judgment of the District Court. The plaintiff thereafter made application to the Supreme Court of Texas for writ of error. On November 28, 1979, the Supreme Court upheld the judgments of the lower courts by refusing the application for writ of error. The plaintiffs have filed with the Supreme Court a motion for rehearing. In the opinion of TMPA's legal counsel, the legal contentions pertaining to the validity of the power sales contract and the payments required to be made to TMPA thereunder are without merit and the likelihood of plaintiffs recovering monetary damages against TMPA is remote.

TMPA, as a political subdivision of the State, has the power of eminent domain in certain real property acquisitions. At September 30, 1979, TMPA had a number of condemnation suits pending in the Twelfth District Court of Grimes County, Texas and had also initiated condemnation proceedings in Brazos, Collin and Hunt Counties.

The Agency has filed an application with the Texas State Railroad Commission to obtain a permit for mining operations. It is management's expectation that the application will be declared administratively complete by the Railroad Commission in January 1980. Upon such declaration, interested parties have the opportunity to file comments and request hearings with the Railroad Commission. In the opinion of the Agency's legal counsel, should any objections be filed they would probably not be successful.

Schedule 1

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Schedul of Debt Service Requirements
Revenue Bonds: Series 1976, 1978 and 1979

September 30, 1979

(Unaudited)

	Revenue Bond maturities (note)	Revenue Bond interest	Total maturities and interest
	(Thousands of dollars)		
Year ending September 30:			
1979	$ -	29,918	29,918
1980	-	39,966	39,966
1981	-	39,966	39,966
1982	-	39,966	39,966
1983	690	39,966	40,656
1984	4,215	39,931	44,146
1985	8,635	39,708	48,343
1986	9,105	39,237	48,342
1987	9,620	38,732	48,352
1988	10,155	38,187	48,342
1989	10,750	37,601	48,351
1990	11,380	36,971	48,351
1991	12,055	36,298	48,353
1992	12,780	35,573	48,353
1993	13,560	34,797	48,357
1994	14,390	33,963	48,353
1995	15,290	33,068	48,358
1996	16,260	32,102	48,362
1997	17,300	31,060	48,360
1998	18,435	29,930	48,365
1999	19,665	28,704	48,369
2000	20,985	27,386	48,371
2001	22,405	25,970	48,375
2002	23,925	24,453	48,378
2003	25,565	22,827	48,392
2004	27,330	21,051	48,381
2005	29,235	19,153	48,388
2006	31,275	17,121	48,396
2007	33,450	14,948	48,398
2008	35,785	12,625	48,410
2009	38,285	10,138	48,423
2010	40,955	7,479	48,434
2011	43,815	4,633	48,448
2012	22,705	1,589	24,294
	$ 600,000	965,017	1,565,017

Note - Serial maturities and mandatory redemption requirements for Term Bonds; does not include reserve, contingency or mandatory redemption fund requirements. No provision has been made for early redemption which is allowed in the Bond Resolutions since management does not intend to do so at this time.

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Comparison of Revenues and Expenditures Recorded on a Modified Accrual Basis with Those Budgeted

Year ended September 30, 1979

(Unaudited)

	Budgeted	Actual
Revenues:		
Surcharges	$ 427,562	412,410
Interest	3,000	23,811
Other	12,000	17,269
	442,562	453,490
Expenditures:		
Personnel	1,948,156	1,244,843
Outside services	848,740	738,527
Operations	953,790	620,871
Capital outlay	166,879	141,978
	3,917,565	2,746,219
Less expense allocated to other accounts	3,475,003	2,335,255
Net expenditures	442,562	410,964
Excess of revenues over net expenditures	$ -	42,526

Note - This statement reflects a comparison of the Operating Budget of TMPA for the fiscal year 1978-79 and the actual expenditures and is presented on the modified accrual basis. Purchases of land and furniture are considered expenditures for purposes of this statement. Legal fees and other expenses which were paid from proceeds of the Series 1976, 1978 and 1979 Revenue Bonds are not presented as expenditures for purposes of this statement.

APPENDIX F

Agency Interim Financial Statements

Included herein are the unaudited financial statements of the Agency for the six months ended March 31, 1980.

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TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Balance Sheet

March 31, 1980

(unaudited)

Assets

Electric plant:	
In service:	
Transportation equipment	$ 177,000
Furniture and fixtures	235,000
Electric plant leased to others	403,000
Intangible plant	445,000
	1,260,000
Less accumulated depreciation	260,000
	1,000,000
Land held for future use	289,000
Construction in progress (notes 2, 4, 8 and 11)	285,955,000
Total electric plant	287,244,000
Other assets:	
Fuel stock (notes 5, 8 and 11)	14,824,000
Unamortized borrowing costs	12,332,000
Total other assets	27,156,000
Restricted assets (note 6):	
Time deposits	2,218,000
Securities purchased under an agreement to resell, at cost	67,129,000
U.S. Government and Government Agency obligations, at amortized cost	226,800,000
Special deposits	1,203,000
Accrued interest	4,758,000
Advance payments to contractors	941,000
Total restricted assets	303,049,000
Current assets:	
Cash	222,000
Accounts receivable	10,000
Prepaid expenses	17,000
Due from agency accounts	286,000
Due from restricted assets	648,000
	1,183,000
	$618,632,000

Liabilities and Retained Earnings

Retained earnings accumulated during the development stage	$ 62,000
Long-term debt:	
Revenue bonds (note 7):	
Series 1976 (net of unamortized discount of $148,000 and including unamortized premium of $33,000)	49,885,000
Series 1978	250,000,000
Series 1979 (net of unamortized discount of $94,000)	299,906,000
Notes payable, excluding current installments (note 8)	2,271,000
Total long-term debt	602,062,000
Current and accrued liabilities:	
Payable from restricted assets (note 6):	
Current installments of notes payable (note 8)	308,000
Accounts payable	7,348,000
Retainage payable	3,977,000
Accrued interest	3,389,000
Due to current assets	648,000
	15,670,000
Payable from current assets:	
Accounts payable	650,000
Accrued compensation and pension benefits (note 10)	129,000
Other	59,000
Total current and accrued liabilities	16,508,000
Commitments and contingencies (notes 5 and 11)	
	$618,632,000

See accompanying notes to financial statements.

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Statements of Operations and Retained Earnings
Accumulated During the Development Stage

For the Six Month Period ended March 31, 1980 (unaudited)
and cumulative from inception to March 31, 1980 (unaudited)

	March 31, 1980	Cumulative
Operating revenues:		
Charges to participating members (note 9)	$ 200,000	$ 2,057,000
Other operating income	5,000	46,000
	205,000	2,103,000
Operating revenue deductions:		
Operating and general expenses	104,000	1,886,000
Depreciation and amortization	12,000	49,000
	116,000	1,935,000
Net operating revenues	89,000	168,000
Other income (deductions):		
Revenues of electric plant leased to others	33,000	102,000
Expenses of electric plant leased to others	(22,000)	(177,000)
Interest income	17,640,000	51,748,000
Interest on long-term debt	(19,982,000)	(60,359,000)
Amortization of debt discount, premium and borrowing costs, net	(695,000)	(1,480,000)
Allowance for funds used in projects	3,037,000	10,093,000
Total other income (deductions)	11,000	(73,000)
Net income	100,000	95,000
Retained earnings (deficit) accumulated during the development stage:		
At beginning of period	(38,000)	-
Distributions to member cities	-	(33,000)
At end of period	$ 62,000	$ 62,000

See accompanying notes to financial statements.

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Statements of Changes in Financial Position

For the Six Month Period ended March 31, 1980 (unaudited)
and cumulative from inception to March 31, 1980 (unaudited)

	March 31, 1980	Cumulative
Sources of working capital:		
Net income	$ 100,000	$ 95,000
Depreciation and amortization	606,000	699,000
Working capital provided by operations	706,000	794,000
Proceeds of revenue bonds	-	610,329,000
Proceeds of notes payable (net of current installments)	-	2,949,000
	$ 706,000	$614,072,000
Uses of working capital:		
Increase in working capital	696,000	345,000
Additions to electric plant in service and land held for future use	-	1,405,000
Additions to construction in progress	48,619,000	285,279,000
Additions to fuel stock	2,691,000	14,713,000
Increase (decrease) in net restricted assets	(51,419,000)	287,379,000
Borrowing costs	-	13,615,000
Repayment of notes payable	119,000	678,000
Refunds to members of excess operating charges	-	33,000
Refunding of revenue bonds, Series 1975	-	10,625,000
	$ 706,000	$614,072,000
Changes in components of restricted assets:		
Increase (decrease) in restricted assets:		
Cash, investments and special deposits	(61,119,000)	297,350,000
Accrued interest	(4,763,000)	4,758,000
Accounts receivable and advance payments to contractors	822,000	941,000
	(65,060,000)	303,049,000
Increase (decrease) in liabilities payable from restricted assets:		
Accounts and retainage payable	513,000	11,325,000
Accrued interest	(93,000)	3,389,000
Current installments of notes payable	33,000	308,000
Securities sold under agreement to repurchase	(14,742,000)	-
Due to current assets	648,000	648,000
	(13,641,000)	15,670,000
Increase in net restricted assets	$(51,419,000)	$287,379,000

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Statements of Changes in Financial Position, Continued

(unaudited)

	March 31, 1980	Cumulative
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash and investments	$ (232,000)	$ 222,000
Accounts receivable	4,000	10,000
Due from agency accounts	286,000	286,000
Due from restricted assets	648,000	648,000
Other	(1,000)	17,000
	705,000	1,183,000
Increase (decrease) in current liabilities:		
Accounts payable	551,000	649,000
Accrued compensation and related benefits	(187,000)	130,000
Due to agency accounts	(414,000)	-
Other	59,000	59,000
	9,000	838,000
Increase in working capital	$ 696,000	$ 345,000

See accompanying notes to financial statements.

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

March 31, 1980

(unaudited)

(1) General

The Texas Municipal Power Agency (TMPA) was created in July 1975 by concurrent ordinances of the Texas cities of Bryan, Denton, Garland and Greenville (Cities) pursuant to Chapter 166, Acts of the 63rd Legislature of Texas, Regular Session, 1973 as amended by Chapter 143, Acts of the 64th Legislature, Regular Session, 1975 (Act). Under the provisions of the Act, TMPA is a separate municipal corporation, a political subdivision of the State, and body politic and corporate.

TMPA was created to act on behalf of the Cities for the purpose of obtaining the economic advantages of jointly financing, constructing and operating large electric generating units and related facilities to supply the Cities' future energy needs.

(2) Nature of Development Stage Activities

TMPA is undertaking, as projects approved by the Cities on August 27, 1976 and June 13, 1978, respectively, construction of the Gibbons Creek Steam Electric Station, a lignite fueled generating plant located in Grimes County, Texas and a 6.2% ownership interest in the Comanche Peak Plant, a nuclear fueled generating plant being constructed by a subsidiary of Texas Utilities Company (see note 4). In addition to these projects, TMPA is planning or undertaking a number of "System Development and Reliability Expenditures" which primarily relate to transmission and communication facilities. Such expenditures cannot exceed the amounts authorized by the Cities.

The financing requirements for TMPA to complete the above-mentioned projects and the facilities for which System Development and Reliability Expenditures are planned or undertaken as of June 1, 1980 are estimated by TMPA as follows:

Gibbons Creek Steam Electric Station and related mining and transmission facilities	$792,800,000
Acquisition of a 6.2% interest in the Comanche Peak Plant and related transmission facilities	207,400,000
System Development and Reliability Expenditures (all of which have been approved by TMPA and the Cities)	80,600,000

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(unaudited)

(3) Summary of Significant Accounting Policies

(a) Electric Plant

Electric plant is stated at the historical cost of construction. Such cost includes payroll related costs such as taxes and employee benefits, general and administrative costs, and an allowance for funds used in projects.

The cost of construction performed by contractors is recorded on the basis of billings from the contractors.

Certain facilities, primarily transmission facilities, have been or will be completed prior to the completion of any generating plant. These completed facilities will remain in construction in progress until such time as any generating plant is placed in service. At March 31, 1980, construction in progress included $774,000 of such completed facilities.

(b) Allowance for Funds Used in Projects

TMPA has capitalized to electric plant and lignite rights the net cost of borrowed funds used for such purposes. The net cost of borrowed funds includes amortization of bond discounts, bond premiums, borrowing costs, and net interest expense.

(c) Federal Income Taxes

As a political subdivision of the State of Texas, any income of TMPA is exempt from Federal Income Tax under Section 115 of the Internal Revenue Code.

(d) Lignite Rights

Lignite rights include the costs of all preliminary and exploration studies, leasehold or fee acquisitions, delay rentals and advance royalties.

The cost of lignite rights will be amortized by the unit-of-production method when mining of the lignite is commenced.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(unaudited)

(e) Depreciation

Depreciation of electric plant in service is calculated by the straight-line method using the following rates:

Transportation	33%
Furniture and fixtures	20%
Electric plant leased to others	5%
Intangible plant	3%

(f) Revenue Bonds

Issuance costs, discounts and premiums of Revenue Bonds are being amortized by the straight-line method over the period of the related maturities.

(4) Acquisition of Interest in Comanche Peak

On January 2, 1979, TMPA executed the Joint Ownership Agreement (Agreement) to acquire a 6.2% undivided ownership interest in the Comanche Peak Steam Electric Station, consisting of two 1,150 MW nuclear-fueled pressurized water reactor steam electric units together with associated nuclear fuel, switchyard, substation, railroad spur and reservoir and an interest in a certain associated transmission line.

Under the terms of the Agreement, TMPA is obligated to pay 6.2% of all future (i) construction costs, (ii) nuclear fuel costs, (iii) operating costs (after the station is placed in commercial operation), (iv) a management fee of five percent of its pro rata share of operating costs and (v) a management fee of five percent of its pro rata share of fuel cost (subject to certain cost escalation limitations). Subject to certain operational exceptions, TMPA is entitled to receive 6.2% of the net power output that the station is capable of producing at any given time.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(unaudited)

(5) Fuel Stock

In conjunction with the construction of the Gibbons Creek Steam Electric Station, TMPA has acquired rights to near surface lignite deposits primarily from surface estate owners where in some cases the mineral estates are owned by others. The Texas Supreme Court has held that, depending on determination of fact questions which may require jury trial, lignite deposits may be a part of either the surface estate or the mineral estate.

On March 19, 1980, the Supreme Court of Texas rendered its opinion in the case of Wylie v. Reed, wherein the Court settled the question of lignite ownership, where a conveyance of land reserved an interest in "oil, gas, and other minerals". Did that reservation include an interest in lignite? The court answered that question by holding that as a matter of law a deposit which is within 200 ft. of the surface is "near surface" and that the rule for near surface lignite is that the substance will not be granted or retained as a mineral if it is shown that any reasonable method of production would destroy or deplete the surface. This decision should allow the Agency to mine lignite from rights already acquired from surface estate owners without acquiring additional lignite rights from mineral estate owners.

TMPA has a program underway to acquire additional lignite rights within the boundaries of the mining area which it has not heretofore acquired.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(unaudited)

(6) Restricted Assets

Restricted assets presented in the accompanying balance sheets include those assets comprising the Bond, Reserve and Construction Funds which are established and maintained pursuant to the Bond Resolutions of September 1, 1976, August 1, 1978 and March 1, 1979. All assets in the Bond Fund and substantially all assets in the Reserve Fund are available only to meet the principal and interest payments on the Revenue Bonds. Assets in the Construction Fund are primarily available for the payment of construction and acquisition costs of those projects and "System Development and Reliability Expenditures" described in note 2. The aggregate amount of assets in each of these Funds at March 31, 1980 is as follows:

Bond Fund	$ 47,125,000
Reserve Fund	52,093,000
Construction Fund	203,831,000
	$303,049,000

TMPA has purchased investment securities under repurchase agreements whereby TMPA will resell, at its cost plus accrued earnings, specified amounts of the securities on or before specified dates. The securities are primarily obligations of the United States Treasury, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association and Federal Home Loan Banks. These agreements bear interest at rates ranging from 13.40% to 15.50% and mature at various dates between April, 1980 and July, 1980.

U. S. Government and Government Agency obligations include United States Treasury bills and notes and securities issued by the Federal Home Loan Bank, the Federal Land Banks, and the Federal National Mortgage Association. The securities bear interest at rates ranging from 6.875% to 16.00% and mature at various dates between April, 1980 and April, 1991. TMPA intends to hold these securities to maturity.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(unaudited)

(7) Revenue Bonds

TMPA has three issues of Revenue Bonds outstanding, described as follows:

	Revenue Bonds		
	Series 1976	Series 1978	Series 1979
Issue date	October 7, 1976	August 15, 1978	March 15, 1979
Range of interest rates	5% - 6-3/8	5.35% - 7%	5-1/2% - 7%
Range of annual serial maturities	1983-2011	1984-2011	1985-2012
Earliest redemption date	September 1 1986	September 1 1988	September 1 1989
Latest redemption date requiring a premium	August 31 1998	August 31 2000	August 31, 1995
Redemption premium range	3% - 1/2%	3% - 1/2%	3% - 1/2%

The Bonds are payable solely from and are secured by an irrevocable first lien on the net revenues of TMPA and the funds established by the Bond Resolutions.

The Bond Resolutions require the establishment of certain funds restricted to specified purposes (Bond Fund, Reserve Fund, Construction Fund and Contingency Fund - see note 6) and provide that the gross operating revenue of TMPA shall be applied as follows:

First - for payment of the operating and maintenance expenses of the system;

Second - for monthly deposits into the Bond Fund so as to provide the full amount required to pay the principal, premium and interest on outstanding bonds when due;

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(unaudited)

Third - for equal monthly deposits (not to exceed 36) into the Reserve Fund to reinstate the balance of the fund to the average annual debt service on bonds outstanding following any transfers from this fund to the Bond Fund;

Fourth - for deposits into the Contingency Fund so that on or before the date of commercial operation of the initial electric generating facility the balance of the fund shall be not less than $2,000,000;

Fifth - for deposits to cure deficiencies in the Bond Fund, Reserve Fund, and Contingency Fund; and

Sixth - for any lawful purpose.

(8) Notes Payable

As a part of the consideration paid for certain tracts of land, TMPA has issued notes payable which are secured by the land purchased. The notes are accounted for at stated or imputed interest rates and are due in annual or quarterly installments over periods ranging from three to fifteen years. The costs of the land securing the notes aggregated $4,196,000 at March 31, 1980.

The notes payable described above which have been made by TMPA with no stated interest rate have been accounted for using an imputed rate to recognize the time value of periodic payments of money. At March 31, 1980, these notes had an unpaid face amount of $1,358,000 and an imputed discount of $344,000 for a net payable of $1,014,000. The imputed rates used to discount these notes ranged from 5.7% to 8% at March 31, 1980.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(unaudited)

(9) Power Sales Contracts

The Cities, under the power sales contract with TMPA, are required to pay, for the benefits received or to be received by them from the activities described in note 2, an amount sufficient to pay TMPA's operating and maintenance expenses and the Bond Fund, Reserve Fund and Contingency Fund requirements of the Revenue Bonds (see notes 7 and 11).

(10) Retirement and Deferred Compensation Plans

The retirement plan is structured so that TMPA contributes 10% of gross wages to the fund for participants. Employees may contribute an additional amount up to 10% from their earnings on a voluntary basis. Interest is earned on each individual's account until retirement or termination. The employee becomes a participant after six months of service and becomes vested as to the amounts described above upon becoming a participant. A participant has various payment options upon retirement or termination. Retirement plan expense for the six months ended March 31, 1980 was $88,000.

During 1979 TMPA approved a deferred compensation plan for certain key employees. The plan provides for certain amounts to be computed for participating employees based on their salaries up to a maximum provision each year. Various payment options are available to the employee upon retirement or termination. The accompanying financial statements include a charge of $13,000 for such deferred compensation cost for the six months ended March 31, 1980.

(Continued)

TEXAS MUNICIPAL POWER AGENCY
(A Development Stage Enterprise)

Notes to Financial Statements

(unaudited)

(11) Commitments and Contingencies

In connection with the projects and activities described in note 2, TMPA has entered into contracts for goods and services which aggregate approximately $466,000,000 at March 31, 1980.

TMPA, as a political subdivision of the State, has the power of eminent domain in certain real property acquisitions. At March 31, 1980, TMPA had a number of condemnation suits pending in the district courts of Grimes, Brazos, Collin and Hunt Counties.

The Agency has filed an application with the Texas State Railroad Commission to obtain a permit for mining operations. The application has been declared administratively complete by the Railroad Commission and hearings have been held before an examiner of the Commission. It is anticipated that a formal recommendation of the examiner will be presented to the Commission in approximately ninety days.

As a result of settlement of litigation between TMPA and a group known as the Grimes County Taxpayers Association, TMPA agreed to make annual payments to Grimes County and three school districts beginning in 1979 and continuing so long as the Gibbons Creek Unit No. 1 is in operation, in addition to a settlement payment made in 1978. The future aggregate payments are to be made on the following schedule: 1980 - $370,000; 1981 - $420,000; 1982 and thereafter - $520,000.

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EXHIBIT I

Dumas, Huguenin, Boothman & Morrow

1212 Kirby Building 1509 Main Street
Dallas, Texas 75201
(214) 741-3458

W. P. DUMAS (1890-1947)
A. BRYCE HUGUENIN
CLAUD O. BOOTHMAN
ELBERT M. MORROW
ED H. ESQUIVEL
RICHARD W. HARRIS
RICHARD D. HUFF

SAN ANTONIO OFFICE

2200 TOWER LIFE BUILDING
SAN ANTONIO, TEXAS 78205
(512) 223-2541

WE HAVE EXAMINED certified proceedings, including the Resolution (the "Bond Resolution") adopted by the Board of Directors of the Texas Municipal Power Agency (the "Agency"), a municipal corporation, political subdivision of the State of Texas, and a body politic and corporate, duly created and validly existing pursuant to the Constitution and laws of the State of Texas, authorizing the issuance by the Agency of its Bonds dated August 1, 1980, in the principal sum of TWO HUNDRED FIFTY MILLION DOLLARS ($250,000,000), more particularly described as follows:

TEXAS MUNICIPAL POWER AGENCY REVENUE BONDS, SERIES 1980 (the "Bonds"), numbered consecutively from 1 through 50,000, each in the denomination of $5,000. The Bonds mature on September 1 in each of the following years and amounts and bear interest until paid, such interest being payable on March 1, 1981, and semiannually thereafter on each September 1 and March 1, at the following per annum rates:

Year	Amount	Rate
1985	$ 2,635,000	6 %
1986	2,790,000	6¼
1987	2,965,000	6½
1988	3,160,000	6¾
1989	3,370,000	7
1990	3,605,000	7.20
1991	3,865,000	7.40
1992	4,155,000	7.60
1993	4,470,000	7.80
1994	4,815,000	8
1995	2,410,000	8.15
2000	36,490,000	8⅞
2002	18,050,000	9
2005	33,670,000	9.10
2012	123,550,000	9¼

The Bonds maturing on and after September 1, 1991, are subject to optional redemption prior to their scheduled maturities and, additionally, the Bonds maturing September 1, 2000, September 1, 2002, September 1, 2005, and September 1, 2012, are subject to mandatory redemption prior to their scheduled maturities, all in accordance with the terms and conditions stated on the face of each of the Bonds.

Continuation of Legal Opinion of Messrs. Dumas, Huguenin, Boothman and Morrow re TEXAS MUNICIPAL POWER AGENCY REVENUE BONDS, SERIES 1980 dated August 1, 1980.

WE HAVE ALSO EXAMINED executed Bond Number One and find same in due form of law and properly executed. We have further examined certified copies of certain other proceedings and other showings of the Agency in connection with the Bonds, including certifications and representations concerning the use of proceeds of the Bonds, the use of other funds of the Agency and other material facts within the knowledge and control of the Agency, upon which certifications and representations we rely.

IT IS OUR OPINION that such proceedings and other showings tendered in connection therewith evidence that all of the Bonds were duly authorized and issued in conformity with the Constitution and laws of the State of Texas presently effective, particularly Article 1435a, R.C.S. of Texas, 1925, as amended, and that the Bonds and the Bond Resolution, are valid and legally binding upon the Agency, and enforceable, in accordance with the terms and conditions thereof; that the Power Sales Contracts, each of which is dated as of September 1, 1976, by and between the Agency and the Cities of Bryan, Denton, Garland and Greenville, Texas, are valid and enforceable contracts; that all payments to be made by such Cities under the respective Contracts are operating expenses of the electric power and light systems of such Cities. The Bonds, together with the outstanding and unpaid Previously Issued Bonds, are payable as to principal and interest solely from and equally secured by an irrevocable first lien on and pledge of the Net Revenues of the System and all Funds (including the investments therein) established and reaffirmed by the Bond Resolution, other than the Revenue Fund, and the Revenue Fund subject to the payment of the Operating and Maintenance Expenses. The terms in this paragraph have the meaning assigned to them in the Bond Resolution.

THE BOND RESOLUTION further provides certain conditions under which the Agency may issue additional parity bonds or other evidences of indebtedness payable from the same source and secured in the same manner.

WE HAVE ACTED AS BOND COUNSEL for the Agency for the sole purpose of rendering our opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, with respect to the exemption of the interest on the Bonds from Federal income taxes and with respect to certain other matters in connection with the delivery of the Bonds, and for no other purpose or reason. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the Agency and have not assumed any responsibility with respect thereto.

IT IS OUR FURTHER OPINION that the interest on the Bonds is exempt from Federal income taxes under existing laws and regulations.

Exhibit II

Glossary of Certain Terms Used in this Official Statement

The following terms, as used in this Official Statement, have the meanings set forth below:

Annual System Costs – with respect to a fiscal year of the Agency, and to the extent not paid or to be paid from the proceeds of Bonds or other funds legally available to the Agency, all costs and expenses of the Agency that are paid or incurred during such fiscal year of the Agency and are allocable to the System, including, but not limited to the payment of the Operating and Maintenance Expenses of the System, all costs, charges, and expenses of replacements and renewals of the System and all taxes, assessments or other governmental charges lawfully imposed on the Agency or on the revenues of the System or payments in lieu thereof, and the deposit or payment of any and all amounts which the Agency may now and hereafter become obligated to deposit into any fund or pay from revenues of the System, by law, contract, or the Resolution.

Average Annual Debt Service – the annual arithmetic average (fiscal year basis) of the principal of and interest on all outstanding Bonds becoming due from the date of calculation to the earlier of the date of maturity of such Bonds or to the date such Bonds are required to be called for redemption.

Debt Service – with respect to any period, the aggregate amounts required to be paid during said period on outstanding Bonds, less those amounts on deposit for the payment thereof, as the same shall become due.

Development Project – any one or more of the following: (i) repairs, replacements, or modifications to an existing generating facility owned in whole or in part by the Agency, and which are designed to increase or maintain an operating efficiency of the facility or (ii) preliminary and developmental work to determine whether any work should be undertaken as a Project, or engineering, legal, and financial studies in connection with the planning, development or utilization of power resources, or (iii) any purpose for which proceeds of Bonds may be expended under the Act, except a Project.

Gross Revenues – the entire income and revenue of the Agency derived from the operation of the System or ownership of properties constituting the System. The term does not include payments received by the Agency from certain other sources, including payments from a City upon its withdrawal from the Agency, proceeds of insurance (except business interruption insurance) or eminent domain, or investment income of the Construction Fund.

Investment Securities – any of the following securities, if and to the extent that the same are at the time legal for investment of Agency funds:

(i) 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; and

(ii) Evidences of indebtedness of the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Federal National Mortgage Association, Federal Financing Bank Participation Certificates in the Federal Assets Financing Trust, New Housing Authority Bonds and Project Notes fully secured by contracts with the United States of America, or any other agency or instrumentality of the United States of America; bonds secured by the general credit of the State of Texas; and deposits which are fully secured (to the extent not insured by a corporation, instrumentality or agency of the United States of America) by obligations in which the Agency may invest under the provisions of this definition.

Net Energy For Load – a City's net energy generation plus energy received from others minus energy delivered to others at the points of delivery during the period under consideration.

Net Revenues – for any period, the Gross Revenues during such period less the Operating and Maintenance Expenses during such period.

Operating and Maintenance Expenses – all expenses incurred in the operation and maintenance of the System and the Agency which are properly accounted for such purpose, under generally accepted accounting principles. Such term does not include depreciation or obsolescence charges or reserves therefor, interest charges and charges for the payment of principal, or amortization, of Bonds or other indebtedness of the Agency.

Project – one or more of the following: (i) any power generating facility (or interest therein) to be constructed or acquired by the Agency as well as fuel therefor and any transmission facility required to connect or interconnect such generating facility with a City or others, (ii) any addition or improvement to a power generating facility which is then owned, in whole or in part, by the Agency, or (iii) any contract right to purchase or receive a power supply or transmission capacity (a) by the making of a prepayment of capital costs which are associated with the supply or capacity so purchased, or (b) by the execution of a take or pay contract having a duration of more than 10 years, including any renewals thereof or (c) by the execution of a contract to purchase power or energy (either or both) on an all requirements basis.

System – the Agency's interest in all properties (owned or operated by or on behalf of the Agency) which are financed, in whole or in part, through the issuance of obligations by the Agency for approved Projects and approved System Development and Reliability Expenditures and Development Projects, prior to the time one of the Cities disapproves a Project under the provisions of the Contract and elects Option One as described in "Summary of Certain Provisions of the Power Sales Contract – Election of Options Upon Disapproval". The term also includes any contract for providing services or power and energy, either or both.

System Development and Reliability Expenditures – those expenditures which the Agency determines, under prudent utility practices, should be expended over a given period of time for (i) transmission and related facilities to increase the reliability of the delivery of power and energy by the Agency, (ii) the exploration for, development of or the acquisition of a fuel supply or supplies in order to provide fuel for generating facilities which are not then owned or in the process of construction for and on behalf of the Agency, or (iii) repairs, replacements, or modifications to an existing generating facility (owned in whole or in part by the Agency or under construction by it) which are designed to increase the rated capacity of such generating facility. Such expenditures which are to be paid from the proceeds of a series of Bonds shall be considered a single Project.

CONFORMED COPY

POWER SALES CONTRACT
BETWEEN
TEXAS MUNICIPAL POWER AGENCY
AND
CITY OF BRYAN, TEXAS
CITY OF DENTON, TEXAS
CITY OF GARLAND, TEXAS
CITY OF GREENVILLE, TEXAS

Dated: September 1, 1976

TABLE OF CONTENTS

POWER SALES CONTRACT

BETWEEN

TEXAS MUNICIPAL POWER AGENCY

AND

CITY OF BRYAN, TEXAS

CITY OF DENTON, TEXAS

CITY OF GARLAND, TEXAS

CITY OF GREENVILLE, TEXAS

This Contract, made and entered into as of the 1st day of September, 1976, by and between the Texas Municipal Power Agency, a municipal corporation and political subdivision of the State of Texas, and the City of Bryan, the City of Denton, the City of Garland, and the City of Greenville, Texas each of which cities is a municipal corporation of the State of Texas and a home rule city (herein collectively called "Cities" or individually called "City").

WITNESSETH:

WHEREAS, each City has need for an economical, reliable source of Power and Energy to meet the growing demands of its customers and has determined to purchase such Power and Energy from the Agency; and

WHEREAS, the Agency proposes to construct or acquire electric generating plants and transmission lines or to acquire ownership interests therein, and to purchase or otherwise obtain Power and Energy for the purpose of supplying Power and Energy to each City and others; and

WHEREAS, each City desires to purchase, and the Agency desires to sell Power and Energy on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual undertakings herein contained, the Agency and each City agree as follows:

Section 1: Term of Contract. This Contract shall become effective upon the delivery to the Agency of the proceeds of the initial series of Bonds. Subject to the provisions of Sections 16 and 19 hereof, this Contract shall remain in effect for a period of thirty-five (35) years from the date hereof or until such time as all of the Debts of the Agency shall have been paid (or provision for such payment shall have been made), whichever is later.

Section 2: Definitions. As used herein:

(a) "Act" shall mean Chapter 166, Acts of the 63rd Legislature, Regular Session, 1973, as amended by Chapter 143, Acts of the 64th Legislature, Regular Session, 1975, and all laws amendatory thereof or supplemental thereto.

(b) "Agency" shall mean the Texas Municipal Power Agency as created and established (pursuant to the Act) by concurrent ordinances adopted by the governing bodies of the Cities, or its successor.

(c) "Annual System Costs" shall mean, with respect to a Contract Year, and to the extent not paid or to be paid from the proceeds of Bonds or other funds legally available to the Agency, all costs and expenses of the Agency that are paid or incurred during such Contract Year and are allocable to the System, including, but not limited to the payment of the Operating and Maintenance Expenses of the System, all costs, charges, and expenses of replacements and renewals of the System and all taxes, assessments or other governmental charges lawfully imposed on Agency or on the revenues of the System or payments in lieu thereof, and the deposit or payment of any and all amounts which the Agency may now and hereafter become obligated to deposit into any fund or pay from revenues of the System, by law, contract, or any Bond Resolution.

(d) "Annual System Budget" shall mean, with respect to a Contract Year, the budget of the Agency prepared in accordance with Section 6 hereof for such Contract Year or, in the case of an amended Annual System Budget, for the remainder of such Contract Year.

(e) "Approved Project" shall mean a Project which has been approved pursuant to Section 13 of this Contract. The term does not include Projects which may be approved after the Agency is recreated pursuant to Section 16 of this contract.

(f) "Bonds" shall mean all bonds issued by the Agency pursuant to the Bond Resolution.

(g) "Bond Resolution" shall mean the resolution authorizing the issuance of the "Texas Municipal Power Agency Revenue Bonds, Series 1976," and any resolution subsequently adopted by the Agency which authorizes the issuance of Bonds, including refunding Bonds, on a parity with the said Series 1976 Bonds. Subject to the provisions of paragraphs (e) and (f) of Section 14, in either of the events that (i) a City disapproves a Project (pursuant to Section 13 hereof) and elects Option One or (ii) the Agency is recreated pursuant to Section 16 hereof and entities other than all of the Cities of Bryan, Denton, Garland and Greenville contract with the Agency to provide moneys for the payment of any obligation of the Agency, obligations thereafter issued shall not be on a parity with the Series 1976 Bonds, and such obligations, if any, shall not be deemed to have been issued pursuant to the Bond Resolution.

(h) "Contract Year" shall mean the fiscal year of the Agency as from time to time determined by the Agency; provided, however, the first Contract Year of the Agency shall begin on the effective date of this Contract and shall end on the last day of the fiscal year of the Agency within which this Contract becomes effective.

(i) "Debts" shall mean Bonds and Subordinated Indebtedness, as defined in the Bond Resolution, together with interest thereon, and redemption premiums, if any.

(j) "Debt Service" or "Debt Service Requirements" shall mean, with respect to any period, the net aggregate of the amounts required to be paid during said period on any Debts outstanding as the same shall become due.

(k) "Development Project" shall mean any one or more of the following: (i) repairs, replacements, or modifications to an existing generating facility owned in whole or in part by the Agency, and which are designed to increase or maintain an operating efficiency of the facility or (ii) preliminary and developmental work to determine whether any work should be undertaken as a Project, or engineering, legal, and financial studies in connection with the planning, development or utilization of power resources, or (iii) any purpose for which proceeds of Bonds may be expended under the Act, except a Project. The Agency may issue Bonds (in a separate series or combined with Bonds being issued for other purposes) to provide funds for a Development Project upon compliance with the provisions for the issuance of Bonds as set forth in the Bond Resolution, but the approval of the Cities, pursuant to Section 13 hereof, shall not be required.

(l) "Energy" shall mean kilowatt-hours (kwh).

(m) "Net Energy For Load" shall mean a City's net Energy generation plus Energy received from others minus Energy delivered to others at the Points of Delivery during the period under consideration.

(n) "Operating and Maintenance Expenses" shall mean all expenses incurred in the operation and maintenance of the System and the Agency which are properly accounted for such purpose under generally accepted accounting principles. Such term does not include depreciation or obsolescence charges or reserves therefor, interest charges and charges for the payment of principal, or amortization, of Bonds or other indebtedness of the Agency.

(o) "Points of Delivery" shall mean the points on the System of, or available to the Agency, as set forth in Exhibit A, as amended from time to time by the Agency and the City concerned, at which Power and Energy are made available to a City pursuant to this Contract.

(p) "Power" shall mean kilowatts (kw).

(q) "Project" shall mean one or more of the following: (i) any power generating facility (or interest therein) to be constructed or acquired by the Agency as well as fuel therefor and any transmission facility required to connect or interconnect such generating facility with a City or others, or (ii) any addition or improvement to a power generating facility which is then owned, in whole or in part, by the Agency, or (iii) any contract right to purchase or receive a power supply or transmission capacity (a) by the making of a prepayment of capital costs which are associated with the supply or capacity so purchased, or (b) the execution of a take or pay contract having a duration of more than 10 years, including any renewals thereof, or (c) the execution of a contract to purchase Power or Energy (either or both) on an all requirements basis. The term does not include any facility financed with the proceeds of Special Contract Obligations as permitted under and defined in the Bond Resolution.

(r) "Rated Capacity" shall mean the maximum load expressed in net kilowatts (kw) that a generating source (as identified in the definition of Project) is capable of supplying under good operating conditions.

(s) "System" shall mean the Agency's interest in all properties (owned or operated by or on behalf of the Agency) which are financed, in whole or in part, through the issuance of obligations by the Agency for Approved Projects, System Development and Reliability Expenditures, and Development Projects, prior to the time one of the Cities disapproves a Project under the provisions of Section 13 and elects Option One under paragraph (d) of Section 13. The term also includes any contract for providing services or Power and Energy, either or both. The initial System is hereby designated as System A. The term does not include the Agency's interest in any facility financed with the proceeds of (i) Special Contract Obligations issued by the Agency as permitted under and defined in the Bond Resolution or (ii) bonds issued to finance any Project which is not approved by all of the Cities if a City or Cities which disapprove a Project elect Option One under Section 13.

(t) "System Development and Reliability Expenditures" means those expenditures which the Agency determines, under prudent utility practices, should be expended over a given period of time for (i) transmission and related facilities to increase the reliability of the delivery of Power and Energy by the Agency or (ii) the exploration for, development of or the acquisition of a fuel supply or supplies in order to provide fuel for generating facilities which are not then owned or in the process of construction for and on behalf of the Agency, or (iii) repairs, replacements, or modifications to an existing generating facility (owned in whole or in part by the Agency or under construction by it) which are designed to increase the Rated Capacity of such generating facility. Such expenditures which are to be paid from the proceeds of a series of Bonds shall be considered a single Project.

(u) "Uniform System of Accounts" and all other accounting methods and terminology contained or referred to in this Section or elsewhere in this contract means accounting principles, methods and terminology followed and construed, as nearly as practicable, in conformity with the Uniform System of Accounts for Class A and Class B Public Utilities and Licensees and accounting rules and regulations thereunder prescribed by the Federal Power Commission for privately owned power companies which are subject to its jurisdiction and engaged in business comparable to the business of the Agency, as amended from time to time, or such other system as may be required by any regulatory agency.

Section 3: Sale and Purchase of Power and Energy.

(a) Each City during the time this Section is applicable shall:

(1) Purchase and receive from the Agency all Power and Energy which it shall require for the operation of its electric system in excess of the amount (i) supplied by any generation and

transmission facilities owned by it on the effective date of this Contract, including generating and transmission facilities under construction on such date, and improvements or extensions of generating facilities which increase the Rated Capacity of same so long as the increase during any period of two successive Contract Years does not exceed 10% of the same's Rated Capacity at the beginning of such period, provided the Cities and the Agency may, in writing, waive such 10% limit, and (ii) supplied from any generation facility primarily fueled from and the construction and operation of which is incidental to the disposal of solid waste that is hereafter constructed and owned by one or more of the Cities, together with any transmission facilities that are necessary for the transmission of Power and Energy therefrom; and

(2) Binds itself to pay for all Power and Energy purchased or otherwise acquired by it from the Agency pursuant to this Section 3, said payment to be made at the rates and charges established pursuant to Section 7 of this Contract.

The foregoing provisions of this Subsection (a) shall have no application to the purchase or exchange of Power or Energy (i) on an emergency, maintenance, or stand-by basis or (ii) on the basis of economic dispatch between the Cities and Brazos Electric Power Cooperative, Inc. (Brazos), or any one or more of such entities or (iii) under the existing pooling agreement between the Cities and Brazos and future pooling agreements among the foregoing and others, all, or any combination thereof, and the Agency.

(b) In the event that the Agency is not able to supply the Power and Energy required or requested under its power sales contracts, it shall allocate its available Power and Energy monthly among the (i) Cities pro rata in accordance with their respective Net Energy for Load during the corresponding month of the preceding Contract Year unless a governmental agency requires a different allocation and (ii) other power purchasers as may be provided by contract. The Agency shall devote its best efforts to the acquisition, by purchase or otherwise, of the Power and Energy required to meet the requirements of its power sales contracts. During the period the Agency is unable to supply Power and Energy required or requested under its power sales contracts, so that an allocation of Power and Energy is made, the Cities shall be permitted (during such period) to purchase only such amounts of Power and Energy as are not supplied by the Agency.

(c) The provisions of this Section do not apply to any City from and after the effective date a City (i) disapproves a Project under the provisions of Section 13 and (ii) elects Option One; nor shall the provisions of this Section apply to a City which disapproves a Project and elects Option Two.

Section 4: Performance of Certain Services.

(a) In addition to the delivery of Power and Energy hereunder and the performance of all acts and actions incident thereto, the Agency agrees that, to the extent not performed pursuant to or as a consequence of any other Section of this Contract, it will either perform or cause to be performed, in a prudent and economical manner, the following services concerning the interrelated activities of the Agency, the Cities and others, as well as various combinations of such parties:

(1) comprehensive planning for Power and Energy and the transmission thereof to mutually agreed upon load centers;

(2) undertake or coordinate and monitor the design, construction and operation of joint facilities;

(3) plan for and undertake or coordinate and monitor the economic dispatching of Power and Energy of the System and the systems of the Cities and other entities (to the extent permitted by contract) to which such systems are interconnected, pursuant to subsequent agreement(s) between the Cities, the Agency and any other entity;

(4) provide accounting and cost allocation services; and

(5) such other services as the Agency and a City, from time to time, shall determine to be appropriate and necessary.

(b) City hereby binds itself to pay for the cost of the services that are to be provided by the Agency pursuant to Subsection (a) of this Section 4, such payment to be made at the rates and charges established pursuant to Section 7 of this Contract.

Section 5: Delivery of Power and Energy.

(a) The Power and Energy to be furnished under this Contract shall be alternating current, sixty (60) hertz, three-phase, subject to conditions of delivery and measurement as hereinafter provided.

(b) The Points of Delivery, delivery voltage and other conditions of service shall be in accordance with the service specifications set forth in Exhibit A attached to this Contract, as amended by the Agency and the concerned City from time to time.

(c) The City shall make and pay for all connections between its facilities and the System owned by or available to the Agency at the Points of Delivery. The City shall install, own and maintain any necessary substation equipment at the Points of Delivery from the System of or available to the Agency and shall install, own and maintain switching and protective equipment of adequate design and sufficient capacity beyond such Points of Delivery to enable the City to take and use the Power and Energy supplied under this Contract without hazard to the System. In the event that the Points of Delivery set forth in Exhibit A are not on the City's electric system, the City shall arrange for transmission of Power and Energy sold under this Contract to its system, including the installation and maintenance of any facilities required for it to receive such Power and Energy into its system.

(d) Except as otherwise agreed, metering equipment shall be furnished, installed and maintained by the Agency at each Point of Delivery to the City at the low voltage side of the transforming equipment located there. Loss adjustments for low voltage side or remote metering shall be as specified in said Exhibit A or as otherwise agreed by the parties.

Section 6: Annual System Budget

(a) The Agency shall prepare or cause to be prepared an Annual System Budget at least ninety (90) days prior to the beginning of each Contract Year which shall itemize estimates of Annual System Costs and all revenues, income or other funds to be applied to such Annual System Costs for and applicable to such Contract Year. Such Annual System Budget shall also utilize and take into account forecasts, which shall be furnished by each City to the Agency at least one hundred twenty (120) days prior to the beginning of such Contract Year, of the monthly peak Power and Energy requirements estimated to be obtained from the Agency during such Contract year.

(b) After consideration of any comments of the Cities, the Agency, not less than thirty (30) days prior to the beginning of such Contract Year, shall adopt an Annual System Budget for such Contract Year and the rates and charges for Power and Energy to be furnished and the services to be performed during such Contract Year and shall cause copies of such Annual System Budget and rates and charges to be delivered to the Cities. Provided, however, the Annual System Budget for the first Contract Year shall be prepared, considered, adopted and delivered in the manner which the Agency deems best.

(c) If, at any time or from time to time after the adoption of the Annual System Budget in accordance with Subsection (b) of this Section 6, the Agency estimates that the Annual System Costs or revenues for the Contract Year or any part thereof for which such Annual System Budget applies will be greater or less than the Annual System Costs or revenues set forth in the Annual System Budget, or that the amount of Power and Energy which the Agency expects to deliver during such Contract Year or any part thereof is greater or less than the amount of Power and Energy which the

Agency estimated at the time of adoption of the Annual System Budget would have been delivered during such Contract Year, then the Agency may prepare an amended Annual System Budget. The amended Annual System Budget shall be timely adopted by the Agency and transmitted to the Cities.

(d) In the event a budget for the ensuing Contract Year has not been adopted on or before the first day of the Contract Year, the total amount budgeted for the preceding Contract Year shall be the total amount of the temporary budget for such purposes for the ensuing Contract Year. The temporary budget shall be effective only until such time as a permanent budget has been finally adopted and approved.

The chief administrative officer of the Agency shall be responsible for the allocation for expenditure of the total amount of the temporary budget until a permanent budget is adopted and approved.

Section 7: Rates and Charges:

(a) The rates and charges of the Agency to the Cities for Power and Energy and for services supplied shall be:

(1) non-discriminatory, and

(2) fair and reasonable, and be based upon the cost of providing the Power and Energy or providing the service with respect to which the rate or charge is based, and

(3) adequate (after taking into consideration other moneys received or anticipated to be received) in each Contract Year to pay or make provision for paying Annual System Costs.

(b) When the Board of Directors proposes to establish a new rate or charge, as determined under Schedule B, it shall give each City written notice that it proposes to establish a new rate or charge for Power and Energy or for services (setting forth such charge) on a date certain (which shall not be less than 120 days from the mailing of the notice to each City, all such notices to be mailed simultaneously). Except as provided in paragraph (c) hereof, no charge or adjustment in any rate or charge made by the Agency shall be effective if any City, by resolution or ordinance of its governing body, enters an objection to such adjustment in a rate and charge by causing to be filed with the chief administrative officer of the Agency a copy of such resolution or ordinance more than 30 days prior to the suggested effective date of the proposed new rate or charge. In the event a City enters an objection to the charge or adjustment in a rate or charge, the effective date of the charge or adjustment shall be postponed pending the resolution of the dispute in the following manner.

(1) The Cities may jointly select an independent consultant or consultants to prepare a rate evaluation and schedule of proposed rates and charges, provided if such joint selection is not made within 30 calendar days of the filing of an objection (evidenced by the passage of a resolution or ordinance) such independent consultant shall be appointed by the Board of Directors of the Agency;

(2) the report of the independent consultant shall be submitted to the Agency and each City for consideration; and

(3) If the report of the independent consultant is approved by the governing bodies of the Agency and the Cities the same shall be effective as of the date originally suggested by the Agency in its notice. If the adjustment is not approved or an agreement reached within 15 days after the receipt of the report of the independent consultant, then the Agency and the Cities shall each have all of the rights and remedies at law and in equity except that in no event shall any City be relieved of its obligation to the holders of Bonds under Section 13 or 14 of this Contract.

(c) The Board of Directors of the Agency may change or adjust any rate or charge for Power and Energy or for services supplied by it to a City, if such Board determines that (i) an emergency exists and (ii) the emergency adjustment meets the criteria established in paragraph (a) of this Section. The emergency adjustment shall be effective for a period of 180 days (unless the notice from the Agency specifies a lesser period) and shall be effective 30 days after the mailing of notice to the Cities (all of which notices shall be mailed simultaneously).

Section 8: Meter Readings and Payment of Bills. The Agency shall read meters or cause meters to be read and bill the City for Power and Energy furnished under this Contract at monthly intervals. It shall also bill each City monthly for services rendered pursuant to Section 4 of this Contract.

Section 9: Meter Testing and Billing Adjustment. The Agency shall test and calibrate meters or cause meters to be tested and calibrated by comparison with accurate standards at intervals of twelve (12) months, or such other intervals as the parties agree. The Agency shall also make or cause to be made special meter tests at any time at a City's request. The costs of all tests shall be borne by the Agency, provided, however, that if any special meter test made at a City's request shall disclose that the meters are recording accurately, the requesting City shall reimburse the Agency for the cost of such test. Meters registered not more than ½ of 1% above or below normal shall be deemed to be accurate. The readings on any meter which shall have been disclosed by test to be inaccurate shall be corrected from the beginning of the monthly billing period immediately preceding the billing period during which the tests are made in accordance with the percentage of inaccuracy found by such test, provided, that no correction shall be made for a longer period unless the Agency and City involved mutually agree thereto. Should any meter fail to register, the Power and Energy delivered during such period of failure shall for billing purposes be estimated by the Agency and the City from the best information available. The Agency shall notify the City or cause the City to be notified in advance of the time of any meter reading or test so that the City's representative may be present at such meter reading or test.

Section 10: Payments to Constitute Operating Expenses of City System. Each City's obligation to make the payments under this Contract shall constitute an operating expense of its electric system payable solely from the revenues and receipts of such electric system. Each City shall be bound and obligated to make such payments and the obligation to make the payments under Section 14 of this contract shall be unconditional.

Section 11: City Rate Covenant. Each City shall establish, maintain and collect rates and charges for the electric service of its electric system which shall produce revenues at least sufficient, together with other revenues available to such electric system and available electric system reserves, to enable it to pay to the Agency, when due, all amounts payable by such City under this Contract.

Section 12: Covenants of the Agency.

(a) After first satisfying the Power and Energy requirements of the Cities, as such requirements are established from time to time, and the requirements of other power purchasers, the Agency shall use its best efforts to market and dispose of any and all surplus Power and Energy available from the System or which the Agency is obligated by contract to purchase or otherwise acquire, and which is in excess of the requirements of all Cities and other power purchasers, upon the most economically advantageous terms and conditions obtainable, to the extent that it may legally do so.

(b) The Agency shall use reasonable diligence to provide a constant and uninterrupted supply of Power and Energy hereunder. If the supply of Power and Energy shall fail, or be interrupted, or become defective by reason of force majeure as hereinafter provided, the Agency shall not be liable therefor or for damages caused thereby.

(c) The Agency shall diligently enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and provisions of any power sales contracts. The Agency shall not amend this Contract without first having secured the prior written consent of all Cities, but no amendment shall be made in Section 14 or Section 16 of this Contract.

(d) The Agency covenants and agrees that it will operate, maintain and manage its System or cause the same to be operated, maintained and managed in an efficient and economical manner, consistent with sound utility practice and in accordance with standards normally used by utilities owning like properties.

(e) The Agency covenants that it will not make a change in any Bond Resolution so as to create additional Funds (except those now established by Article V of the resolution authorizing the issuance of the Series 1976 Bonds) without the approval of such changes by the governing body of each City, nor shall any change be made in the amounts required to be paid into, accumulated in or maintained in the Bond Fund, Reserve Fund or the Contingency Fund, except as provided in the resolution authorizing the Series 1976 Bonds, without such approval.

Section 13. Project Approval and Rights of Cities when a Project is not Approved:

(a) Except as to Bryan Lignite Number One (hereby approved as a Project) prior to the issuance and sale of Bonds to provide money for each Project, the Agency shall submit a written notice to each City as required by the provisions of paragraph (b) of this Section. If a Project has been approved pursuant to paragraph (c) of this Section, the Agency may thereafter issue, sell and deliver Bonds in order to fully provide funds for such Project, including the design, construction, and the placing of same in commercial operation, or to meet any requirement of law, including those of a regulatory agency having jurisdiction, or to pay judgments or casualty losses not covered by insurance, or to meet a safety or overriding public necessity.

(b) A written notice of the Agency's intention to provide funds (through the issuance of Bonds) for a Project shall contain a general description of the Project, the projected sources and uses of funds for all aspects of the construction and testing of the Project, and a statement to the effect that, in the opinion of the Agency, the Project is necessary for the Agency to meet its commitments under power sales contracts and is economically feasible, together with an explanation of the Agency's basis for this opinion. Within 60 days after receipt of such notice, each City shall give the Agency written notice of its approval or disapproval of the Project. If a City fails to give the Agency such written notice within such 60-day period, then said City shall be deemed to have approved the Project.

(c) If all of the Cities (who have approved all previously Approved Projects) approve a Project then the Agency may proceed with the issuance, sale and delivery of Bonds to provide such Project. If one or more of such Cities should disapprove the Project, then the Agency shall give each such City written notice which of the Cities approved the Project and which of the Cities disapproved the Project. Any of the Cities who approved the Project may then give the Agency written notice of its or their desire that the design and construction of the Project be commenced; and, if the Agency determines that the Project is still feasible, it may proceed with the issuance, sale and delivery of such Bonds, but the City which failed to approve such Project shall be required (within 60 days of being notified by the Agency that it will proceed with the issuance, sale and delivery of Bonds for such Project) to elect to limit its responsibilities under this Contract under Option One or Option Two as set forth in paragraph (d) of this Section.

(d) If any City disapproves a Project, then within the time specified in paragraph (c), such City shall, by a resolution or ordinance adopted by its governing body, elect which of the following options shall govern its future responsibilities under this Contract. If the City disapproving a Project hereunder fails to timely communicate to the Agency as to the election of an option under the provisions of this Section, it shall be conclusively presumed that Option Two has been elected.

(1) Option One:

(a) Each City shall be entitled to schedule and receive, each month for its own account, the same proportion of the available Power and Energy from the System as its Net Energy for Load relates to the total Net Energy for Load of all the Cities for the corresponding month of the completed Contract Year next preceeding the effective date of the option.

(b) As consideration for such Power and Energy, and the right to purchase the same, each City shall, each month, pay to the Agency its proportionate share of the Annual System Costs equal to the percentage of it's Net Energy for Load of the Net Energy for Load of all Cities for the Contract Year next preceeding the effective date of the option.

(c) Each City's obligation under Section 14 of this Contract shall be equal to the percentage as calculated under the preceeding sentence.

(2) Option Two:

(a) During the balance of the term of this Contract after the effective date of the option, the amount of Power and Energy required by the City exercising the option to be purchased under Section 3 of this Contract shall be limited. Such City shall, in each calendar month, take or pay for an amount of Power and Energy equal to the amount of Power and Energy purchased by such City from the Agency during the corresponding month of the 12 consecutive month's period preceding the calendar month of the effective date of the exercise of the option, or such other amount of Power and Energy as may be from time to time agreed upon by the City, the Agency and the other Cities; and the Agency shall no longer be required to provide any Power and Energy in excess of such amount, and the City shall be relieved of its obligation to purchase all of its requirements from the Agency. The Power and Energy furnished to such City shall be billed by the Agency at rates and charges as from time to time adopted pursuant to Section 7 of this Contract. The calculation of the limiting City's obligation under Section 14 of this Contract shall assume such City's Net Energy for Load for the purposes of said calculations is equal to such City's Net Energy for Load in the completed Contract Year next preceding the effective date of the option.

(e) In the case of each option:

(1) The effective date of the option shall be the first day of the Contract Year which is more than 90 days after the date a City disapproves a Project, as permitted in paragraph (c) of this Section.

(2) The right to schedule Power and Energy is subject to outages for maintenance and operating emergencies.

(3) The amount due from a City (which disapproves a Project) [under paragraph (d)(1) or paragraph (d)(2)] shall be due and payable irrespective of whether any Power and Energy is delivered or made available for delivery to such City. (This also applies to all Cities after the effective date of the exercise of Option One by any City.)

(4) The City which exercises an option, pursuant to paragraph (d) shall not thereafter be entitled to approve or disapprove any subsequent Projects.

(5) Amounts due from entities other than the Cities shall be taken into account in calculating the amount due from the Cities.

(f) After a City has disapproved a Project under paragraph (c) of this Section, it may thereafter revoke such action and approve the Project provided:

(1) the Agency and each of the Cities approve the revocation, and

(2) in order to pay a pro rata part of expenses incurred (including Debt Service) since the Project was disapproved, the City agrees to assume or pay such amount as may be determined by the Agency and the Cities.

Section 14: Debt Service Guarantee; Operating and Maintenance Expenses.

(a) In any instance where the amount of money on deposit in the Bond Fund (created by the Bond Resolution) is not the full amount then required to be on deposit therein, without giving consideration to transfers made from other than the Revenue Fund or from Bond proceeds (provided that transfers may be made from the Reserve Fund to the Bond Fund for not more than two (2) consecutive calendar months) each City shall be obligated to make a payment the aggregate amount of which shall be the amounts that are necessary to establish or reestablish the amount then required, under the terms of the Bond Resolution, to be on deposit in the Bond Fund, the Reserve Fund, and the Contingency Fund. The percentage share of the payment to be made by each City shall initially be as follows:

City of Bryan, Texas:	22.73%
City of Denton, Texas:	20.34%
City of Garland, Texas:	47.66%
City of Greenville, Texas:	9.27%

Except as set forth in Section 13(d) such percentage share of the payment to be made by each City shall be adjusted at the beginning of each Contract Year. Such adjustment shall be made by calculating the percentage relationship that each City's Net Energy for Load for the Contract Year immediately preceding the Contract Year in which the adjustment is being made bears to the total aggregate Net Energy for Load of all Cities for such Contract Year, and the sum of the adjusted percentages shall equal 100%.

The payments required to be made to said Bond Fund, Reserve Fund or Contingency Fund (any one or all of such Funds) shall be paid by the Cities in the percentage shares determined above and such payments shall be made direct to the custodian of the respective Funds as established in the Bond Resolution. Each City unconditionally covenants the payment will be made, if required, in the amount and in the manner prescribed. The provisions of this covenant are for the benefit and protection of the Agency, the Cities and the owners and holders of Bonds, it being recognized that the holders of such Bonds shall be third-party beneficiaries of this covenant, and it is understood by the contracting parties that the purchaser of Bonds has and will agree to the purchase of Bonds conditioned upon this covenant.

(b) In any instance, except that occasioned by the failure of a City or other power purchaser to pay the amount it is required to pay for the purchase of Power and Energy, in which the funds of the Agency are insufficient to pay Operating and Maintenance expenses or other expenses (except those for which provision is made in paragraph (a) hereof) payments shall be paid to the Agency by the Cities in the percentage share determined under paragraph (a) of this Section 14.

(c) A new power purchaser (with the approval of the Agency and the Cities) may assume primary liability for the obligation to make payments under this Section with respect to Debts of the Agency incurred prior to its becoming a power purchaser, but the same shall not discharge the liability of those who were obligated when such Debts were incurred (who shall remain secondarily liable).

(d) In the event the Agency is held to be in default under the provisions of the Bond Resolution (by reason of the inadequacy of payments required to be made by the Cities under the provisions of this Contract), the Cities shall cure the default by making payments in the same proportion as provided in paragraph (a) of this Section.

(e) In the event a City disapproves a Project under Section 13, or if a City elects to withdraw from the Agency under Section 16, then each City shall continue to be obligated under paragraph (a) of this Section with respect to Bonds theretofore issued and Bonds thereafter issued to fully provide funds for each Project [as contemplated by the second sentence of Section 13(a)] and in addition, if a City elects Option One, then all of such Cities shall be obligated under paragraph (a) of this Section with respect to Bonds thereafter issued for Development Projects described in clause (i) of the definition of that term. If a City elects Option Two, then all of such Cities shall also be obligated under paragraph (a) of this Section with respect to Bonds thereafter issued for Development Projects and for System Development and Reliability Expenditures and Bonds issued for Projects thereafter approved.

For and in consideration of the payments to be made by the Cities under this Contract (including those under this Section) the Agency agrees to use its best efforts to deliver Power and Energy from Projects, to such Cities, under the terms of this Contract, and such payments by the Cities shall be in consideration for the Agency's agreement to deliver such Power and Energy; but the failure of the Agency to comply with such agreement shall not relieve any City of its obligations under paragraph (a) or (d) of this Section, which obligations shall be unconditional and absolute.

(f) In the event the Agency is recreated under Section 16 so the new entity assumes primary liability for a pro-rata share of the Debts of the Agency then outstanding [as distinguished from the creation of a new system (not financed under the Bond Resolution) with respect to projects thereafter approved] then the new entity shall thereafter be included in the calculation of the percentage share of the payment to be made under paragraph (a) of this Section, for the purpose of determining such primary liability; but in no event shall the Cities of Bryan, Denton, Greenville and Garland be relieved of the obligation each has assumed (by the execution hereof) to collectively pay the entire amount (based upon the percentage of Net Energy for Load) required to be paid under paragraph (a) of this Section with respect to all Bonds theretofore or thereafter issued without regard to such new entity.

Section 15: Remedies in Event of Default.

(a) (1) If any City fails or defaults in meeting the terms, conditions and covenants of this contract [other than a default in payment for which provision is made in subsection (b) of this Section] and such default continues for a period of 15 days, the Agency shall give notice (in the manner contemplated by Section 31 of this Contract) to the Cities. The defaulting City shall from the date of the mailing of such notice, have a period of 30 days to cure the default.

(2) If any City fails to make any payment (hereinafter called a default in payment) to the Agency that is required to be made under the provisions of this Contract, and such default in payment continues for a period of fifteen (15) days, the Agency shall give notice (in the manner contemplated by Section 31 of this Contract) to Cities. The defaulting City shall, from the date of the mailing of such notice, have a period of thirty (30) days to pay the full amount then due to the Agency, together with interest thereon, as hereinafter provided.

(3) If the City does not cure its default within such period of thirty (30) days, then, so long as such City remains in default, and in addition to any other rights which the Agency has under this Contract and at law and in equity, the Agency may terminate all service to such City. Additionally, in the event of default in payment, the Agency may charge to and collect from such City each calendar month the amount which the Agency determines to be the difference between what the Agency would have received from such City under this Contract, for Power and Energy and services furnished and delivered to such City, had such City not been in default, and the amount, if any, which the Agency receives from sales of such Power and Energy and services to the other Cities, or others, either or both. Termination of service hereunder shall not reduce or change the obligation of the defaulting City under the other provisions of this Contract.

(b) If the Agency fails or defaults in meeting the terms, conditions and covenants of this Contract, except its covenant to use reasonable diligence to provide a constant and uninterrupted supply of Power and Energy contained in Section 12(b), and such default continues for a period of 15 days after a City has given the Agency notice of such default in the manner contemplated in Section 31 of this Contract, then such City shall have all of the rights and remedies provided at law and in equity, except that in no event shall any of the Cities be relieved of its obligation specified in Section 14. The delivery of available Power and Energy as provided in this Contract shall be a ministerial duty of the Agency.

Section 16: Re-creation of Agency. Each City and the Agency recognize that pursuant to the Act the concurrent ordinances by which the Cities created the Agency reserved the right to the governing body of each of the Cities to join with the other Cities to provide for the re-creation of the Agency by the addition and deletion, either or both, of a public entity, as defined in said Act, so long as there is no impairment of obligation of any existing obligations of the Agency.

Each City covenants and agrees that it will not join with any of the other entities to recreate the Agency so as to delete one or more entities unless (1) the then outstanding Debts of the Agency have been paid or provision made for their payment under Article XI of the Bond Resolution or (2) the Holders of at least 60% of the principal amount of the Bonds then outstanding approve the concurrent ordinance proposed for adoption by the Cities, or (3) the withdrawing entity contracts and agrees to continue to pay a fixed percentage (as determined by the Board) of the Annual System Costs (including the Debt Service Requirements on the then outstanding Debts of the Agency) during the time such Debts remain outstanding. Such percentage shall be fixed by calculating the percentage relationship of the withdrawing entity's Net Energy for Load (during the Contract Year in which such percentage was the highest) bears to the total aggregate Net Energy for Load of all Cities (during such Contract Year). The obligation contained in Section 14, as to the entity seeking to withdraw, shall remain unaffected until the Bonds permitted to be issued by Section 14(e) have been paid and retired. No withdrawal shall be effective until such indebtedness has been paid; and at such time this Contract, as to such withdrawing entity, shall terminate.

From and after notice is given to the Agency of the intent of an entity to withdraw from the Agency, no additional Bonds of the Agency shall be issued for a new Project which involves any additional payments by or guarantee of the Debt Service Requirements by such withdrawing entity.

Each City covenants and agrees that it will not join with any of the other entities to recreate the Agency so as to add one or more entities unless (1) the then outstanding Debts of the Agency have been paid or provision made for their payment under Article XI of the Bond Resolution or (2) the Holders of at least 60% of the principal amount of the Debts of the Agency then outstanding approve the concurrent ordinance proposed for adoption by the Cities, or (3) entity being added expressly either (as approved by the Agency and set forth in the concurrent ordinances) (i) assumes the primary liability for the payment of for a pro-rata share of the Debts of the Agency (which shall not discharge the liability of those obligated when such Debts were or are incurred, who remain secondiarily liable) as well as the obligation provided in Section 14(c) and assume thereafter to pay its share of the remainder of the Annual System Costs, or (ii) agrees it will be obligated only with respect to the payment of annual system costs for projects which are approved after the re-creation of the Agency.

Section 17: Payment Due Dates and Delinquency.

(a) In the event that a City fails to make any payment at the time herein specified, interest on such delinquent amount shall accrue at the rate of ten percent (10%) per annum from the date such payment becomes due until paid in full, and the Agency may institute a proceeding for a mandatory injunction requiring the payment of the amount due and interest thereon, such action to be instituted in a court of competent jurisdiction.

(b) All payments required to be made by the Cities under the terms of this Contract shall be due and payable within thirty (30) days following the date the Agency renders the bill, and the Cities shall have no right of setoff, recoupment or counterclaim against any payment under Section 14(a) or that part of the Annual System Costs which are attributable to payments to be made into the Bond Fund, the Reserve Fund or the Contingency Fund by any Bond Resolution or similar Funds established for the payment and security of Subordinated Indebtedness (as defined in the Bond Resolution), which are unconditional.

(c) Should a dispute as between any City and the Agency arise as to whether the Agency is in compliance with its covenants as contained herein, each City shall nevertheless be obligated

(1) to make the payments provided by paragraph (a) of Section 14 hereof and (2) to pay such amount of the Annual System Costs as may not be in dispute pending the resolution of such dispute provided a City may elect to pay all such Annual System Costs, including any disputed amount. In the event a disputed amount of Annual System Costs is paid by a City the same shall be placed in escrow in an interest bearing account by the Agency pending resolution of the dispute, but only the principal amount thereof shall be returned to the City. If the City elects not to pay the amount in dispute and the dispute is resolved against such City, the amount ultimately found to be due plus interest at 10% per annum (calculated from the date the same was originally due) shall be paid by the City within 15 days of the resolution of the controversy. Attorneys' fees shall be assessed as court costs.

Section 18. Power Sales Contracts. The Agency may provide Power and Energy and services pursuant to a power sales contract, upon such terms as may be approved by the governing body of the Agency and, except as provided by Section 12(a), the Cities.

Section 19: Continuation of Services. A City, unless it elects an option under Section 13 or withdraws under Section 16, shall have the right to the continued performance of services provided under the provisions of this Contract for the useful life of the System by giving written notice to the Agency at least 5 years prior to the scheduled termination of this Contract (as specified in Section 1) provided that if such termination is occasioned by making provision for the payment of the Debts of the Agency, the notice may be given within 90 days of such provision being made. Such City shall be obligated to continue paying its proportionate share of the Annual System Costs.

Section 20: City Not to Sell its Electric System. Each City covenants that during the term of this Contract (or the extensions thereof) it will not sell or otherwise dispose of its electric utility distribution system in whole or substantially as a whole to any entity other than an assignee under Section 21 of this Contract and, in the case of such an assignee, only with the written consent of the Agency and all Cities.

Section 21: Assignment of Rights of a City. A City may assign any of its rights under this Contract to another entity, if permitted by applicable law, but no sale or other disposition shall relieve such City of its obligations under this Contract (including the obligations under Sections 10, 11 and 14) so long as any Bonds are outstanding.

Section 22: Dissolution of the Agency. At such time as the Debts of the Agency have been paid or provisions made therefor pursuant to Article XI of the Bond Resolution, and the Agency is dissolved, each City who has not made an election under Section 13 or withdrawn under Section 16 shall be entitled to an undivided interest in the properties of the Agency in proportion to the amount paid to the Agency under this Contract.

Section 23: Force Majeure.

(a) If for any reason of "force majeure" any of the parties hereto shall be rendered unable, wholly or in part, to carrry out its obligations under this Contract, other than the obligation of the Cities to make the payments required under the terms of this Contract, then if such party shall give notice and the full particulars of such reasons in writing to the other party within a reasonable time after the occurrence of the event or cause relied on; the obligation of the party giving such notice, so far as it is affected by such "force majeure," shall be suspended during the continuance of the inability then claimed, but for no longer period, and such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, orders or actions of any kind of the Government of the United States or of the State of Texas or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraints of government and people, civil disturbances, explosions, breakage or accident to dams, machinery, pipelines, or canals or other structures or machinery, on account of any other cause not reasonably within the control of the party claiming such inability. It is understood and agreed that the settlement of strikes and lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any "force majeure" shall be remedied with all reasonable dispatch shall not require the settlement of strikes and lockouts by acceding to the demand of the opposing parties when such settlement is unfavorable to it in the judgment of the party having the difficulty.

(b) No damage shall be recoverable from the Agency or the Cities by reason of the causes above mentioned.

Section 24: Insurance.

(a) The Agency shall maintain, or cause to be maintained in force for the benefit of the Agency, such insurance with respect to the System as shall be reasonably available and as is usually carried by municipal electric utilities constructing and operating generating and transmission facilities but, in the case of nuclear generating facilities, not less than will satisfy the requirements of federal and state law and the Nuclear Regulatory Commission regulations and such other insurance as is usually carried by municipal electric utilities owning like properties. Provided, however, in any event, the Agency shall maintain, or cause to be maintained, in force, insurance in such amounts and against such risks as required by the Bond Resolution.

(b) The Agency will secure and maintain adequate fidelity insurance or bonds on all officers and employees handling or responsible for funds of the Agency.

(c) The obligation hereunder to procure and maintain insurance with respect to a Joint Project, as defined in the Bond Resolution, shall be met if the entity acting as the manager of the Joint Project obtains and maintains the insurance required for the benefit of all owners of the Joint Project, as their interest may appear.

(d) The Agency may establish and create a special fund for the purpose of providing a self insurance fund. Amounts to be deposited in or credited to such fund in any Contract Year shall be accounted for as Operating Maintenance Expenses. To the extent that monies are deposited in such fund, if created, such monies may be invested in Investment Securities, as defined in the Bond Resolution. To the extent of the amounts held in such fund, the face amount of appropriate insurance policies may be reduced.

Section 25: Reports. The Agency will prepare and issue to each City the following reports for each fiscal year: (i) financial and operating statement relating to the System; (ii) status of construction for each facility constituting the System during construction; and (iii) analysis of operations relating to the System.

Section 26: Records and Accounts. The Agency will keep accurate records and accounts of the System and of the transactions relating to each facility constituting the System as well as of the operations of the Agency in accordance with the Uniform System of Accounts, which shall include depreciation. Within one hundred twenty (120) days after close of each Contract Year, the Agency shall cause such records and accounts and all transactions of the Agency relating to the System with respect to such Contract Year to be subject to an annual audit by an independent certified public accountant. A copy of each such annual audit shall be sent by the Agency to each City.

Section 27: Access. Each City shall at all times have reasonable access to examine any and all books and records of the Agency and to examine any facility of the System. The Agency and each City will give the other the right to enter the premises of the other at all reasonable times for the purpose of repairing or removing facilities, reading meters and performing work incidental to delivery and receipt of Power and Energy furnished hereunder.

Section 28: Governmental Rates, Regulations and Laws. The Contract shall be subject to all valid rules, regulations and laws applicable thereto, as promulgated by the United States of America, the State of Texas, or any other governmental body or agency having lawful jurisdiction or any authorized representative or agency of any of them.

Section 29: Easements: Each City agrees that the Agency or its agent shall (when permitted by existing easement) have full access to such easements or over any easements, right-of-way or property held by such City if, and to the extent, required by the Agency for any and all purposes required for the System or any Project thereof.

Section 30: Cancellation of Prior Contract. In connection with the issuance of $10,625,000 TEXAS MUNICIPAL POWER AGENCY REVENUE BONDS, SERIES 1975, the Cities and the Agency have heretofore entered into a contract which is incorporated in an instrument entitled, "Contract for Development of Fuel Resources, Planning Electric Generation Facilities and Performing Certain Duties," which contract was dated September 15, 1975; that such contract provided certain payments would be made by each City to the Agency for the payment of debt service on the aforesaid Series 1975 bonds and maintenance and operating expenses of the Agency. The parties agree that upon the effective date of this Contract and the cancellation of said bonds, the prior contract shall be cancelled in its entirety and no payments shall continue to be made thereunder for any purpose and this Contract shall supercede such prior contract in every respect.

Section 31: Notices. Any notice, request, demand, statement or bill provided for in this Contract shall be in writing and shall be considered to have been duly delivered when sent by registered or certified mail, addressed as follows, unless another address has been designated, in writing, by the party entitled to receive same:

Agency: Texas Municipal Power Agency
7111 Bosque Boulevard
Waco, Texas 76710

Attention: Executive Director

City of Bryan
P. O. Box 1000
Bryan, Texas 77801

Attention: City Manager

City of Greenville
P. O. Box 1049
Greenville, Texas

Attention: City Manager

City of Denton
Civic Building
Denton, Texas 76201

Attention: City Manager

City of Garland
P. O. Box 401889
Garland, Texas 75040

Attention: City Manager

Section 32: Severability. The parties hereto agree that if any of the provisions of this Contract should contravene or be held invalid under the law of the State of Texas, such contravention or invalidity shall not invalidate the whole Contract but shall be construed as though not containing that particular provision, and the rights and obligations of the parties shall be construed and in force accordingly.

Section 33: Contracts to be Separate. This instrument embodies four separate contracts between the Agency and each City. Termination of one Contract shall not affect the others.

IN WITNESS WHEREOF, the parties hereto have caused this Contract to be executed in their corporate names and their corporate seals affixed, all by the proper officer duly authorized thereunto, as of the day and year first hereinabove written.

TEXAS MUNICIPAL POWER AGENCY

By: /s/ C. E. DUCKWORTH

(SEAL)

ATTEST:

By: /s/ JIM WHITE
Secretary

City of Bryan, Texas

By: /s/ LLOYD JOYCE
Mayor

(SEAL)

ATTEST:

By: /s/ JOE E. EVANS
City Secretary

City of Denton, Texas

By: /s/ ELINOR HUGHES
Mayor

(SEAL)

ATTEST:

By: /s/ BROOKS HOLT
City Secretary

City of Garland, Texas

By: /s/ CHARLES G. CLACK
Mayor

(SEAL)

ATTEST:

By: /s/ ALETA WATSON
City Secretary

City of Greenville

By: /s/ JOHN T. GRIFFIN
Mayor

(SEAL)

ATTEST:

By: /s/ IRENE WILSON
City Clerk

EXHIBIT A

POINTS OF DELIVERY

Bryan:

1. Bryan Plant:

   Facilities included are as follows:

   (a) 138 KV lines
   (b) 200 MVA, 138/69 KV autotransformer
   (c) associated breakers, bus work, switches, etc.

2. Nall Substation:

   Facilities included are:

   (a) 138 KV lines
   (b) 200 MVA 138/69 autotransformer
   (c) 450 MVA, 345/138 KV autotransformer
   (d) 345 KV lines
   (e) associated breakers, bus work, switches, etc.

3. South East Bryan Substation:

   Facilities included are as follows:

   (a) 138 KV lines
   (b) 200 MVA, 138/69 KV autotransformer
   (c) associated breakers, bus work, switches, etc.

Denton:

1. Denton Plant:

   Facilities included are as follows:

   (a) 138 KV lines
   (b) associated breakers, bus work, switches, etc.

2. North Denton Substation:

   Facilities included are as follows:

   (a) 138 KV lines
   (b) 450 MVA, 345/138 KV autotransformer
   (c) associated breakers, bus work, switches, etc.

Garland:

1. Apollo Substation:

   Facilities included are as follows:

   (a) 138 KV interconnection with TP&L
   (b) associated breakers, bus work, switches, etc.

2. Oates Substation:

   Facilities included are as follows:

   (a) 138 KV interconnections with TP&L
   (b) 450 MVA 345/138 KV autotransformer
   (c) 345 KV lines
   (d) associated breakers, bus works, switches, etc.

3. Ben Davis Substation

   Facilities included are as follows:

   (a) 450 MVA, 345/138 KV autotransformer
   (b) 345 KV lines
   (c) associated breakers, bus work, switches, etc.

4. McCree Substation

   Facilities included are as follows:

   (a) 450 MVA, 345/138 KV autotransformer
   (b) 345 KV lines
   (c) associated breakers, bus work, switches, etc.

Greenville:

1. Steam Plant

   Facilities included are as follows:

   (a) 138 KV line
   (b) 75 MVA, 138/69 KV autotransformer
   (c) associated breakers, bus work, switches, etc.

2. Diesel Plant

   Facilities included are as follows:

   (a) 138 KV line
   (b) 75 MVA, 138/69 KV autotransformer
   (c) associated breakers, bus work, switches, etc.

SCHEDULE B

RATES AND CHARGES

(1) RATES FOR POWER AND ENERGY

The rates to be charged by the Agency for Power and Energy furnished to the Cities shall consist of a demand charge and energy charge. These charges shall be based on cost of service to the degree that is practical. The costs used in developing cost of service rates shall be based on accounting entries as outlined in the Federal Power Commission's Uniform System of Accounts.

The rates for demand charges shall be established to recover costs that are related to Debt Service, (including coverage ratios), other ordinarily predictable stable Operating and Maintenance Expenses and such other reasonable fixed costs as these costs relate to plant and transmission capacities utilized. The demand charges shall be based on the above listed costs in proportion to total KW that the Agency has available. Proper consideration shall be given in the demand charges for such factors or coincident peak demands, diversity factors, load factors, etc. of the Cities.

Energy charges shall be based on fuel costs, operating personnel costs, variable Operating and Maintenance Expenses, postage stamp type transmission losses, station service energy, and other such reasonable variable costs as these costs relate to energy provided to Cities.

The rate making methods used to develop these demand and energy charges shall be consistent with standard utility wholesale rate making procedures. These methods shall be applied as appropriate to the System.

It is recognized that these rates shall be developed in a reasonably equivalent manner as similar wholesale power suppliers, State Utility Commission guidelines, and FPC rate regulations as applied to like power systems.

(2) RATES FOR SERVICES PROVIDED TO ALL CITIES

Various services shall be provided to all Cities as directed by the Board of Directors and will be paid for by the Cities at a rate per kilowatt-hour which shall be established from time to time by the Board of Directors. Each City's share of such charges shall be that portion of the total represented by the ratio of his share of the net energy for load to the total net energy for load of all of the Cities. Billings will be made in advance on estimates of loads and paid evenly throughout the year.

(3) RATES FOR SPECIAL SERVICES PROVIDED TO A SPECIFIC CITY

Special services may be provided to a member from time to time at the request of a City. Reimbursement for these services will be made at cost by the City receiving the services.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED SEPTEMBER 30, 1980 COMMISSION FILE NO. 0-1289

TEXAS ELECTRIC SERVICE COMPANY

A TEXAS CORPORATION	I.R.S. EMPLOYER NO. 75-0604000

ELECTRIC SERVICE BUILDING, 115 WEST SEVENTH STREET, FORT WORTH, TEXAS 76102

(817) 336-9411

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 ____.

Common stock outstanding at September 30, 1980: 27,000,000 shares (without par value).

PART I. FINANCIAL INFORMATION

THE FINANCIAL STATEMENTS HEREIN HAVE BEEN REVIEWED BY DELOITTE HASKINS & SELLS, INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, WHOSE LETTER WITH RESPECT THERETO IS FILED HEREWITH AS AN EXHIBIT TO PART I OF THIS REPORT. NO ADJUSTMENTS OR ADDITIONAL DISCLOSURES WERE PROPOSED BY DELOITTE HASKINS & SELLS. THE FOLLOWING FINANCIAL STATEMENTS SHOULD BE CONSIDERED IN CONJUNCTION WITH THE NOTES THERETO AND THE INFORMATION UNDER MANAGEMENT'S ANALYSIS OF STATEMENT OF CONSOLIDATED INCOME. IN THE OPINION OF THE COMPANY, ALL ADJUSTMENTS (CONSTITUTING ONLY NORMAL RECURRING ACCRUALS) NECESSARY TO A FAIR STATEMENT OF THE RESULTS OF OPERATIONS HAVE BEEN INCLUDED THEREIN.

TEXAS ELECTRIC SERVICE COMPANY AND SUBSIDIARY

STATEMENT OF CONSOLIDATED INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	1979	1980	1979	1980	1979	1980
	Thousands of Dollars					
OPERATING REVENUES - Electric	$169 643	$220 482	$410 221	$504 499	$520 209	$628 292
OPERATING EXPENSES (Note 1)						
Operation	22 275	24 729	63 046	71 773	82 081	94 577
Fuel	44 696	73 165	126 185	158 429	160 212	192 137
Maintenance	10 137	10 135	26 918	33 897	34 768	47 120
Depreciation provisions	12 618	12 875	36 485	38 575	48 002	51 372
Federal income taxes	15 448	24 098	10 818	28 369	15 320	23 221
Deferred federal income taxes - net	4 455	4 654	12 938	13 802	15 115	16 562
Federal investment tax credits - net	5 984	5 610	18 051	16 049	19 592	24 756
State, local and miscellaneous taxes	9 161	10 134	27 335	29 743	36 089	40 036
Total operating expenses	124 774	165 400	321 776	390 637	411 179	489 781
OPERATING INCOME	44 869	55 082	88 445	113 862	109 030	138 511
OTHER INCOME						
Allowance for equity funds used during construction (Note 1)	3 023	5 662	9 444	14 251	11 606	18 797
Other income and deductions - net	677	462	2 411	2 218	2 825	3 295
Federal income taxes on other income	(311)	(213)	(1 109)	(1 020)	(1 308)	(1 516)
Total other income	3 389	5 911	10 746	15 449	13 123	20 576
TOTAL INCOME	48 258	60 993	99 191	129 311	122 153	159 087
INTEREST CHARGES						
Interest on mortgage bonds	10 813	13 461	31 386	38 118	40 493	48 931
Interest on other long-term debt	947	859	2 824	2 616	3 764	3 515
Other interest	573	290	1 403	2 359	1 621	3 306
Allowance for borrowed funds used during construction (Note 1)	(1 494)	(1 900)	(4 654)	(4 783)	(7 139)	(4 945)
Total interest charges	10 839	12 710	30 959	38 310	38 739	50 807
NET INCOME	37 419	48 283	68 232	91 001	83 414	108 280
PREFERRED STOCK DIVIDENDS	3 365	4 250	10 094	11 039	13 459	14 403
NET INCOME AFTER PREFERRED STOCK DIVIDENDS*	$ 34 054	$ 44 033	$ 58 138	$ 79 962	$ 69 955	$ 93 877

*Common stock owned 100% by Texas Utilities Company.

See accompanying Notes to Financial Statements.

TEXAS ELECTRIC SERVICE COMPANY AND SUBSIDIARY

MANAGEMENT'S ANALYSIS OF STATEMENT OF CONSOLIDATED INCOME

OPERATING REVENUES - Increases in operating revenues resulted primarily from increased energy sales due to unusually warm weather this summer, a rate increase approximating 7.6% in November 1979 and the recovery of higher fuel costs.

OPERATION AND MAINTENANCE - Increases in operation and maintenance expenses were primarily the result of continuing inflationary pressures on the costs of labor, materials, and services, offset in part by decreases in purchases of economy power. Maintenance expenses during the nine months and twelve months ended were also affected by the higher costs of maintaining lignite-fueled generating units.

FUEL - Increases in fuel expense resulted from higher unit fuel costs and increased generation, offset in part by the increased use of lower cost lignite fuel.

DEPRECIATION PROVISIONS - Increases in depreciation provisions resulted principally from additions to depreciable plant in service.

FEDERAL INCOME TAXES - Changes in federal income taxes generally reflect the changes in taxable income and investment tax credits available. (See Note 1 to Financial Statements.)

DEFERRED FEDERAL INCOME TAX - Increases in deferred federal income taxes reflect the continued effects of the adoption for federal income tax purposes of liberalized depreciation and the class life depreciation system (ADR). (See Note 1 to Financial Statements.)

FEDERAL INVESTMENT TAX CREDITS - Changes in federal investment tax credits reflect the placing in service of an additional lignite-fueled generating unit during 1979 and completion of the phase-in of qualified progress expenditures pursuant to the Tax Reduction Act of 1975.

STATE, LOCAL AND MISCELLANEOUS TAXES - Increases in state, local and miscellaneous taxes resulted primarily from increases in ad valorem and gross receipts taxes.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION - Increases in allowance for funds used during construction reflect increases in the balance of construction work in progress and the AFUDC rate change, offset in part by the inclusion of a greater portion of construction work in progress in the rate base. (See Note 1 to Financial Statements.)

OTHER INCOME AND DEDUCTIONS - Decreases in other income and deductions resulted primarily from reductions in interest income, offset during the twelve months ended by an increase in miscellaneous other income.

INTEREST CHARGES - Increases in interest charges are primarily attributable to additional debt securities and higher interest on short-term loans from Texas Utilities Company.

PREFERRED STOCK DIVIDENDS - Increases in preferred stock dividends reflect the issuance of preferred stock in June 1980.

TEXAS ELECTRIC SERVICE COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(Unaudited)

ASSETS

	September 30, 1979	September 30, 1980
	Thousands of Dollars	
ELECTRIC PLANT - at original cost (Note 1)		
In service:		
Production	$ 850 475	$ 851 972
Transmission	217 755	220 961
Distribution	368 270	393 866
General	29 296	32 762
Total	1 465 796	1 499 561
Construction work in progress	430 122	626 945
Nuclear fuel	23 897	27 655
Held for future use	4 008	4 151
Total electric plant	1 923 823	2 158 312
Less accumulated provision for depreciation	364 174	406 018
Electric plant, less accumulated provision for depreciation	1 559 649	1 752 294
OTHER INVESTMENTS	1 325	1 244
CURRENT ASSETS		
Cash in banks	4 928	6 541
Special deposits	4 318	4 348
Temporary cash investments - at cost	-	5 600
Accounts receivable:		
Customers	39 980	53 038
Affiliates	8 631	400
Other	1 792	2 362
Allowance for uncollectible accounts	(1 734)	(2 128)
Inventories - at average cost:		
Materials and supplies	9 543	10 242
Fuel stock	19 808	35 544
Other current assets	7 550	13 046
Total current assets	94 816	128 993
DEFERRED DEBITS	5 541	5 306
TOTAL	$1 661 331	$1 887 837

See accompanying Notes to Financial Statements.

TEXAS ELECTRIC SERVICE COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(Unaudited)

LIABILITIES

	September 30, 1979	September 30, 1980
	Thousands of Dollars	
CAPITALIZATION		
Common stock (Note 3)	$ 475 000	$ 575 000
Retained earnings (Note 4)	124 488	112 165
Total	599 488	687 165
Preferred stock (Note 3)	174 991	209 606
Long-term debt - less amounts due currently (Note 5):		
First mortgage bonds	563 500	627 000
Sinking fund debentures	18 669	13 094
Pollution control revenue bonds - net	39 590	41 942
Unamortized premium and discount	(1 756)	(2 703)
Total	620 003	679 333
Total capitalization	1 394 482	1 576 104
CURRENT LIABILITIES		
Notes payable - Texas Utilities Company (parent)	22 500	-
Accounts payable:		
Affiliates	10 766	21 066
Other	40 434	23 713
Dividends declared	3 365	4 309
Long-term debt due currently	-	11 500
Customers' deposits	2 823	4 593
Taxes accrued	24 082	43 284
Interest accrued	12 767	13 668
Other current liabilities	855	1 447
Total current liabilities	117 592	123 580
RESERVE FOR INSURANCE AND CASUALTIES (Note 1)	1 256	2 234
ACCUMULATED DEFERRED FEDERAL INCOME TAXES (Note 1)	62 542	79 105
UNAMORTIZED FEDERAL INVESTMENT TAX CREDITS (Note 1)	85 459	106 814
COMMITMENTS AND CONTINGENCIES (Note 6)		
TOTAL	$1 661 331	$1 887 837

See accompanying Notes to Financial Statements.

TEXAS ELECTRIC SERVICE COMPANY AND SUBSIDIARY

STATEMENT OF CONSOLIDATED SOURCE OF FUNDS FOR CONSTRUCTION

(Unaudited)

	Nine Months Ended September 30		Twelve Months Ended September 30	
	1979	1980	1979	1980
	Thousands of Dollars			
FUNDS FROM OPERATIONS				
Net Income	$ 68 232	$ 91 001	$ 83 414	$108 280
Less - Dividends declared:				
Preferred stock	10 094	11 039	13 459	14 403
Common stock	37 500	43 200	49 020	56 200
Total dividends declared	47 594	54 239	62 479	70 603
Balance	20 638	36 762	20 935	37 677
Depreciation provisions	36 485	38 575	48 002	51 372
Deferred federal income taxes - net	12 938	13 802	15 115	16 562
Federal investment tax credits - net	18 051	16 049	19 592	24 756
Allowance for funds used during construction	(14 098)	(19 034)	(18 745)	(23 742)
Total funds from operations	74 014	86 154	84 899	106 625
FUNDS FROM FINANCING				
First mortgage bonds	75 000	75 000	75 000	75 000
Pollution control revenue bonds - net	3 273	125	4 371	2 352
Preferred stock	-	34 615	-	34 615
Common stock	25 000	50 000	25 000	50 000
Notes payable to Texas Utilities Company (parent)	(11 500)	(51 000)	22 500	(22 500)
Long-term debt retired	(12 058)	(1 733)	(12 896)	(5 575)
Total funds from financing	79 715	107 007	113 975	133 892
Total	153 729	193 161	198 874	240 517
ADD (DEDUCT)				
Other - net	(12 104)	(16 719)	(4 481)	(11 688)
Balance	141 625	176 442	194 393	228 829
CASH IN BANKS AND TEMPORARY CASH INVESTMENTS-NET CHANGE	1 273	(5 916)	2 333	(7 213)
CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)	$142 898	$170 526	$196 726	$221 616

See accompanying Notes to Financial Statements.

TEXAS ELECTRIC SERVICE COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The consolidated financial statements include the Company and its subsidiary, Old Ocean Fuel Company; all significant intercompany items and transactions have been eliminated in consolidation. All of the outstanding capital stock of Old Ocean is owned by the Company. The investment of the Company in Old Ocean is the same as the Company's equity in the net assets of Old Ocean as shown by the books of the latter.

Electric Plant - The cost of property additions, including replacements of units of property and betterments, is charged to electric plant. An allowance for funds used during construction has been charged to electric plant at the rate of 7% of expenditures incurred except for that portion of construction work in progress allowed in rate base by regulatory authorities. Effective November 1, 1979 such rate was increased to 8%, net of tax. Maintenance and repairs of property, and replacements of items determined to be less than units of property, are charged to operation expenses. Accumulated provision for depreciation is charged with the cost of units of property retired, plus removal costs, less salvage.

Depreciation - Depreciation provisions are based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties.

Federal Income Taxes - Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation for property placed in service after 1969 and also the class life depreciation system (ADR) for property placed in service after 1971. Federal income tax provisions have been reduced by the amounts of investment tax credits allowable under the Internal Revenue Code, including amounts for an Employee Stock Ownership Plan established pursuant to the Tax Reduction Act of 1975, as amended; a ratable portion, except for amounts applicable to the Employee Stock Ownership Plan, is being amortized to income over the estimated service lives of the properties.

Retirement Plan - The Company has a retirement plan covering substantially all employees. The cost of the plan is determined by an independent actuary and is funded by the Company as accrued.

Reserve for Insurance and Casualties - The Company makes provision for major uninsured losses and claims and charges the amounts thereof to the reserve when incurred.

TEXAS ELECTRIC SERVICE COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (Continued)

2. AFFILIATES

The Company is a subsidiary of Texas Utilities Company which provides common stock capital and short-term financing to the Company as required. Primarily as agent for the Company, Texas Utilities Services Inc. furnishes engineering and other services, Texas Utilities Fuel Company procures certain fuels and related services, and Texas Utilities Generating Company produces lignite fuel and operates certain electric generating stations, at cost.

The Company, jointly with Dallas Power & Light Company and Texas Power & Light Company, has entered into agreements with the Fuel Company and the Generating Company whereby payments are at cost of the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of the Fuel Company and the Generating Company.

3. COMMON AND PREFERRED STOCKS

	September 30, 1979		September 30, 1980		Redemption Price Per Share (before adding accumulated dividends)	
	Outstanding	Amount	Outstanding	Amount	Current	Eventual Minimum
		Thousands of Dollars		Thousands of Dollars		
Texas Electric Service Company						
Common stock - without par value:						
authorized 80,000,000 shares	25 000 000	$475 [illegible]	27 000 000	$575 000		
Preferred stock - cumulative, without par value: entitled upon liquidation to $100 a share: authorized 10,000,000 shares:						
$ 4 series	110 000	$ 11 000	110 000	$ 11 000	$102.00	$102.00
$ 4.56 series	65 000	6 563	65 000	6 563	112.00	112.00
$ 4.64 series	100 000	10 016	100 000	10 016	103.25	103.25
$ 5.08 series	80 000	8 004	80 000	8 004	103.60	103.60
$ 7.44 series	300 000	30 006	300 000	30 006	106.12	102.40
$ 8.32 series	300 [illegible]00	29 655	300 000	29 655	108.32*	101.00
$ 8.44 series	300 000	30 046	300 000	30 046	107.40	103.18
$ 8.92 series	200 000	20 076	200 000	20 076	105.83	103.60
$ 9.36 series	300 000	29 625	300 000	29 625	107.02	102.34
$10.12 series	-	-	350 000	34 615	110.12*	100.00
Total	1 755 000	$174 991	2 10[illegible] 000	$[illegible]09 606		

*Redemption may not be effected currently through certain refunding operations.

In December 1979, the Company transferred $50,000,000 from retained earnings to the common stock account.

In February 1980, the Company issued and sold 2,000,000 shares of its authorized common stock to Texas Utilities Company (parent) for $50,000,000.

In June 1980, the Company issued and sold 350,000 shares of its authorized preferred stock for $34,615,000.

No shares of the Company's common or preferred stock are held by or for account of the Company nor are any shares of such capital stocks reserved for officers and employees or for options, warrants, conversions and other rights in connection therewith.

4. RETAINED EARNINGS RESTRICTIONS

The Company's articles of incorporation, the mortgage, as supplemented, and the debenture agreements contain provisions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At September 30, 1979, $20,118,000 and at September 30, 1980, $25,431,000 of retained earnings was thus restricted as a result of the provisions of the articles of incorporation.

The articles of incorporation restriction provides in effect that the Company shall not pay any common dividend which would reduce retained earnings to less than one and one-half times annual preferred dividend requirements. The mortgage restriction is based primarily on the replacement fund requirements of the mortgage. The restriction contained in the debenture agreements is designed to maintain the aggregate preferred and common stock equity at or above 33-1/3% of total capitalization.

TEXAS ELECTRIC SERVICE COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (Continued)

5. LONG-TERM DEBT (less amounts due currently)

	September 30, 1979	September 30, 1980
	Thousands of Dollars	
First mortgage bonds:		
3-3/8% series due 1981	$ 11 500	$ -
3-1/4% series due 1982	8 000	8 000
3-1/4% series due 1985	17 000	17 000
3-1/4% series due 1986	10 000	10 000
4-3/4% series due 1987	16 000	16 000
4-1/2% series due 1988	10 000	10 000
4/3/8% series due 1993	22 000	22 000
4-1/2% series due 1995	16 000	16 000
5-1/8% series due 1996	15 000	15 000
6-1/8% series due 1997	18 000	18 000
7-5/8% series due 1999	15 000	15 000
8-7/8% series due 2000	25 000	25 000
7-1/2% series due 2001	25 000	25 000
7-1/8% series due 2002	30 000	30 000
8-5/8% series due 2004	40 000	40 000
9-1/2% series due 2004	60 000	60 000
8-7/8% series due 2005	50 000	50 000
8-7/8% series due 2006	100 000	100 000
9-1/2% series due 2009	75 000	75 000
14-1/8% series due 2010	-	75 000
Total first mortgage bonds	563 500	627 000
Sinking fund debentures:		
5-1/4%, due 1985	5 604	4 276
6-5/8%, due 1993	13 065	8 818
Total sinking fund debentures	18 669	13 094
Pollution control revenue bonds:		
Sabine River Authority of Texas		
6-1/4% series due 2006	19 025	19 025
5.70% series due 2007	21 640	21 640
6.60% series due 2008	3 085	3 085
Funds on deposit with trustee	(4 160)	(1 808)
Total pollution control revenue bonds - net	39 590	41 942
Unamortized premium and discount:		
Unamortized premium	554	533
Unamortized discount	(2 310)	(3 236)
Total unamortized premium and discount	(1 756)	(2 703)
Total	$620 003	$679 333

TEXAS ELECTRIC SERVICE COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS (Concluded)

In March 1980, the Company issued and sold $75,000,000 principal amount of First Mortgage Bonds, 14-1/8% series due 2010.

The total amounts of Sinking Fund Debentures authorized in the debenture agreements have been issued. The Company's First Mortgage Bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings and other provisions of the mortgage. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Substantially all of the electric plant is subject to the lien of the mortgage.

6. COMMITMENTS AND CONTINGENCIES

For information relating to major new construction work now in progress or contemplated, and commitments with respect thereto, see "Item 3, Properties - Construction Program" in Form 10-K for the year 1979, Part II, "Item 8, Other Materially Important Events" in Form 10-Q for the quarter ended June 30, 1980, and Form 8 dated September 4, 1980.

The Company, along with Dallas Power & Light Company and Texas Power & Light Company, has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee its share of the principal, $51,266,000 at September 30, 1979 and $54,317,000 at September 30, 1980, and interest on bonds issued to finance the reservoirs from which the water is supplied.

Reference is made to "Item 1, Business - Fuel Supply, Regulation and Rates, and Environmental Matters"; "Item 3, Properties - Construction Program"; and "Item 5, Legal Proceedings" in Form 10-K for the year 1979, to Part II, "Item 1, Legal Proceedings" in Form 10-Q for the quarter ended June 30, 1980, and to "Item 5, Other Materially Important Events" in Form 8-K dated November 5, 1980, for legal and administrative proceedings.

REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

See attached Exhibit

Deloitte Haskins+Sells

EXHIBIT

First National Bank Building
Fort Worth, Texas 76102
(817) 336-2531
Cable DEHANDS

Texas Electric Service Company
Electric Service Building
115 West Seventh Street
Fort Worth, Texas 76102

November 12, 1980

Dear Sirs:

We have made reviews of the consolidated balance sheets of Texas Electric Service Company and subsidiary as of September 30, 1979 and 1980, and the related statements of consolidated income for the three-month, nine-month and twelve-month periods then ended, and the related statements of consolidated source of funds for construction for the nine-month and twelve-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytic review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles.

Deloitte Haskins & Sells
DELOITTE HASKINS & SELLS

PART II. OTHER INFORMATION

Items 1 through 9.

NONE

SIGNATURE

Pursuant to the requirements 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.

TEXAS ELECTRIC SERVICE COMPANY

By /s/ D. E. Kelch
D. E. Kelch
Vice President and Treasurer

Date: November 12, 1980

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED SEPTEMBER 30, 1980	COMMISSION FILE NUMBER 0-381

TEXAS POWER & LIGHT COMPANY

A TEXAS CORPORATION	I.R.S. Employer No. 75-0606380

1511 BRYAN STREET, DALLAS, TEXAS 75201
(214) 748-5411

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___.

Common stock outstanding at September 30, 1980: 34,350,000 shares (without par value).

PART I. FINANCIAL INFORMATION

THE FINANCIAL STATEMENTS HEREIN HAVE BEEN REVIEWED, EXCEPT FOR THE FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 1979 AND FOR THE TWELVE MONTHS THEN ENDED WHICH HAVE BEEN AUDITED, BY DELOITTE HASKINS & SELLS, INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, WHOSE LETTER WITH RESPECT THERETO IS FILED HEREWITH AS AN EXHIBIT TO PART I OF THIS REPORT. NO ADJUSTMENTS OR ADDITIONAL DISCLOSURES WERE PROPOSED BY DELOITTE HASKINS & SELLS. THE FOLLOWING FINANCIAL STATEMENTS SHOULD BE CONSIDERED IN CONJUNCTION WITH THE NOTES THERETO AND THE INFORMATION UNDER MANAGEMENT'S ANALYSIS OF STATEMENT OF INCOME. IN THE OPINION OF THE COMPANY, ALL ADJUSTMENTS (CONSTITUTING ONLY NORMAL RECURRING ACCRUALS) NECESSARY TO A FAIR STATEMENT OF THE RESULTS OF OPERATIONS HAVE BEEN INCLUDED THEREIN.

TEXAS POWER & LIGHT COMPANY

STATEMENT OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	1979	1980	1979	1980	1979	1980
	(Unaudited)		(Unaudited)		(Audited)	(Unaudited)
	Thousands of Dollars					
OPERATING REVENUES — Electric	$250,774	$355,533	$621,358	$759,217	$788,982	$947,476
OPERATING EXPENSES (Note 1)						
Operation	24,810	28,554	67,727	79,038	90,581	103,299
Fuel	95,695	141,716	246,575	320,269	306,795	397,233
Maintenance	13,048	13,979	36,846	47,736	48,738	65,892
Depreciation provisions	16,211	17,693	47,467	51,935	62,660	68,620
Federal income taxes	13,084	37,108	6,989	21,762	8,010	11,104
Deferred federal income taxes—net	6,974	7,725	19,965	24,266	25,985	30,950
Federal investment tax credits—net	11,097	8,956	32,028	24,732	37,784	35,698
State, local and miscellaneous taxes	10,980	12,405	30,889	35,403	40,530	46,925
Total operating expenses	191,899	268,136	488,486	605,141	621,083	759,721
OPERATING INCOME	58,875	87,397	132,872	154,076	167,899	187,755
OTHER INCOME (Note 1)						
Allowance for equity funds used during construction	3,830	6,966	10,815	20,086	13,777	26,770
Other income and deductions—net	4,618	4,599	14,866	14,562	18,964	19,265
Federal income taxes on other income	(2,151)	(2,159)	(6,898)	(6,793)	(8,881)	(8,986)
Total other income	6,297	9,406	18,783	27,855	23,860	37,049
TOTAL INCOME	65,172	96,803	151,655	181,931	191,759	224,804
INTEREST CHARGES						
Interest on mortgage bonds	16,761	18,183	49,163	52,321	63,580	69,082
Interest on other long-term debt	1,293	2,217	3,805	6,677	5,026	8,228
Other interest	195	1,863	695	5,265	898	5,503
Allowance for borrowed funds used during construction (Note 1)	(2,064)	(2,496)	(5,829)	(7,197)	(7,704)	(7,695)
Total interest charges	16,185	19,767	47,834	57,066	61,800	75,118
NET INCOME	48,987	77,036	103,821	124,865	129,959	149,686
PREFERRED STOCK DIVIDENDS	5,091	5,962	14,507	16,048	18,715	20,919
NET INCOME AFTER PREFERRED STOCK DIVIDENDS*	$ 43,896	$ 71,074	$ 89,314	$108,817	$111,244	$128,767

*Common stock owned 100% by Texas Utilities Company.

See accompanying Notes to Financial Statements.

TEXAS POWER & LIGHT COMPANY

MANAGEMENT'S ANALYSIS OF

STATEMENT OF INCOME

Operating Revenues - Increases in operating revenues resulted from an increase in KWH sales of electricity due primarily to the unusually hot weather conditions during the summer months, the recovery of the higher costs of fuel consumed in generating the increased output of electric energy and from a general rate increase approximating 10.05% implemented in May, 1980.

Operation and Maintenance - Increases in operation and maintenance expenses resulted from continuing inflationary pressures on the cost of labor, materials and services, and from an additional lignite-fueled generating unit placed in service in April, 1979. Operation and maintenance expenses were also affected by the higher costs of operating and maintaining lignite-fueled generating units, including the additional costs of operating and maintaining the pollution control equipment required in connection therewith, offset somewhat by lower levels of power purchased.

Fuel - Increases in fuel expense resulted from the increased level of generation and generally higher unit costs of fuel consumed. The increases in fuel expense and in unit costs of fuel consumed were mitigated by a greater use of lower cost lignite in the fuel mix for electric generation.

Depreciation Provisions - Increases in depreciation provisions are primarily ascribed to the substantial additions to depreciable plant in service.

Federal Income Taxes - The increases in federal income taxes in the three month and nine month periods are attributable to an increase in taxable income and to a decrease in federal investment tax credits; the increase in the twelve month period is attributable primarily to a decrease in federal investment tax credits.

Deferred Federal Income Taxes - Increases in deferred federal income taxes reflect the continued effects of the adoption for federal income tax purposes of liberalized depreciation and the class life depreciation system (ADR) for depreciable property and the normalization of other differences between book and taxable income.

Federal Investment Tax Credits - The decreases in federal investment tax credits resulted primarily from the completion in 1979 of the phase-in of Qualified Progress Expenditures pursuant to the Tax Reduction Act of 1975.

State, Local and Miscellaneous Taxes - Increases in state, local and miscellaneous taxes resulted primarily from increases in revenue and property-based taxes.

Allowance for Funds Used During Construction - Increases in allowance for funds used during construction (AFUDC) are attributable to increases in the amount of construction work in progress and, effective November 1, 1979, an increase in the AFUDC rate to a net of tax rate of 8%, compounded semi-annually, offset somewhat by an increase in the amount of construction work in progress allowed in rate base effective in May, 1980.

Interest Charges and Preferred Stock Dividends - Increases in these costs are attributable primarily to the additional long-term debt and preferred stock issued and sold in connection with the construction program of the Company and use of short-term loans from Texas Utilities for interim requirements.

Net Income and Net Income after Preferred Stock Dividends - Increases represent a culmination of the factors described above.

TEXAS POWER & LIGHT COMPANY

BALANCE SHEET

ASSETS

	September 30, 1979 (Audited)	September 30, 1980 (Unaudited)
	Thousands of Dollars	
ELECTRIC PLANT — at original cost (Note 1)		
In service:		
Production	$ 933,886	$ 948,451
Transmission	393,596	416,796
Distribution	625,367	684,903
General	55,039	63,875
Total	2,007,888	2,114,025
Construction work in progress	598,753	887,803
Nuclear fuel	23,896	28,844
Held for future use	4,499	5,384
Total electric plant	2,635,036	3,036,056
Less accumulated provision for depreciation	418,933	479,872
Electric plant, less accumulated provision for depreciation	2,216,103	2,556,184
OTHER INVESTMENTS	1,274	3,170
CURRENT ASSETS		
Cash in banks	9,618	9,316
Special deposits	14,836	8,633
Temporary cash investments — at cost	20,428	-
Accounts receivable:		
Customers	62,551	75,425
Other	3,614	5,578
Allowance for uncollectible accounts	(1,988)	(2,612)
Inventories — at average cost:		
Materials and supplies	13,038	17,715
Fuel stock	17,613	21,329
Other current assets	16,306	30,227
Total current assets	156,016	165,611
DEFERRED DEBITS	5,331	6,023
TOTAL	$2,378,724	$2,730,988

See accompanying Notes to Financial Statements.

TEXAS POWER & LIGHT COMPANY

BALANCE SHEET

LIABILITIES

	September 30, 1979 (Audited)	September 30, 1980 (Unaudited)
	Thousands of Dollars	
CAPITALIZATION		
Common stock (Note 3)	$ 610,000	$ 660,000
Retained earnings (Note 4)	193,206	249,210
Total	803,206	909,210
Preferred stock (Note 3)	256,112	285,782
Long-term debt — less amounts due currently (Note 5):		
First mortgage bonds	847,500	897,500
Other long-term debt	79,163	119,179
Unamortized discount	(3,174)	(3,795)
Total	923,489	1,012,884
Total capitalization	1,982,807	2,207,876
CURRENT LIABILITIES		
Notes Payable — Texas Utilities Company (parent)	-	54,500
Accounts payable:		
Affiliates	22,398	31,625
Other	62,765	47,217
Dividends declared	4,870	5,689
Long-term debt due currently	87	-
Customers' deposits	6,292	7,172
Taxes accrued	29,221	47,147
Interest accrued	19,681	23,113
Other current liabilities	16,718	9,203
Total current liabilities	162,032	225,666
RESERVE FOR INSURANCE AND CASUALTIES (Note 1)	1,486	1,989
ACCUMULATED DEFERRED FEDERAL INCOME TAXES (Note 1)	101,333	133,799
UNAMORTIZED FEDERAL INVESTMENT TAX CREDITS (Note 1)	131,066	161,658
COMMITMENTS AND CONTINGENCIES (Notes 2 and 6)		
TOTAL	$2,378,724	$2,730,988

See accompanying Notes to Financial Statements.

TEXAS POWER & LIGHT COMPANY

STATEMENT OF SOURCE OF FUNDS FOR CONSTRUCTION

	Nine Months Ended September 30, 1979	Nine Months Ended September 30, 1980	Twelve Months Ended September 30, 1979	Twelve Months Ended September 30, 1980
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)
	Thousands of Dollars			
FUNDS FROM OPERATIONS				
Net income	$103,821	$124,865	$129,959	$149,686
Less — Dividends declared:				
Preferred stock	14,507	16,048	18,715	20,919
Common stock	48,372	55,941	63,132	72,763
Total dividends declared	62,879	71,989	81,847	93,682
Balance	40,942	52,876	48,112	56,004
Depreciation provisions	47,467	51,935	62,660	68,620
Deferred federal income taxes — net	20,199	25,501	26,108	32,466
Federal investment tax credits — net	32,028	24,732	37,784	35,698
Allowance for funds used during construction	(16,644)	(27,283)	(21,481)	(34,465)
Total funds from operations	123,992	127,761	153,183	158,323
FUNDS FROM FINANCING				
First mortgage bonds	100,000	50,000	100,000	50,000
Other long-term debt	4,751	15,104	5,501	41,640
Preferred stock	29,591	29,670	29,591	29,670
Common stock	40,000	50,000	40,000	50,000
Notes payable to Texas Utilities Company (parent)	-	49,000	-	54,500
Long-term debt retired	(341)	(1,212)	(771)	(1,711)
Total funds from financing	174,001	192,562	174,321	224,099
ADD (DEDUCT)				
Investment advances to affiliates	-	(1,100)	39,000	(1,900)
Other — net	(29,537)	(31,717)	(5,287)	(24,806)
Total	(29,537)	(32,817)	33,713	(26,706)
Total	268,456	287,506	361,217	355,716
CASH IN BANKS AND TEMPORARY CASH INVESTMENTS — NET CHANGE	(19,753)	(1,582)	(20,048)	20,730
CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)	$248,703	$285,924	$341,169	$376,446

See accompanying Notes to Financial Statements.

TEXAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Electric Plant - The cost of property additions, including replacements of units of property and betterments, is charged to electric plant. An allowance for funds used during construction has been charged to electric plant at the rate of 7% of expenditures incurred, except for that portion of construction work in progress allowed in rate base by regulatory authorities. Effective November 1, 1979, such rate was increased to a net of tax rate of 8%, compounded semi-annually. Maintenance and repairs of property, and replacements of items determined to be less than units of property, are charged to operating expenses. Accumulated provision for depreciation is charged with the cost of units of property retired, plus removal costs, less salvage.

Depreciation - Depreciation provisions are based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties.

Federal Income Taxes - Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation for property placed in service after 1969 and also the class life depreciation system (ADR) for property placed in service after 1971. Federal income tax provisions have been reduced by the amounts of investment tax credits allowable under the Internal Revenue Code, including amounts for an Employee Stock Ownership Plan established pursuant to the Tax Reduction Act of 1975, as amended; a ratable portion, except for amounts applicable to the Employee Stock Ownership Plan, is being amortized to income over the estimated service lives of the properties.

Retirement Plan - The Company has a retirement plan covering substantially all employees. The cost of the plan is determined by an independent actuary and is funded by the Company as accrued.

Reserve for Insurance and Casualties - The Company makes provision for major uninsured losses and claims and charges the amounts thereof to the reserve when incurred.

2. AFFILIATES

The Company is a subsidiary of Texas Utilities Company which provides common stock capital and short-term financing to the Company as required. Primarily as agent for the Company, Texas Utilities Services Inc. furnishes engineering and other services, Texas Utilities Fuel Company procures certain fuels and provides related services, and Texas Utilities Generating Company produces lignite fuel and operates certain electric generating stations at cost.

The Company, jointly with Dallas Power & Light Company and Texas Electric Service Company, has entered into agreements with Fuel Company and Generating Company whereby payments are at cost of the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Generating Company.

3. COMMON AND PREFERRED STOCKS

	Shares Outstanding September 30, 1979	Shares Outstanding September 30, 1980	Amount September 30, 1979 (Thousands of Dollars)	Amount September 30, 1980 (Thousands of Dollars)	Redemption Price Per Share (Before adding accumulated dividends) Current	Redemption Price Per Share (Before adding accumulated dividends) Eventual Minimum
Common stock-without par value; authorized 80,000,000 shares. . .	32,350,000	34,350,000	$610,000	$660,000		
Preferred stock - cumulative, without par value; entitled upon liquidation to $100 a share; authorized 5,000,000 shares:						
$ 4 series	70,000	70,000	$ 7,000	$ 7,000	$102.00	$102.00
$ 4.44 series	150,000	150,000	15,061	15,061	102.61	102.61
$ 4.56 series	133,786	133,786	13,379	13,379	112.00	112.00
$ 4.76 series	100,000	100,000	10,000	10,000	102.00	102.00
$ 4.84 series	70,000	70,000	7,000	7,000	101.79	101.79
$ 7.24 series	250,000	250,000	25,113	25,113	107.04	103.42
$ 7.80 series	300,000	300,000	30,030	30,030	105.20	103.25
$ 8.16 series	300,000	300,000	29,655	29,655	108.16*	102.04
$ 8.20 series	300,000	300,000	30,108	30,108	107.39	103.29
$ 8.68 series	300,000	300,000	29,550	29,550	108.43*	101.92
$ 8.84 series	300,000	300,000	29,591	29,591	108.17*	102.05
$ 9.32 series	300,000	300,000	29,625	29,625	106.99	102.33
$10.92 series	-	300,000	-	29,670	110.92*	102.73
Total	2,573,786	2,873,786	$256,112	$285,782		

*Redemption may not be effected currently through certain refunding operations.

No shares of the Company's common or preferred stock are held by or for account of the Company, nor are any shares of such capital stocks reserved for officers and employees or for options, warrants, conversions and other rights in connection therewith.

4. RETAINED EARNINGS RESTRICTIONS

The Companys' articles of incorporation, the mortgage, as supplemented, and the debenture agreements contain provisions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At September 30, 1979 and September 30, 1980, $27,598,000 and $32,239,000, respectively, of retained earnings were thus restricted as a result of the provisions of the articles of incorporation.

The articles of incorporation restriction provides in effect that the Company shall not pay any common dividend which would reduce retained earnings to less than one and one-half times annual preferred dividend requirements. The mortgage restriction is based primarily on the replacement fund requirements of the mortgage. The restriction contained in the debenture agreements is designed to maintain the aggregate preferred and common stock equity at or above 33-1/3% of total capitalization.

5. LONG-TERM DEBT (less amounts due currently)

	September 30, 1979	September 30, 1980
	Thousands of Dollars	
First mortgage bonds:		
3-1/4% series due 1982	$ 14,000	$ 14,000
3-1/8% series due 1984	20,000	20,000
4-3/8% series due 1986	10,000	10,000
4-1/2% series due 1988	12,500	12,500
4-1/2% series due 1991	12,000	12,000
4-3/8% series due 1993	10,000	10,000
4-1/2% series due 1995	14,000	14,000
5 % series due 1996	20,000	20,000
5-1/2% series due 1997	30,000	30,000
6-5/8% series due 1998	25,000	25,000
8-5/8% series due 200[illegible]	30,000	30,000
8-7/8% series due 2000	30,000	30,000
7-1/8% series due 2001	30,000	30,000
7-1/2% series due 2002	40,000	40,000
7-1/2% series due 2003	50,000	50,000
8-1/4% series due 2004	50,000	50,000
10-1/8% series due 2004	50,000	50,000
9-1/2% series due 2005	100,000	100,000
8.60 % series due 2006	100,000	100,000
8-1/4% series due 2007	100,000	100,000
9-3/8% series due 2009	100,000	100,000
11-3/8% series due 2010	-	50,000
Total	847,500	897,500
Other long-term debt:		
Sinking fund debentures		
4-5/8% due 1987	7,176	6,713
4-1/2% due 1989	11,351	10,918
7-3/4% due 1994	17,200	16,472
Total	35,727	34,103
Pollution control revenue bonds-net		
7-1/2% series due 2004	-	15,000
6-1/4% series due 2006	32,385	32,385
5.70 % series due 2007	11,235	11,235
6.60 % series due 2008	4,890	4,890
7-5/8% series due 2009	-	35,000
Funds on deposit with trustee	(5,074)	(13,434)
Total	43,436	85,076
Total other long-term debt	79,163	119,179
Unamortized discount	(3,174)	(3,795)
Total long-term debt (less amounts due currently)	$923,489	$1,012,884

The total amounts of Sinking Fund Debentures authorized in the debenture agreements have been issued. The Company's First Mortgage Bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings and other provisions of the mortgage. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Substantially all of the electric plant is subject to the lien of the mortgage.

6. COMMITMENTS AND CONTINGENCIES

For information relating to major new construction work now in progress or contemplated, and commitments with respect thereto, see Item 3, Properties - Construction Program in Form 10-K for the year 1979, and Part II, Item 8, Other Materially Important Events in Form 10-Q for the quarter ended June 30, 1980.

The Company, along with Dallas Power & Light Company and Texas Electric Service Company, has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee its share of the principal, $51,266,000 at September 30, 1979 and $54,318,000 at September 30, 1980, and interest on bonds issued to finance the reservoirs from which the water is supplied.

Reference is made to Part II, Item 1, Legal Proceedings and Part II, Item 8, Other Materially Important Events in Form 10-Q for the quarter ended June 30, 1980, and to Item 1, Business - Fuel Supply, Regulation and Rates, and Environmental Matters and Item 5, Legal Proceedings in Form 10-K for the year 1979 for information relating to legal and administrative proceedings. In the opinion of the Company, such legal and administrative proceedings are not expected to have a material adverse effect upon the financial position or results of operations of the Company.

REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

See Attached Exhibit

Deloitte Haskins+Sells

EXHIBIT

One Main Place
Dallas, Texas 75250
(214) 748-6601
Telex 732648

November 7, 1980

Texas Power & Light Company:

We have made eviews of the balance sheet of Texas Power & Light Company as of September 30, 1980 and the related statements of income for the three-month, nine-month and twelve-month periods then ended and source of funds for construction for the nine-month and twelve-month periods then ended. We have also made reviews of the statements of income for the three-month and nine-month periods ended September 30, 1979 and source of funds for construction for the nine-month period ended September 30, 1979. Such reviews have been made in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the financial statements referred to above.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

The balance sheet as of September 30, 1979 and the related statements of income and source of funds for construction for the twelve-month period then ended were examined by us and we expressed an unqualified opinion on them in our report dated December 11, 1979.

Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS

PART II. OTHER INFORMATION

Items 1 through 9.

None.

SIGNATURE

Pursuant to the requirements 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.

TEXAS POWER & LIGHT COMPANY

Date November 12, 1980

By /s/ H. O. Weatherbee, Jr.
H. O. Weatherbee, Jr.
Vice President and
Principal Financial Officer

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED September 30, 1980 COMMISSION FILE NUMBER 0-1250

DALLAS POWER & LIGHT COMPANY

A TEXAS	I.R.S. Employer No.
Corporation	75-0224710

1506 COMMERCE STREET, DALLAS, TEXAS 75201

(214) 698-7000

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____

Common stock outstanding at September 30, 1980: 14,000,000 shares (without par value).

PART I. FINANCIAL INFORMATION

THE FINANCIAL STATEMENTS HEREIN HAVE BEEN REVIEWED BY DELOITTE HASKINS & SELLS, INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, WHOSE LETTER WITH RESPECT THERETO IS FILED HEREWITH AS AN EXHIBIT TO PART I OF THIS REPORT. NO ADJUSTMENTS OR ADDITIONAL DISCLOSURES WERE PROPOSED BY DELOITTE HASKINS & SELLS. THE FOLLOWING FINANCIAL STATEMENTS SHOULD BE CONSIDERED IN CONJUNCTION WITH THE NOTES THERETO AND THE INFORMATION UNDER MANAGEMENT'S ANALYSIS OF STATEMENT OF INCOME. IN THE OPINION OF THE COMPANY, ALL ADJUSTMENTS (CONSTITUTING ONLY NORMAL RECURRING ACCRUALS) NECESSARY TO A FAIR STATEMENT OF THE RESULTS OF OPERATIONS HAVE BEEN INCLUDED THEREIN.

DALLAS POWER & LIGHT COMPANY

STATEMENT OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	1979	1980	1979	1980	1979	1980
			Thousands of Dollars			
OPERATING REVENUES - Electric	$128,182	$189,427	$319,831	$410,609	$403,392	$513,219
OPERATING EXPENSES (Note 1)						
Operation	15,786	17,413	42,472	48,586	54,512	63,447
Fuel	53,433	80,367	134,086	166,994	163,997	205,550
Maintenance	7,550	8,243	23,872	26,791	29,863	37,071
Depreciation provisions	7,936	8,554	23,123	25,169	30,480	33,264
Federal income taxes	4,879	20,357	(1,096)	24,539	642	24,290
Deferred federal income taxes - net	2,037	2,136	6,521	7,414	7,843	9,468
Federal investment tax credits - net	3,135	1,773	10,682	3,697	12,565	7,102
State, local and miscellaneous taxes	11,964	14,405	32,862	36,785	42,613	47,191
Total operating expenses	106,720	153,248	272,522	339,975	342,515	427,383
OPERATING INCOME	21,462	36,179	47,309	70,634	60,877	85,836
OTHER INCOME						
Allowance for equity funds used during construction (Note 1)	2,391	1,749	7,026	6,868	9,091	11,686
Other income and deductions - net	(6)	214	211	853	332	6,074
Federal income taxes on other income	6	(100)	(98)	(398)	(159)	(5,888)
Total other income	2,391	1,863	7,139	7,323	9,264	11,872
TOTAL INCOME	23,853	38,042	54,448	77,957	70,141	97,708
INTEREST CHARGES						
Interest on mortgage bonds	5,547	5,322	16,712	16,415	22,330	21,962
Interest on other long-term debt	646	598	1,906	1,816	2,522	2,459
Other interest	2,204	1,776	4,789	9,401	6,089	12,704
Allowance for borrowed funds used during construction (Note 1)	(1,789)	(692)	(5,255)	(2,716)	(7,423)	(2,095)
Total interest charges	6,608	7,004	18,152	24,916	23,518	35,030
NET INCOME	17,245	31,038	36,296	53,041	46,623	62,678
PREFERRED STOCK DIVIDENDS	1,643	1,643	4,928	4,928	6,571	6,571
NET INCOME AFTER PREFERRED STOCK DIVIDENDS	$ 15,602	$ 29,395	$ 31,368	$ 48,113	$ 40,052	$ 56,107
Average number of shares of common stock outstanding (thousands)	14,000	14,000	13,778	14,000	13,583	14,000
Earnings and dividends per share of common stock:						
Earnings (based on average shares outstanding)	$1.11	$2.10	$2.28	$3.44	$2.95	$4.01
Dividends	$ .59	$ .59	$1.77	$1.77	$2.36	$2.36

See accompanying Notes to Financial Statements.

DALLAS POWER & LIGHT COMPANY
MANAGEMENT'S ANALYSIS OF STATEMENT OF INCOME

Operating Revenues - Increases in operating revenues reflect an increase in energy sales due to unusually hot weather offset by milder temperatures during the winter heating season compared to corresponding periods of the prior year, recovery of the higher cost of fuel consumed and a general rate increase of approximately 10% effective in October 1979.

Operation and Maintenance - Increases in operation and maintenance expense resulted from continuing inflationary pressures on the cost of labor, materials and services. Maintenance expenses were also affected by the higher costs of maintaining lignite-fueled generating units, including the additional costs of maintaining the pollution control equipment required in connection therewith.

Fuel - Increases in fuel expenses resulted from the higher unit costs of fuel consumed and an increase in the consumption of fuel to generate electricity for an increased customer demand during the unusually warm weather during the summer of 1980.

Federal Income Taxes - Increases in federal income taxes reflect corresponding increases in taxable income and decreases in the amounts of federal investment tax credits.

Deferred Federal Income Taxes - Increases in deferred federal income taxes reflect the continued effects of the adoption for federal income tax purposes of liberalized depreciation and the class life depreciation system (ADR) for depreciable property, and, the normalization of federal income taxes applicable to certain capitalized construction costs.

Federal Investment Tax Credits - The decrease in federal investment tax credits for the three months and nine months periods resulted primarily from investment tax credit recapture associated with the transfer of an ownership interest in Comanche Peak nuclear station and Martin Lake Unit 4 by the Company to Texas Power & Light Company and Texas Electric Service Company. The decrease for the twelve month period resulted primarily from the aforementioned transfer and the investment tax credit recapture associated with the sale of a portion of Comanche Peak nuclear station.

Allowance for Funds Used During Construction - The decreases in allowance for funds used during construction reflect the effect of the allowance of a greater portion of construction work in progress in rate base by the Company's regulatory authorities.

State, Local and Miscellaneous Taxes - Increases in state, local and miscellaneous taxes are primarily attributable to an increase in gross receipts taxes resulting from increases in revenues.

Other Income and Deductions - Net - The increase in other income and deductions - net for the twelve month period is primarily attributable to the gain on the sale of a portion of the Comanche Peak nuclear station.

Federal Income Taxes on Other Income - The increase in federal income taxes on other income for the twelve month period was primarily attributable to federal income taxes on the sale of a portion of the Comanche Peak nuclear station.

Interest Charges - Increases in interest charges for the nine month and twelve month periods are primarily attributable to the greater use of short-term loans from Texas Utilities Company for interim requirements.

Net Income - Increases in net income represent primarily a culmination of the factors described above.

DALLAS POWER & LIGHT COMPANY

BALANCE SHEET

(Unaudited)

ASSETS

	September 30, 1979	September 30, 1980
	Thousands of Dollars	
ELECTRIC PLANT - at original cost (Note 1)		
In service:		
Production	$ 487,793	$ 502,799
Transmission	125,386	143,273
Distribution	282,276	306,722
General	28,378	32,767
Total	923,833	985,561
Construction work in progress	423,139	333,481
Nuclear fuel	22,685	14,764
Held for future use	2,356	2,695
Total electric plant	1,372,013	1,336,501
Less accumulated provision for depreciation	267,411	305,997
Electric plant, less accumulated provision for depreciation	1,104,602	1,030,504
CURRENT ASSETS		
Cash in banks	4,130	1,888
Special deposits	3,610	3,753
Accounts receivable:		
Customers	30,603	40,530
Affiliates	423	357
Other	671	791
Allowance for uncollectible accounts	(928)	(1,521)
Inventories - at average cost:		
Materials and supplies	8,391	9,090
Fuel stock	8,497	11,313
Other current assets	4,273	9,760
Total current assets	59,670	75,961
DEFERRED DEBITS	4,975	5,701
TOTAL	$1,169,247	$1,112,166

See accompanying Notes to Financial Statements.

DALLAS POWER & LIGHT COMPANY

BALANCE SHEET

(Unaudited)

LIABILITIES

	September 30, 1979	September 30, 1980
	Thousands of Dollars	
CAPITALIZATION		
Common stock (Note 3)	$ 299,000	$ 299,000
Retained earnings (Note 4)	76,957	100,023
Total	375,957	399,023
Preferred stock (Note 3)	104,722	104,722
Long-term debt - less amounts due currently (Note 5):		
First mortgage bonds	305,000	305,000
Other long-term debt	40,062	39,708
Unamortized premium	1,179	1,109
Total	346,241	345,817
Total capitalization	826,920	849,562
CURRENT LIABILITIES		
Notes payable - Texas Utilities Company (parent)	86,900	55,300
Accounts payable:		
Affiliates	7,964	24,325
Other	33,947	9,993
Dividends declared	1,642	1,642
Long-term debt due currently	28,791	-
Customers' deposits	3,009	2,922
Taxes accrued	18,583	47,699
Interest accrued	7,373	6,880
Other current liabilities (Note 6)	60,675	6,181
Total current liabilities	248,884	154,942
RESERVES FOR INSURANCE AND CASUALTIES (Note 1)	2,278	1,142
ACCUMULATED DEFERRED FEDERAL INCOME TAXES (Note 1)	40,884	50,353
UNAMORTIZED FEDERAL INVESTMENT TAX CREDITS (Note 1)	50,281	56,167
COMMITMENTS AND CONTINGENCIES (Note 7)		
TOTAL	$1,169,247	$1,112,166

See accompanying Notes to Financial Statements.

DALLAS POWER & LIGHT COMPANY

STATEMENT OF SOURCE OF FUNDS FOR CONSTRUCTION

(Unaudited)

	Nine Months Ended September 30,		Twelve Months Ended September 30,	
	1979	1980	1979	1980
	Thousands of Dollars			
FUNDS FROM OPERATIONS				
Net income	$ 36,296	$ 53,041	$ 46,623	$ 62,678
Less - Dividends declared:				
Preferred stock	4,928	4,928	6,571	6,571
Common stock	24,190	24,780	31,860	33,040
Total dividends declared	29,118	29,708	38,431	39,611
Balance	7,178	23,333	8,192	23,067
Depreciation provisions	23,123	25,169	30,480	33,264
Deferred federal income taxes - net	6,521	7,414	7,843	9,468
Federal investment tax credits - net	10,682	3,697	12,565	7,102
Allowance for funds used during construction	(12,281)	(9,584)	(16,514)	(13,781)
Total funds from operations	35,223	50,029	42,566	59,120
FUNDS FROM FINANCING				
Long-term debt	2,230	69	2,656	589
Common stock	29,500	-	29,500	-
Notes payable to Texas Utilities Company (parent)	9,800	(21,200)	51,900	(31,600)
Long-term debt retired	(10,164)	(29,382)	(10,219)	(29,734)
Total funds from financing	31,366	(50,513)	73,837	(60,745)
ADD (DEDUCT)				
Electric plant - sale (Note 6)	-	74,327	-	174,198
Other - net (Note 6)	(51,752)	5,774	47,217	(55,227)
Total	(51,752)	80,101	47,217	118,971
Total	118,341	79,617	163,620	117,346
CASH IN BANKS AND TEMPORARY CASH INVESTMENTS - NET CHANGE	(1,501)	441	(418)	2,242
CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)	$116,840	$ 80,058	$163,202	$119,588

See accompanying Notes to Financial Statements.

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

General - The accounting policies of the Company conform to generally accepted accounting principles as applied to regulated public utilities, and generally are in accordance with the ratemaking practices of the regulatory authorities having jurisdiction. The following summarize the more significant of these policies:

Electric Plant - The cost of property additions, including replacements of units of property and betterments, is charged to electric plant. An allowance for funds used during construction has been charged to electric plant at the rate of 7% of expenditures incurred, except for that portion of construction work in progress allowed in rate base by regulatory authorities. Effective November 1, 1979, such rate was increased to a net of tax rate of 8%, compounded semiannually. Maintenance and repairs of property, and replacements of items determined to be less than units of property, are charged to operating expenses. Accumulated provision for depreciation is charged with the cost of units of property retired, plus removal costs, less salvage.

Depreciation - Depreciation provisions are based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties.

Federal Income Taxes - Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation for property placed in service after 1969 and also the class life depreciation system (ADR) for property placed in service after 1971. Federal income tax provisions have been reduced by the amounts of investment tax credits allowable under the Internal Revenue Code, including amounts for an Employee Stock Ownership Plan established pursuant to the Tax Reduction Act of 1975, as amended; a ratable portion, except for amounts applicable to the Employee Stock Ownership Plan, is being amortized to income over the estimated service lives of the properties.

Retirement Plan - The Company has a retirement plan covering substantially all employees. The cost of the plan is determined by an independent actuary and is funded by the Company as accrued.

Reserves for Insurance and Casualties - The Company makes provision for major uninsured losses and claims and charges the amounts thereof to the reserves when incurred.

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. AFFILIATES

The Company is a subsidiary of Texas Utilities Company which provides common stock capital and short-term financing to the Company as required. Primarily as agent for the Company, Texas Utilities Services Inc. furnishes engineering and other services, Texas Utilities Fuel Company (Fuel Company) procures certain fuels and provides related services, and Texas Utilities Generating Company (Generating Company) produces lignite fuel and operates certain electric generating stations at cost.

The Company, jointly with Texas Electric Service Company and Texas Power & Light Company, has entered into agreements with Fuel Company and Generating Company whereby payments are at cost of the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Generating Company.

3. COMMON AND PREFERRED STOCKS

	September 30, 1979		September 30, 1980		Redemption Price Per Share (before adding accumulated dividends)	
	Shares Outstanding	Amount Thousands of Dollars	Shares Outstanding	Amount Thousands of Dollars	Current	Eventual Minimum
Common stock - without par value; authorized 20,000,000 shares	14,000,000	$299,000	14,000,000	$299,000		
Preferred stock - c[illegible], without par value; entitled upon liquidation to $100 a share; authorized 2,000,000 shares:						
$4 series	70,000	$ 7,049	70,000	$ 7,049	$103.56	$103.56
$4.24 series	100,000	10,081	100,000	10,081	103.50	103.50
$4.50 series	74,430	7,443	74,430	7,443	110.00	110.00
$4.80 series	100,000	10,009	100,000	10,009	102.79	102.79
$6.84 series	200,000	20,023	200,000	20,023	106.47	103.05
$7.20 series	200,000	20,044	200,000	20,044	105.01	103.21
$7.48 series	300,000	30,073	300,000	30,073	106.69	102.95
Total	1,044,430	$104,722	1,044,430	$104,722		

No shares of the Company's common or preferred stocks are held by or for account of the Company, nor are any shares of such capital stocks reserved for officers and employees or for options, warrants, conversions, and other rights in connection therewith.

4. RETAINED EARNINGS RESTRICTIONS

The Company's articles of incorporation, the mortgage, as supplemented, and the debenture agreements contain provisions which, under certain conditions, restrict distributions on or acquisition of its common stock. At September 30, 1980, none of the retained earnings was thus restricted.

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. LONG-TERM DEBT - less amounts due currently

	September 30, 1979	September 30, 1980
	Thousands of Dollars	
First mortgage bonds:		
3-1/2% series due 1983	$ 9,000	$ 9,000
7-3/4% series due 1983	25,000	25,000
7-3/4% series due 1984	25,000	25,000
7-3/4% series due 1985	25,000	25,000
3-1/8% series due 1986	10,000	10,000
4-1/4% series due 1986	10,000	10,000
4-1/4% series due 1993	25,000	25,000
4-7/8% series due 1996	20,000	20,000
5-3/8% series due 1997	16,000	16,000
9-3/8% series due 2000	30,000	30,000
7-3/8% series due 2001	30,000	30,000
7-5/8% series due 2002	30,000	30,000
8-7/8% series due 2005	50,000	50,000
Total	305,000	305,000
Other long-term debt:		
Sinking fund debentures		
4-1/2%, due 1989	11,3[illegible]9	10,945
6-3/4%, due 1993	12,600	12,111
Total	23,999	23,056
Pollution control revenue bonds - net		
Sabine River Authority of Texas		
6-1/4% series due 2006	8,590	8,590
5.70% series due 2007	7,125	7,125
6.60% series due 2008	2,025	2,025
Funds on deposit with trustee	(1,677)	(1,088)
Total	16,063	16,652
Total other long-term debt	40,062	39,708
Unamortized premium	1,179	1,109
Total long-term debt - less amounts due currently	$346,241	$345,817

The total amounts of Sinking Fund Debentures authorized in the debenture agreements have been issued. The Company's First Mortgage Bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings, and other provisions of the mortgage. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Substantially all of the electric plant is subject to the lien of the mortgage.

DALLAS POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS (Concluded)

(Unaudited)

6. SALE OF ELECTRIC PLANT

In January 1979, the Company entered into an agreement with Texas Municipal Power Agency (TMPA) to sell a 6.2% ownership interest in the Comanche Peak nuclear station to TMPA, subject to the approval of the Nuclear Regulatory Commission (NRC). The Company received $52,000,000 from TMPA in connection with the anticipated sale which was recorded under other current liabilities, pending final approval of the sale by the NRC. In December 1979, NRC approved this sale and the sale of a 3.8% ownership interest to Brazos Electric Power Cooperative, Inc., and such sales were consummated for $99,871,000.

In May 1980, a transfer of ownership by the Company was made to Texas Electric and Texas Power of a 2-1/2% share to each company of the Comanche Peak nuclear station and a 2-1/2% share to each company of Martin Lake Unit 4 in the amount of $74,327,000. These transfers were at cost and include the associated fuel and transmission facilities. The Comanche Peak transfer is subject to approval of the Nuclear Regulatory Commission.

Construction expenditures, previously shown net of the $99,871,000 received from the sale in 1979 of the 10% interest in the Comanche Peak nuclear station, are now reported to conform with the presentation adopted in 1980.

7. COMMITMENTS AND CONTINGENCIES

For information relating to major new construction work now in progress or contemplated, and commitments with respect thereto, see Part II, "Item 8 - Other Materially Important Events" in Form 10-Q for the quarter ended June 30, 1980 and "Item 3, Properties - Construction Program" in Form 10-K for the year 1979.

The Company, along with Texas Electric Service Company and Texas Power & Light Company, has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee its share of the principal, $43,333,000 at September 30, 1979 and $46,475,000 at September 30, 1980, and interest on the bonds issued to finance the reservoirs from which the water is supplied.

Reference is made to "Item 5, Other Materially Important Events" in Form 8-K dated October 7, 1980, and "Item 9(b) - Exhibits and Reports on Form 8-K" in Form 10-Q for the quarters ended June 30, 1980 and March 31, 1980, and Part II, "Item 1 - Legal Proceedings" in Form 10-Q for the quarter ended June 30, 1980, and to "Item 1, Business - Fuel Supply and Environmental Matters", and "Item 5, Legal Proceedings" in Form 10-K for the year 1979 for information relating to legal and administrative proceedings. In the opinion of the Company, such legal and administrative proceedings are not expected to have a material effect upon the financial position or results of operations of the Company.

REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

See attached Exhibit

Deloitte
Haskins+Sells

EXHIBIT

One Main Place
Dallas, Texas 75250
(214) 748-6601
Telex 732648

November 7, 1980

Dallas Power & Light Company:

We have made reviews of the balance sheets of Dallas Power & Light Company as of September 30, 1979 and 1980, and the related statements of income for the three-month, nine-month and twelve month periods then ended and source of funds for construction for the nine-month and twelve-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles.

DELOITTE HASKINS & SELLS

DALLAS POWER & LIGHT COMPANY

PART II. OTHER INFORMATION

ITEMS 1-9.

None.

SIGNATURE

Pursuant to the requirements 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.

DALLAS POWER & LIGHT COMPANY

By /s/ J. D. Karney
J. D. Karney
Treasurer and Assistant Secretary
(Principal Financial Officer)

Date: November 12, 1980

CASE ____
FILE NO. ____
DATE MAR 7 1981
TO ____
REPLY ____

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.

FINANCIAL REPORT
DECEMBER 31, 1980

Exhibit L

KNUCKOLS AND DUVALL
A PROFESSIONAL CORPORATION
Certified Public Accountants
P.O. BOX 1315 PHONE 938-0331
MARSHALL, TEXAS 75670

February 11, 1981

Board of Directors
Tex-LÀ Electric Cooperative of Texas, Inc.
San Augustine, Texas

Gentlemen:

The following financial statements of Tex-La Electric Cooperative of Texas, Inc., from May 1, 1979, through December 31, 1980, are presented for your review:

Exhibit A - Balance Sheet

Exhibit B - Income Statement

Schedule #1 - Schedule of Net Equity in Available Funds - By Cooperative

Schedule #2 - Schedule to Allocate Other Income and Expenses

We are not in a position to express an opinion on the accompanying financial statements in our capacity as certified public accountants since we are actually performing certain responsibilities and duties as your agent which prohibits our rendering an opinion on our own work.

If you have any questions in connection with this report, please advise.

Yours very truly,

KNUCKOLS AND DUVALL

Knuckols and Duvall
Certified Public Accountants

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC. EXHIBIT A

BALANCE SHEET
AS OF DECEMBER 31, 1980

ASSETS:		
CURRENT ASSETS:		
Cash in Bank - Unrestricted	8 190	
Cash in Bank - 30 Day Certificate of Deposit Earning Interest at 19.00%	30 000	
Accounts Receivable - Sam Rayburn G&T	7 379	
Total Current Assets		45 569
FIXED ASSETS:		
Office Furniture and Equipment		1 596
Total Assets		47 165
LIABILITIES:		
Payroll Taxes Payable		245
MARGINS AND EQUITIES:		
Members Dues	700	
Margins - Inception Through December 31, 1980	46 220	
Total Margins and Equities		46 920
Total Liabilities		47 165

- Unaudited - See Accompanying Disclaimer -

INCOME STATEMENT
FOR THE PERIOD
MAY 1, 1979 THROUGH DECEMBER 31, 1980

<u>INCOME</u>:		
Professional Fee Assessments (Net of Amount Reallocated to Tex-La Electric Cooperative, Inc. (TP&L) of $175,084	258 258	
Interest Income - Temporary Cash Investments	20 923	
Total Income		279 181
<u>EXPENSES</u>:		
Salaries	16 183	
Payroll Taxes	1 300	
Automobile Expenses	1 575	
Meeting Expenses	880	
Court Reports - Comanche Peak Matters	3 705	
Professional Fees - Applications for Tax Exemption	3 108	
Dues and Subscriptions	935	
Management Fees	2 500	
Engineering Services	51 202	
Legal Fees	137 424	
Directors' Fees and Expenses	8 396	
Office Expenses	2 817	
Employee Travel	995	
Accounting Fees	7 549	
Printing and Advertising - Comanche Peak Matters	1 884	
Insurance - Liability and Employee	1 271	
Total	241 724	
Less: Office Expenses Reimbursed by Rayburn G&T	8 763	
Total Expenses		232 961
Net Income		46 220

- Unaudited - See Accompanying Disclaimer -

TEX-LA ELECTRIC COOPERATIVE OF TEXAS, INC.

SCHEDULE OF NET EQUITY IN AVAILABLE FUNDS BY COOPERATIVE FOR THE PERIOD MAY 1, 1979 THROUGH DECEMBER 31, 1980

COOPERATIVE	NET PROFESSIONAL FEES ASSESSED	INTEREST INCOME
Cherokee County Electric Cooperative	24 278	1 973
Sam Houston Electric Cooperative	13 398	1 096
Wood County Electric Cooperative	21 174	1 718
Houston County Electric Cooperative	50 287	3 934
Deep East Texas Electric Cooperative	138 840	11 369
Jasper-Newton Electric Cooperative	2 491	199
Rusk County Electric Cooperative	7 790	634
Total	258 258	20 923

-

TOTAL INCOME	ADD: DUES	LESS: EXPENSES	NET EQUITY IN AVAILABLE FUNDS
26 251	100	21 968	4 383
14 494	100	12 207	2 387
22 892	100	19 126	3 866
54 221	100	43 797	10 524
150 209	100	126 591	23 718
2 690	100	2 213	577
8 424	100	7 059	1 465
279 181	700	232 961	46 920

- Unaudited - See Accompanying Disclaimer -

SCHEDULE TO ALLOCATE OTHER INCOME AND EXPENSE
BASED UPON KWH BILLED
JUNE 1979 - DECEMBER, 1980

NAME OF COOPERATIVE	KWH BILLED	PERCENTAGE OF TOTAL	ALLOCATED INTEREST INCOME	ALLOCATED TOTAL DISBURSEMENTS
Cherokee County Elec. Coop.	81 721 000	9.43%	1 973	21 968
Sam Houston Elec. Coop.	45 448 570	5.24%	1 096	12 207
Wood County Elec. Coop.	71 122 700	8.21%	1 718	19 126
Houston County Elec. Coop.	162 934 602	18.80%	3 934	43 797
Deep East Texas Elec. Coop.	470 969 039	54.34%	11 369	126 591
Jasper-Newton Elec. Coop.	8 255 427	.95%	199	2 213
Rusk County Elec. Coop.	26 232 774	3.03%	634	7 059
Total	866 684 112	100.00%	20 923	232 961

- Unaudited - See Accompanying Disclaimer -