The Light company Houston Lighting & Power P.O. Box 1700 Houston, Texas 77001 (713) 228-9211

December 22, 1981
ST-HL-AE-768
SFN: V-0100

Mr. Harold Denton, Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Dear Mr. Denton:

South Texas Project
Units 1 & 2
Docket Nos. 50-498, 50-499
Annual Financial Statements

Enclosed is a copy of the annual financial statements for Houston Lighting and Power Company, Central Power and Light Company, the City of Austin, Texas and the City of San Antonio, Texas. These reports are submitted pursuant to 10CFR50.71(b).

Should additional information be required, please contact Mr. M. E. Powell at (713) 676-8592.

Very truly yours,

J. H. Goldberg

J. H. Goldberg
Vice President
Nuclear Engineering and Construction

LRJ/blt
Enclosure

M004
S
1/1

cc: G. W. Oprea, Jr.
J. H. Goldberg
J. G. Dewease
D. G. Barker
C. G. Robertson
H. Pyle, III
R. A. Frazar
D. R. Beeth
J. W. Williams
J. W. Briskin
J. E. Geiger
D. E. Sells (NRC)
H. S. Phillips (NRC)
J. O. Read (Read-Poland, Inc.)
M. D. Schwarz (Baker & Botts)
R. Gordon Gooch (Baker & Botts)
J. R. Newman (Lowenstein, Newman, Reis, & Axelrad)
STP RMS
Director, Office of Inspection & Enforcement
Nuclear Regulatory Commission
Washington, D. C. 20555

R. L. Range/G. W. Muench
Central Power & Light Company
P. O. Box 2121
Corpus Christi, Texas 78403

R. L. Hancock/G. Pokorny
City of Austin
P. O. Box 1088
Austin, Texas 78767

J. B. Poston/A. vonRosenberg
City Public Service Board
P. O. Box 1771
San Antonio, Texas 78296

Brian E. Berwick, Esquire
Assistant Attorney General
for the State of Texas
P. O. Box 12548
Capitol Station
Austin, Texas 78711

Lanny Sinkin
Citizens Concerned About Nuclear Power
5106 Casa Oro
San Antonio, Texas 78233

Jay Gutierrez, Esquire
Hearing Attorney
Office of the Executive Legal Director
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Charles Bechhoefer, Esquire
Chairman, Atomic Safety & Licensing Board
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Dr. James C. Lamb, III
313 Woodhaven Road
Chapel Hill, North Carolina 27514

Mr. Ernest E. Hill
Lawrence Livermore Laboratory
University of California
P. O. Box 808, L-46
Livermore, California 94550

William S. Jordan, III
Harmon & Weiss
1725 I Street, N. W.
Suite 506
Washinton, D. C. 20006

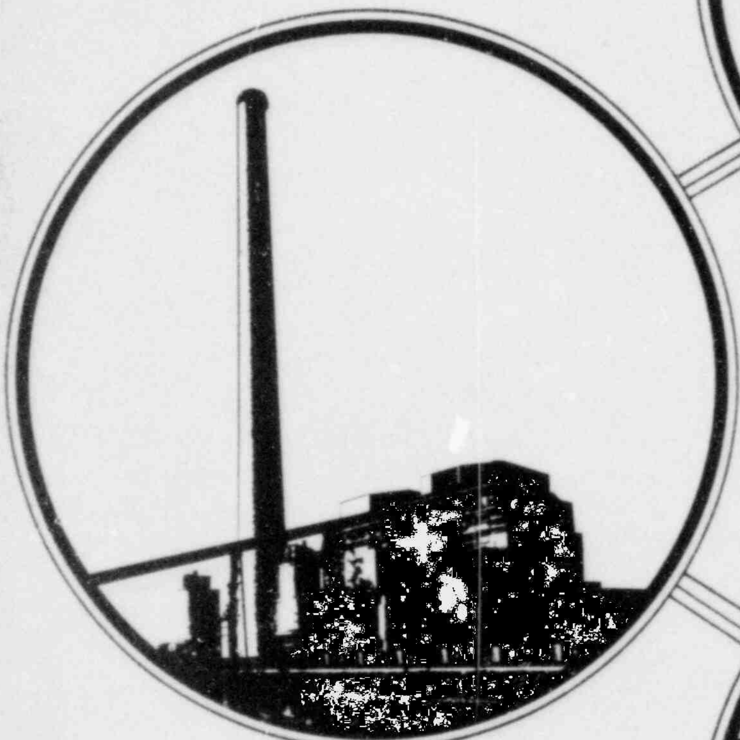
Citizens for Equitable Utilities, Inc.
c/o Ms. Peggy Buchorn
Route 1, Box 1684
Brazoria, Texas 77422

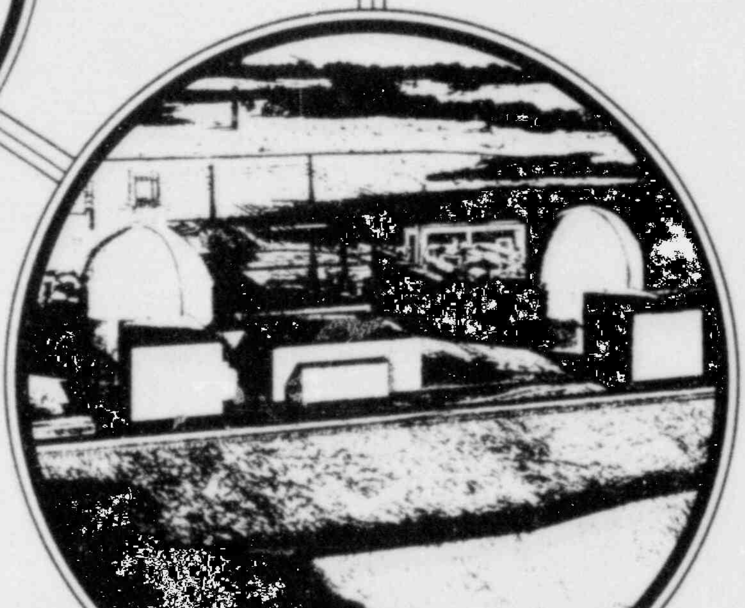
Revision Date 10-29-81

OFFICIAL NOTICE OF SALE AND OFFICIAL STATEMENT

$60,000,000

CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS
REVENUE IMPROVEMENT BONDS,
NEW SERIES 1981-A





Bids to be Opened
Thursday, September 17, 1981, at 11:00 A.M., C.D.T.

CITY OF SAN ANTONIO, TEXAS

CITY COUNCIL

Henry G. Cisneros, Mayor

Mrs. Helen Dutmer, Mayor Pro Tem
Gene Canavan

Joe Alderete, Jr.
Maria Antonietta Berriozabal
James C. Hasslocher
Joe Webb

Van Henry Archer
Bernardo Eureste
Robert Thompson
Frank D. Wing

Thomas E. Huebner - City Manager
Carl L. White, Jr. - City Finance Director
Norma Rodriguez - City Clerk

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Glenn Biggs, Chairman
Henry G. Cisneros, Mayor

Mrs. Lila Cockrell

Ruben M. Escobedo, Vice Chairman
Earl C. Hill

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

CONSULTANTS

Matthews & Nowlin
Legal Advisors
Ebasco Services, Incorporated
Consulting Engineers

Deloitte, Haskins and Sells Co.
Auditors
McCall, Parkhurst & Horton
(In association with
Ralph Brown, Esq.)
Bond Counsel

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

The date of this Official Notice of Sale and Official Statement is August 13, 1981.

TABLE OF CONTENTS

OFFICIAL NOTICE OF SALE

$60,000,000
CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS,
NEW SERIES 1981-A

Bids to be Opened
Thursday, September 17, 1981, at 11:00 A.M., C.D.T.

PLACE AND TIME OF SALE: Sealed bids will be received by the City Clerk of the City of San Antonio, Texas, at her office in the City Hall until 11:00 A.M., C.D.T., Thursday, September 17, 1981, for the above Bonds as described in the OFFICIAL STATEMENT, at which time said bids will be publicly opened, read and tabulated. The City Council will take action to award the Bonds (or reject all bids) at their scheduled meeting to begin at 1:00 P.M., C.D.T. the same day.

ADDRESS OF BIDS: Sealed bids, plainly marked "Bid for Electric and Gas Revenue Bonds" and addressed to the Mayor and City Council, City of San Antonio, Texas, must be delivered to the office of the City Clerk, City Hall, San Antonio, Texas 78204 not later than 11:00 A.M., C.D.T., on Thursday, September 17, 1981. All bids must be submitted on the Official Bid Form, copies of which are enclosed herewith.

TYPES OF BIDS AND INTEREST RATES: The Bonds will be sold in one block on an "all or none" basis, and no bid of less than par and accrued interest will be considered. Bidders are invited to name the rate or rates of interest to be borne by the Bonds, provided that the rates are stated in multiples of 1/8th or 1/20th of 1%, and that the difference between the lowest and highest interest rates named does not exceed one and one-half per cent (1½%). No limitation is imposed upon bidders as to the number of rates or coupon changes which may be used. No bid may result in a net effective interest rate of more than 15% as calculated pursuant to Article 717k-2, V.A.T.C.S., as amended (the "IBA method"). Bids involving supplemental coupons or split interest rates will not be considered, and all bonds of one maturity must bear the same rate.

GOOD FAITH DEPOSIT: Bidders shall be required to submit a Cashier's Check payable to the "City of San Antonio, Texas, City Public Service Board" in the amount of $1,200,000. This check will be considered as a good faith deposit, and the check of the successful bidder will be retained uncashed by the City to secure performance of the contract by such bidder. In the event such bidder should fail or refuse to take up and pay for the Bonds in accordance with his bid, then said good faith deposit shall be cashed by the City as full and complete liquidated damages. Otherwise, said good faith deposit will be returned to the successful bidder upon payment for the Bonds. The required Cashier's Check may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the City prior to the opening of the bids and shall be accompanied by instructions from the bank on which drawn which authorize its use as a good faith deposit by the successful bidder who shall be named in such instructions. No interest will be allowed on the good faith deposit of the successful bidder, and the checks of the unsuccessful bidders will be returned as soon as the best bid is determined.

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

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

OFFICIAL BID FORM

September 17, 1981

Honorable Mayor and City Council
City of San Antonio, Texas
San Antonio, Texas

Mr. Cisneros and Council Members:

Reference is made to your Official Notice of Sale dated August 13, 1981, and accompanying Official Statement relative to $60,000,000 City of San Antonio, Texas, Electric and Gas Systems Revenue Improvement Bonds, New Series 1981-A which Notice and Official Statement are made a part hereof.

For your legally issued bonds, as described in said Official Notice of Sale and Official Statement, we will pay you par and accrued interest from October 1, 1981 to the date of delivery to you, plus a cash premium of $___________ for bonds maturing and bearing interest as follows:

Principal Amount	Maturity (Feb. 1)	Rate (%)
$660,000	1983	______
730,000	1984	______
820,000	1985	______
900,000	1986	______
1,000,000	1987	______
1,110,000	1988	______
1,230,000	1989	______
1,365,000	1990	______
1,515,000	1991	______
1,685,000	1992	______
1,870,000	1993	______
2,075,000	1994	______

Principal Amount	Maturity (Feb. 1)	Rate (%)
$2,305,000	1995	______
2,555,000	1996	______
2,835,000	1997	______
3,150,000	1998	______
3,495,000	1999	______
3,880,000	2000	______
4,305,000	2001	______
4,780,000	2002	______
5,305,000	2003	______
5,890,000	2004	______
6,540,000	2005	______

For information purposes only, and not as a part of this bid, we have calculated the Effective Interest Rate as follows:

Gross Interest Cost	$____________
Less: Premium	____________
NET INTEREST COST	$____________
EFFECTIVE INTEREST RATE	____________%

Cashier's Check of the __________ Bank, __________ in the amount of $1,200,000 (is attached hereto) (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms set forth in the "Official Notice of Sale".

Respectfully submitted,

By: ____________________
Authorized Representative

$60,000,000
CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS,
NEW SERIES 1981-A

BOND YEARS

Number of Years	Maturity (2-1)	Amount	Accumulated Bond Years From 10-1-81
1.3333	1983	$ 660,000	879.9780
2.3333	1984	730,000	2,583.2870
3.3333	1985	820,000	5,316.5930
4.3333	1986	900,000	9,216.5630
5.3333	1987	1,000,000	14,549.8630
6.3333	1988	1,110,000	21,579.8260
7.3333	1989	1,230,000	30,599.7850
8.3333	1990	1,365,000	41,974.7395
9.3333	1991	1,515,000	56,114.6890
10.3333	1992	1,685,000	73,526.2995
11.3333	1993	1,870,000	94,719.5705
12.3333	1994	2,075,000	120,311.1680
13.3333	1995	2,305,000	151,044.4245
14.3333	1996	2,555,000	187,666.0060
15.3333	1997	2,835,000	231,135.9115

17.3333	1999	3,495,000	343,165.6900
18.3333	2000	3,880,000	414,298.8940
19.3333	2001	4,305,000	497,528.7505
20.3333	2002	4,780,000	594,721.9245
21.3333	2003	5,305,000	707,895.0810
22.3333	2004	5,890,000	839,438.2180
23.3333	2005	6,540,000	992,038.0000

Average Life of Issue—16.533 years

. . . .

Return of Good Faith Deposit is hereby acknowledged.

For information purposes only, and not as a part of this bid, we have calculated the Effective Interest Rate as follows:

Gross Interest Cost	$ ____________
Less: Premium	____________
NET INTEREST COST	$ ____________
EFFECTIVE INTEREST RATE	____________ %

Cashier's Check of the ____________ Bank, ____________ in the amount of $1,200,000 (is attached hereto) (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms set forth in the "Official Notice of Sale".

Respectfully submitted,

____________________ ____________________

____________________ ____________________

____________________ ____________________

By: ____________________

Authorized Representative

OFFICIAL BID FORM

September 17, 1981

Honorable Mayor and City Council
City of San Antonio, Texas
San Antonio, Texas

Mr. Cisneros and Council Members:

Reference is made to your Official Notice of Sale dated August 13, 1981, and accompanying Official Statement relative to $60,000,000 City of San Antonio, Texas, Electric and Gas Systems Revenue Improvement Bonds, New Series 1981-A which Notice and Official Statement are made a part hereof.

For your legally issued bonds, as described in said Official Notice of Sale and Official Statement, we will pay you par and accrued interest from October 1, 1981 to the date of delivery to you, plus a cash premium of $__________ for bonds maturing and bearing interest as follows:

Principal Amount	Maturity (Feb. 1)	Rate (%)	Principal Amount	Maturity (Feb. 1)	Rate (%)
$660,000	1983	________	$2,305,000	1995	________
730,000	1984	________	2,555,000	1996	________
820,000	1985	________	2,835,000	1997	________
900,000	1986	________	3,150,000	1998	________
1,000,000	1987	________	3,495,000	1999	________
1,110,000	1988	________	3,880,000	2000	________
1,230,000	1989	________	4,305,000	2001	________
1,365,000	1990	________	4,780,000	2002	________
1,515,000	1991	________	5,305,000	2003	________
1,685,000	1992	________	5,890,000	2004	________
1,870,000	1993	________	6,540,000	2005	________
2,075,000	1994	________			

$60,000,000
CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS,
NEW SERIES 1981-A

BONDS YEARS

Number of Years	Maturity (2-1)	Amount	Accumulated Bond Years From 10-1-81
1.3333	1983	$ 660,000	879.9780
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12.3333	1994	2,075,000	120,311.1680
13.3333	1995	2,305,000	151,044.4245
14.3333	1996	2,555,000	187,666.0060
15.3333	1997	2,835,000	231,135.9115

16.3333	1998	3,150,000	282,585.8065
17.3333	1999	3,495,000	343,165.6900
18.3333	2000	3,880,000	414,298.8940
19.3333	2001	4,305,000	497,528.7505
20.3333	2002	4,780,000	594,721.9245
21.3333	2003	5,305,000	707,895.0810
22.3333	2004	5,890,000	839,438.2180
23.3333	2005	6,540,000	992,038.0000

Average Life of Issue—16.533 years

. . . .

Return of Good Faith Deposit is hereby acknowledged.

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

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

DELIVERY: Delivery of the Bonds will be made at the expense of the City of San Antonio at a bank in Austin, Texas, provided, however, that the purchaser may arrange with the City for delivery of the Bonds at a bank in another city at the expense of the purchaser. It is anticipated that delivery can be made on or about October 20, 1981, and it is understood and agreed that the purchaser will accept delivery and make payment in Federal Funds of the agreed purchase price on or before October 20, 1981, or thereafter when the Bonds are tendered for delivery up to and including November 17, 1981. The purchaser shall be given at least seven days notice of the time which the City has fixed for delivery. The purchaser shall make proper payment for the Bonds prior to 12:00 noon C.S.T. on the date so fixed for delivery. If for any reason the City is unable to tender the Bonds for delivery by November 17, 1981, then the City shall immediately contact the successful bidder not later than November 17, 1981, to allow said bidder to extend his bid for an additional 30 days. If the successful bidder does not elect to extend his offer within five days after such notification, then the good faith deposit will be returned, and both the City and the successful bidder shall be relieved of further obligation.

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

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

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

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

GIVEN pursuant to an Ordinance of the City Council of the City of San Antonio, Texas, passed and approved on the 13th day of August, 1981.

NORMA S. RODRIGUEZ
City Clerk
City of San Antonio, Texas

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

In the opinion of Bond Counsel, interest on the Bonds is exempt from present Federal income taxation under existing statutes, regulations, rulings and court decisions.

OFFICIAL STATEMENT

NEW ISSUE

$60,000,000
CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS,
NEW SERIES 1981-A

Dated: October 1, 1981 — Denomination: $5,000

Principal and semiannual interest (February 1 and August 1) payable
at the National Bank of Commerce in San Antonio, Texas, or,
at the Chemical Bank, New York, New York.
Coupon bearer bonds, not registerable.
First interest coupon due February 1, 1982. (4 months)

AMOUNTS, MATURITIES, COUPON RATES AND PRICE OR YIELD

Amount	Due Feb. 1	Coupon Rate	Price or Yield	Amount	Due Feb. 1	Coupon Rate	Price or Yield
$ 660,000	1983			$ 2,075,000	1994		
730,000	1984			2,305,000	1995		
820,000	1985			2,555,000	1996		
900,000	1986			2,835,000	1997		
1,000,000	1987			3,150,000	1998		
1,110,000	1988			3,495,000	1999		
1,230,000	1989			3,880,000	2000		
1,365,000	1990			4,305,000	2001		
1,515,000	1991			4,780,000	2002		
1,685,000	1992			5,305,000	2003		
1,870,000	1993			5,890,000	2004		
				6,540,000	2005		

(Accrued Interest to be Added)

REDEMPTION PROVISIONS: Bonds maturing on and after February 1, 1993, will be redeemable, as a whole or in part on February 1, 1992, or on any interest payment date thereafter, at par and accrued interest, plus the following premium:

February 1, 1992 through August 1, 1993 at 1½%;
February 1, 1994 through August 1, 1995 at 1%;
February 1, 1996 through August 1, 1996 at ½ of 1%;
February 1, 1997 and thereafter at 0%.

SUMMARY STATEMENT

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

THE ISSUER .... City of San Antonio, Texas, a political subdivision of the State of Texas, located in Bexar County.

THE BONDS .... $60,000,000 Electric and Gas Systems Revenue Improvement Bonds, New Series 1981-A (the "Bonds") which will mature on the dates and in the amounts previously set forth in this Official Statement.

AUTHORITY FOR ISSUANCE .... These New Series 1981-A Bonds will be issued under and in conformity with the Constitution and Laws of Texas, particularly Articles 1111 et seq. and Article 2368a of Vernon's Annotated Texas Civil Statues, and pursuant to a Bond Ordinance to be adopted by the City Council of the City of San Antonio, Texas.

PURPOSE OF THIS FINANCING .... The proceeds of these New Series 1981-A Bonds will be used to pay certain of the costs of a program of improvements to and extensions of the City's electric and gas systems. The overall improvement program includes site development, construction of generating units, distribution and transmission lines, additions and improvements to the gas system and miscellaneous project costs. These improvements, extensions and additions are in accord with long-range development and improvement plans which, together with the current improvement program, have been reviewed by Ebasco Services, Incorporated, Utility Consultants and Engineers, New York, New York.

SECURITY .... The City of San Antonio currently has outstanding $163,630,000 Electric and Gas Systems Revenue Improvements Bonds, Series 1962, Series 1968, Series 1971, Series 1973 and Series 1974 (hereinafter collectively referred to as the "Old Series Bonds"), which are of a senior rank and are secured by a first mortgage against all real property, a security interest in all personal property, and a pledge of all revenues of the City's electric and gas systems. In addition, the City has outstanding $837,875,000 Electric and Gas Systems Revenue Improvements Bonds, New Series 1975, New Series 1976, New Series 1976-A, New Series 1977, New Series 1977-A, New Series 1978, New Series 1978-A, New Series 1979, New Series 1979-A, New Series 1980, New Series 1980-A and New Series 1981. The $60,000,000 New Series 1981-A Bonds offered herein, will constitute special obligations of the City of San Antonio on a parity with the aformentioned $837,875,000 New Series Bonds, payable solely from and secured by a lien on and pledge of the net revenues of the City's electric and gas systems subject to the prior lien of the pledge to the Old Series Bonds, all as fully set forth in the ordinance authorizing the subject New Series 1981-A Bonds.

ADDITIONAL BONDS .... Additional bonds on a parity with the New Series Bonds may be issued, when among other requirements, Net Revenues of the Electric and Gas Systems during the past year were at least 150% of the maximum annual debt service on all bonds to be outstanding. Said Net Revenues may be adjusted to reflect rate changes. The senior lien of the Old Series Bonds is closed.

RATE CONVENANT .... The City has covenanted to maintain Electric and Gas rates and charges sufficient to pay all expenses of maintenance and operation of the Systems, and to pay debt service requirements on all bonds and to establish and maintain the required reserves.

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

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

DELIVERY — Anticipated on or about October 20, 1981.

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

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

GENERATING FACILITIES — The City's major generating facilities include 12 units which have a dependable combined capability on natural gas of 2,400 MW and two 418 MW coal-fired generating units. All of these units are capable of being operated on fuel oil.

CURRENT FUEL SUPPLY — CPS has a contract with Valero Energy Corp. for natural gas and has received substantially all of the natural gas it has required to meet its needs. Fuel oil may be burned as required and current fuel oil inventories are equal to total fuel requirements for about 20 days. Coal is purchased under a long-term contract and present coal on hand in stockpile is approximately four months' supply.

HISTORICAL NET REVENUES AND COVERAGE

	Fiscal Years Ended 1-31				
	1978	1979	1980	1981	1981*
Gross Revenues	$319,687,764	$343,256,858	$367,350,088	$444,029,642	$460,732,611
Maintenance & Operating Expenses	217,083,468	231,685,112	245,252,699	295,905,749	305,680,237
Net Revenues	$102,604,296	$111,571,746	$122,097,389	$148,123,893	$155,052,374
Actual Principal and Interest Requirements on all Outstanding Bonds	$ 35,942,069	$ 46,550,546	$ 59,062,883	$ 75,082,405	$ 78,318,627
ACTUAL COVERAGE	2.85x	2.40x	2.07x	1.97x	1.98x

Maximum Principal and Interest Requirements on all Bonds, including these New Series 1981-A Bonds at 11.00% Interest .... $95,850,472 in 1983

	1978	1979	1980	1981	1981*
COVERAGE	1.07x	1.16x	1.27x	1.55x	1.62x

* 12 months ending June 30, 1981.

PRINCIPAL AND INTEREST REQUIREMENTS*

The following schedule reflects total principal and interest requirements on all Old Series Bonds and New Series Bonds, including the New Series 1981-A Bonds with interest computed at 11.00% for purpose of illustration:

		New Series					
			$60,000,000 New Series 1981-A				
Year Ending 2-1:	Old Series Bonds	Presently Outstanding	Principal	Interest	Total New Series	Total All Bonds	% of Principal Retired
1982	$16,573,290	$72,064,607		$2,200,000	$74,264,607	$90,837,897	
1983	16,557,677	72,032,795	$ 660,000	6,600,000	79,292,795	95,850,472	
1984	16,531,220	72,035,157	730,000	6,527,400	79,292,557	95,823,777	
1985	16,498,035	72,011,457	820,000	6,447,100	79,278,557	95,776,592	
1986	16,475,985	71,981,932	900,000	6,356,900	79,238,832	95,714,817	11.24%
1987	16,425,945	71,988,957	1,000,000	6,257,900	79,246,857	95,672,802	
1988	16,388,725	71,995,587	1,110,000	6,147,900	79,253,487	95,642,212	
1989	16,358,855	71,963,713	1,230,000	6,025,800	79,219,513	95,578,368	
1990	16,312,100	71,948,512	1,365,000	5,890,500	79,204,012	95,516,112	
1991	16,281,750	71,905,287	1,515,000	5,740,350	79,160,637	95,442,387	26.97
1992	16,219,875	71,887,450	1,685,000	5,573,700	79,146,150	95,366,025	
1993	16,156,975	71,879,162	1,870,000	5,388,350	79,137,512	95,294,487	
1994	16,109,700	71,880,022	2,075,000	5,182,650	79,137,672	95,247,372	
1995	14,677,500	73,260,440	2,305,000	4,954,400	80,519,840	95,197,340	
1996	14,587,500	73,291,572	2,555,000	4,700,850	80,547,422	95,134,922	48.78
1997	14,445,000	73,376,762	2,835,000	4,419,800	80,631,562	95,076,562	
1998		87,773,725	3,150,000	4,107,950	95,031,675	95,031,675	
1999		87,673,512	3,495,000	3,761,450	94,929,962	94,929,962	
2000		87,555,125	3,880,000	3,377,000	94,812,125	94,812,125	
2001		87,454,887	4,305,000	2,950,200	94,710,087	94,710,087	79.29
2002		78,893,712	4,780,000	2,476,650	86,150,362	86,150,362	
2003		78,824,537	5,305,000	1,950,850	86,080,387	86,080,387	
2004		46,300,037	5,890,000	1,367,300	53,557,337	53,557,337	
2005		23,330,000	6,540,000	719,400	30,589,400	30,589,400	100.00

* Cents omitted.

FUND BALANCES
(At June 30, 1981)

Net Current Assets	$	38,749,378
Utility Plant (At Cost less Depreciation)	$	1,422,713,773
Restricted Cash and Securities:		
Old Series Bonds Reserve Account	$	17,251,431
Improvements and Contingencies Fund	$	51,475,456
New Series Bonds Reserve Amount	$	39,128,458

PROPERTY ADDITIONS
(At June 30, 1981)

Additions, Improvements and Extensions to Electric and Gas Systems, 1942-1981	$	1,751,070,004
Bonds Issued to Finance these Property Additions	$	1,095,000,000
Portion of Property Additions Financed by Issuance of Bonds		62.5%

REVENUE BOND INDEBTEDNESS AND UTILITY PLANTS

Date 1-31:	Revenue Bond Indebtedness	Electric and Gas Plant Equipment At Cost	Net (Depreciated)	Debt as a % of Net Plant
1950	$ 26,783,000	$ 61,412,456	$ 54,665,803	49.0
1955	31,900,000	108,612,107	94,339,423	33.8
1960	44,145,000	187,026,225	159,317,177	27.7
1965	54,190,000	279,053,625	226,794,522	23.9
1970	71,040,000	420,480,731	335,125,890	21.2
1971	67,910,000	457,741,134	364,108,691	18.7
1972	94,190,000	501,731,982	398,542,240	23.6
1973	90,345,000	546,423,222	437,911,052	20.6
1974	120,860,000	599,315,589	479,155,098	25.2
1975	201,195,000	677,114,390	542,919,717	37.1
1976	245,595,000	809,025,826	659,773,046	37.2
1977	358,110,000	954,207,395	790,396,043	45.3
1978	484,290,000	1,100,709,068	918,110,351	52.7
1979	622,975,000	1,265,232,510	1,056,105,552	59.0
1980	783,645,000	1,449,572,698	1,212,958,432	64.6
1981	926,505,000	1,626,916,440	1,363,764,913	67.9
1981*	1,001,505,000	1,697,250,951	1,422,713,773	70.4

* As of June 30, 1981

OUTSTANDING INDEBTEDNESS

All revenue bonds of the City of San Antonio payable from the net revenues of the Electric and Gas Systems of the City and issued prior to 1962 have been retired. The City has outstanding Electric and Gas Systems Revenue Improvement Bonds in seventeen series as follows:

	Final Maturity	Original Average Life	Effective Interest Rate On Sale Date	20-Bond Yield Index Nearest Sale Date *	Amount Outstanding
Old Series Bonds					
(Prior Lien)					
Series 1962	1984	16.2 years	3.218%	3.43%	8,690,000
Series 1968	1989	15.6 years	4.463%	4.41%	22,150,000
Series 1971	1992	14.7 years	5.166%	5.58%	22,960,000
Series 1973	1994	15.8 years	4.763%	5.03%	30,080,000
Series 1974	1997	17.3 years	6.896%	6.95%	79,750,000
Subtotal (Old Series Bonds)					$ 163,630,000
New Series Bonds					
Series 1975	1998	16.0 years	7.390%	7.48%	45,825,000
Series 1976	1999	15.9 years	6.270%	6.98%	54,700,000
Series 1976-A	1999	16.4 years	6.179%	6.78%	55,675,000
Series 1977	2000	18.1 years	5.254%	5.78%	57,600,000
Series 1977-A	2002	23.7 years	5.718%	5.64%	75,000,000
Series 1978	2002	16.6 years	5.355%	5.65%	71,025,000
Series 1978-A	2003	16.5 years	5.978%	6.12%	72,325,000
Series 1979	2003	16.7 years	6.153%	6.50%	72,725,000
Series 1979-A	2004	18.3 years	6.048%	6.11%	98,800,000
Series 1980	2005	18.4 years	9.383%	9.20%	74,200,000
Series 1980-A	2005	17.8 years	8.823%	8.68%	85,000,000
Series 1981	2001	13.3 years	9.956%	10.40%	75,000,000
Series 1981-A	2005	16.5 years			60,000,000
Subtotal (New Series Bonds)					$ 897,875,000
Total Bonds to be Outstanding, Including New Series 1981-A Bonds					$1,061,505,000

* As published by "The Bond Buyer".

CERTAIN PROVISIONS OF ORDINANCE AUTHORIZING THESE NEW SERIES 1981-A BONDS

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

(a) "Additional Parity Bonds" - Bonds or other obligations authorized to be issued under the provisions of Section 18 hereof, including refunding bonds, which are secured by a lien on and pledge of the Net Revenues of the Systems on a parity with Previously Issued Parity Bonds and the New Series 1981-A Bonds.

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

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

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

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

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

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

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

(i) "New Series 1981-A Bonds" - The bonds authorized by this Ordinance.

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

(k) "Parity Bonds" or "New Series Bonds" - The Previously Issued Parity Bonds, the New Series 1981-A Bonds and Additional Parity Bonds.

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

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

SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1976-A," dated August 1, 1976 and originally issued in the total principal amount of $60,000,000; "*CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES* 1977," dated February 1, 1977, and originally issued in the total principal amount of $60,000,000; "*CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES* 1977-A", dated August 1, 1977, and originally issued in the total principal amount of $75,000,000; "*CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES* 1978", dated February 1, 1978, and originally issued in the total principal amount of $75,000,000; "*CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES* 1978-A", dated August 1, 1978, and originally issued in the total principal amount of $75,000,000; "*CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1979,*" dated February 1, 1979, and originally issued in the total principal amount of $75,000,000; "*CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1979-A,*" dated August 1, 1979, and originally issued in the total principal amount of $100,000,000; "*CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1980,*" dated February 1, 1980, and originally issued in the total principal amount of $75,000,000; "*CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1980-A,*" dated August 1, 1980, and originally issued in the total principal amount of $85,000,000; and "*CITY OF SAN ANTONIO, TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE IMPROVEMENT BONDS, NEW SERIES 1981,*" dated February 1, 1981, and originally issued in the total principal amount of $75,000,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Fiscal Year Ended January 31:				
	1978	1979	1980	1981	1981[4]
OPERATING REVENUES					
Electric	$246,624,784	$257,675,393	$274,601,088	$333,655,473	$343,433,108
Gas	67,787,701	78,306,226	79,080,015	91,275,120	96,786,639
Total	314,412,485	335,981,619	353,681,103	424,930,593	440,219,747
OPERATING EXPENSES					
Electric	152,542,443	155,747,265	169,559,913	207,357,530	211,139,386
Gas	64,488,517	75,872,133	75,574,889	88,281,517	94,207,749
Total	217,030,960	231,619,398	245,134,802	295,639,047	305,347,135
Net Operating Income	97,381,525	104,362,221	108,546,301	129,291,546	134,872,612
Non-Operating Income (Net)	5,222,771	7,209,525	13,551,088	18,832,347	20,179,762
Net Revenues	$102,604,296	$111,571,746	$122,097,389	$148,123,893	$155,052,374
Interest During Construction	13,511,090	12,866,866	18,784,023	32,765,519	33,073,969
Revenues Available for Application	$116,115,386	$124,438,612	$140,881,412	$180,889,412	$188,126,343
ALLOCATION OF AVAILABLE REVENUES					
1. Operating Funds (To increase working capital), and	$ 22,000,000[3]	$ 3,000,000	$ 2,000,000	-0-	-0-
Payment of debt Principal & Interest[1]	16,620,545	16,611,360	16,590,265	16,576,680	16,574,318
Reserve Fund Reqmts.[1]	150,248	518,020	78,188	219,561	165,776
Total Payment of Debt[1]	16,770,793	17,129,380	16,668,453	16,796,241	16,740,094
2. Payments to General Fund of City in lieu of taxes	4,702,586	4,900,896	4,923,476	4,997,279	5,101,429
3. To Improvements and Contingencies Fund-Minimum Requirements	39,960,970	42,907,107	45,918,761	55,503,705	57,591,576
4. Payment to General Fund of City as reimbursement for electric and gas services used by City during year	8,126,363	8,323,265	8,384,082	9,713,030	9,706,000
5. Additional payment to City to bring benefits to 14% of Gross Revenues[2]	23,889,625	26,406,978	30,002,867	37,859,408	33,663,201
6. Balance transferred to Improvements and Contingencies Fund	665,049	21,770,986	32,983,773	56,019,749	65,324,043
Total Allocations	$116,115,386	$124,438,612	$140,881,412	$180,889,412	$188,126,343

Footnotes:

[1] Old Series Bonds.

[2] Annual amounts shown are less than 14% because of voluntary reduction by the City.

[3] An additional amount of $9,600,000 was transferred from the Improvements and Contingencies Fund from prior years' allocations.

[4] 12 months ending June 30, 1981.

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

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

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

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

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

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

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

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

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

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

In addition to the deposits required to be made in the interest and sinking fund portion of the Retirement Account to pay the annual debt service requirements of the Previously issued Parity Bonds, the City Public Service Board is hereby directed to deposit in said Account the following amounts to pay the principal of and interest on the New Series 1981-A Bonds, to wit:

(a) **Deposits for payment of interest** - on or before the first 15th day of a month to occur following the date of delivery of the Bonds to the purchasers thereof and on or before the 15th day of each following month through January 15, 1982, an equal amount of money with such deposits totalling not less than the amount of the installment of interest coming due on the Bonds on February 1, 1982, and beginning on or before February 15, 1982 and on or before the 15th day of each following month, until the New Series 1981-A Bonds are no longer outstanding, an amount of money equal to not less than one-sixth (1/6) of the next semiannual installment of interest to become due on said Bonds.

(b) **Deposits for payment of principal** - on or before the 15th day of February 1982, and on or before the 15th day of each following month, until the New Series 1981-A Bonds are no longer outstanding, an amount of money equal to not less than one-twelfth (1/12) of the next annual principal payment to become due on said Bonds.

In compliance with the provisions of the ordinances authorizing the issuance of the Previously Issued Parity Bonds and this ordinance, the Board of Trustees shall cause to be accumulated and maintained in the Retirement Account a Reserve Amount equal to not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 1981-A Bonds, such Reserve Amount to be determined on the basis of cash on deposit and the book value of securities in which moneys in the reserve fund portion of the Retirement Account are invested, and to be in addition to the amount on deposit in the Retirement Account for purposes of paying the annual debt service requirements of the outstanding Parity Bonds. In addition to the monthly deposits of $748,949 now required to be made to the reserve fund portion of the Retirement Account in accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Parity Bonds, beginning on or before the first 15th day of a month to occur following the date of delivery of the Bonds to the purchasers thereof, and on or before the 15th day of each month thereafter, to and including the sixty-first (61st) month after the passage of this Ordinance, the City Public Service Board shall cause to be deposited therein an equal amount of money with such deposits totalling the additional amount to be accumulated in the reserve fund portion of the Retirement Account by virtue of the issuance of the New Series 1981-A Bonds. After a Reserve Amount equal to not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 1981-A Bonds (calculated on a fiscal year basis as of the date the New Series 1981-A Bonds are authorized) has been accumulated, monthly deposits to the reserve fund portion of the Retirement Account may be terminated; provided, however, whenever the amount in the reserve fund portion of the Retirement Account equals less than the total amount required to be on deposit therein in accordance with the provisions of this ordinance monthly deposits in an amount equal to the sum of the monthly deposits required under the provisions of the ordinances authorizing the Previously Issued Parity Bonds and this Ordinance shall be resumed and continued to be made on or before the 15th day of each month until the total amount required to be on deposit in the reserve fund portion of the Retirement Account has been fully restored.

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

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

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

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

No deposit in excess of six percent (6%) of the annual gross revenues of the Systems shall be made to the Repair and Replacement Account (as provided in the preceding paragraph of this Section) unless and until complete and full payments, or provisions for such payments, shall have been paid over or credited to the General Fund of the City in accordance with Section 14 of this Ordinance. After complete and full payments, or provisions for such payments, shall have been paid over or credited to the General Fund of the City to the full extent required in Section 14 hereof, additional deposits may be made to the Repair and Replacement Account, and at the close of each Fiscal Year, all Net Revenues of the Systems remaining in the General Account after full and complete payment to the General Fund of the City has been made (except such amounts as may be required to meet unpaid accounts and obligations which have accrued or are payable during the year to insure continued operation of the Systems), shall be deposited in the Repair and Replacement Account.

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

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

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

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

SECTION 18: Issuance of Additional Parity Bonds. In addition to the right to issue obligations of inferior lien, as authorized by the laws of the State of Texas, the City reserves the right to issue additional revenue obligations payable from the same source and equally secured in the same manner as the Previously Issued Parity Bonds and the New Series 1981-A Bonds and such additional revenue obligations, the Previously Issued Parity Bonds and the New Series 1981-A Bonds shall in all respects be of equal dignity. The amount of additional revenue obligations for Systems' improvements and extensions to be issued from time to time shall be based upon the difference between the estimated costs of planned extensions and improvements and the total of the funds available and estimated to be available for extensions and improvements to the Systems; and it shall be the duty of the Board of Trustees to request the City Council to authorize and provide for the issuance and sale of additional revenue obligations in the amount necessary to meet the cost of such planned extensions and improvements, such request to be evidenced by resolution of the Board of Trustees, and upon receipt of such request, it shall be the duty of the City Council to review such request and to provide for the issuance and sale of such Additional Parity Bonds as the City Council may deem necessary in order that the planned extensions and improvements may be made. It is hereby covenanted and agreed that no additional revenue bonds or other obligations shall be issued or incurred on a parity with the New Series Bonds unless and until the following conditions can be satisfied and met:

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

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

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

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

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

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

And provided, further, that any obligations hereafter issued which are junior and subordinate in all respects to the Parity Bonds may (without impairment of the obligation of contract of the Parity Bonds) be refunded as Parity Bonds by meeting all the terms and conditions for the issuance of Additional Parity Bonds; and such junior lien obligations may achieve the status of and become, for all purposes Parity Bonds when the following conditions can be met and upon the happening of the following events, to-wit: (i) the Board of Trustees shall have caused to be filed with the City Clerk of the City a certified written report of an independent certified public accountant demonstrating that the Net Revenues, during the last completed Fiscal

Year or for any twelve (12) consecutive months during the last fifteen (15) months prior to the month of filing such report, were equal to at least one and one-half ($1\frac{1}{2}$) times the maximum annual requirements for the payment of principal of and interest on the then outstanding Old Series Bonds, Parity Bonds and for the bonds then proposed to achieve the status of Parity Bonds, (ii) the Treasurer of the City Public Service Board shall have filed with the City Clerk of the City a certificate, stating that the City is not in default as to any covenant, obligation or undertaking contained in any ordinance or other document relating to the issuance of any obligations then outstanding which are payable from and secured by a lien on and pledge of the Net Revenues of the Systems, and that each of the Funds and Accounts created and established for the sole purpose of paying the principal of and interest on such obligations contains the amount then required to be on deposit therein, (iii) the obligations proposed to achieve the status of Parity Bonds mature on February 1 or August 1, or both, in each of the years they are scheduled to mature and (iv) the Reserve Amount required to be accumulated or then on deposit in the Retirement Account equals not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be outstanding after giving effect to the bonds then proposed to achieve the status of Parity Bonds.

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

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

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

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

All vacancies in membership on the Board (excluding the Mayor of the City), whether occasioned by failure or refusal of any person previously named to accept appointment or by expiration of term of office or otherwise, shall be filled in the following manner: a nominee to fill such vacancy shall be elected by the majority vote of the remaining members of the Board of Trustees, such majority vote to include the vote of the Mayor. The name of such nominee shall then be submitted by the Mayor to the vote of the City Council, which by a majority vote of the members thereof then in office shall, as evidenced by ordinance or resolution, either confirm or reject such nominee; provided, however, if the City Council fails to act upon such nomination within thirty (30) days after submission to it of such nominee, such failure to do so shall be considered as a rejection of such nominee and another nominee shall be selected by the Board. If a vacancy occurs and the remaining members of the Board (including the Mayor) fail to elect a nominee to fill such vacancy within sixty (60) days after the vacancy occurs (or fail to select another nominee within sixty (60) days after rejection of a nominee by the City Council), the City Council, by a majority vote of the members thereof then in office, shall elect a person to fill such vacancy and shall appoint such Trustee by resolution or ordinance. In the event the City rejects or fails to confirm three (3) consecutive nominees of the Board to fill a vacancy on the Board, the City Council shall, within thirty (30) days after the third rejection, appoint a temporary Trustee to fill such vacancy pending the appointment of a permanent Trustee to fill such vacancy. The appointment of a temporary Trustee by the City Council shall constitute the nomination of such appointee as the permanent Trustee to fill such vacancy. Unless the remaining members of the Board, by a majority vote, reject the nominee selected by the City Council within thirty (30) days after his appointment as a temporary Trustee, the appointment shall become final and the temporary Trustee shall automatically become the permanent Trustee to fill such vacancy. In such vote, the vote of the Mayor shall automatically be cast as a vote in favor of the confirmation of such Trustee, whether cast by the Mayor or not.

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

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

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

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

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

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

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

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

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

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

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

(1) Make any change in the maturity of outstanding Parity Bonds;

(2) Reduce the rate of interest borne by any of the outstanding Parity Bonds;

(3) Reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Parity Bonds;

(4) Modify the terms of payment of principal or of interest or redemption premium on outstanding Parity Bonds or any of them or impose any condition with respect to such payment;

(5) Affect the rights of the holders of less than all of the Parity Bonds then outstanding; or

(6) Change the minimum percentage of the principal amount of bonds necessary for consent to such amendment.

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

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

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

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

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

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

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

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

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

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

SECTION 26: Remedies in the Event of Default. In addition to all of the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payments to be made to the Retirement Account as required by this Ordinance, or (ii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the following remedies shall be available:

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

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

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

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

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

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

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

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

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

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

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

SECTION 29: Bonds Negotiable. The New Series 1981-A Bonds constitute negotiable instruments within the meaning of the Uniform Commercial Code of the State of Texas. Each and every successive holder of any such bond, or of interest coupons appertaining thereto, is conclusively presumed to forego and renounce his equities in favor of subsequent holders for value without notice and agrees that such bond and said interest coupons may be negotiated by delivery by any person having possession, however acquired.

SECTION 30: Ordinance to Constitute Contract. The provisions of this Ordinance shall constitute a contract between the City of San Antonio and the holder or holders from time to time of the New Series 1981-A Bonds and after the issuance of any of said bonds, no change, variation, or alteration of any kind in the provisions of this Ordinance may be made, unless as herein otherwise provided, until all of said bonds issued hereunder shall have been paid as to both principal and interest.

SECTION 31: Approval by Attorney General and Registration by the Comptroller of Public Accounts. The Mayor of the City and Treasurer of the City Public Service Board are hereby authorized to have control and custody of the New Series 1981-A Bonds and all necessary records and proceedings pertaining thereto pending the sale of said bonds and the delivery thereof to the purchasers, and the Mayor and other officers and employees of the City and the City Public Service Board are hereby authorized and instructed to make such certifications, execute such instruments and perform such acts as may be necessary to assure the proper investigation, examination and approval thereof by the Attorney General of the State of Texas, and their registration by the State Comptroller of Public Accounts, and to accomplish delivery of said bonds to the purchasers thereof.

SECTION 32: No Arbitrage. The City covenants to and with the purchasers of the New Series 1981-A Bonds that it will make no use of the proceeds of such bonds at any time throughout the term of this issue of bonds which, if such use had been reasonably expected on the date of delivery of the bonds to and payment for the bonds by the purchasers, would have caused the New Series 1981-A Bonds to be arbitrage bonds within the meaning of Section 103(c) of the Internal Revenue Code of 1954, as amended, or any regulations or rulings pertaining thereto; and by this covenant the City is obligated to comply with the requirements of the aforesaid Section 103(c) and all applicable and pertinent Department of the Treasury regulations relating to arbitrage bonds. The City further covenants that the proceeds of the New Series 1981-A Bonds will not otherwise be used directly or indirectly so as to cause all or any part of the New Series 1981-A Bonds to be or become arbitrage bonds within the meaning of the aforesaid Section 103(c), or any regulations or rulings pertaining thereto.

(End of Bond Ordinance Excerpts)

SAN ANTONIO ELECTRIC AND GAS SYSTEMS

HISTORY AND MANAGEMENT

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

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

RUBEN M. ESCOBEDO, VICE CHAIRMAN
Certified Public Accountant
Escobedo and Stinson

MRS. LILA COCKRELL
Executive Director
United San Antonio

EARL C. HILL
Attorney at law
Hill and Walls

HENRY G. CISNEROS
Mayor,
City of San Antonio
(Ex Officio Member)

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

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

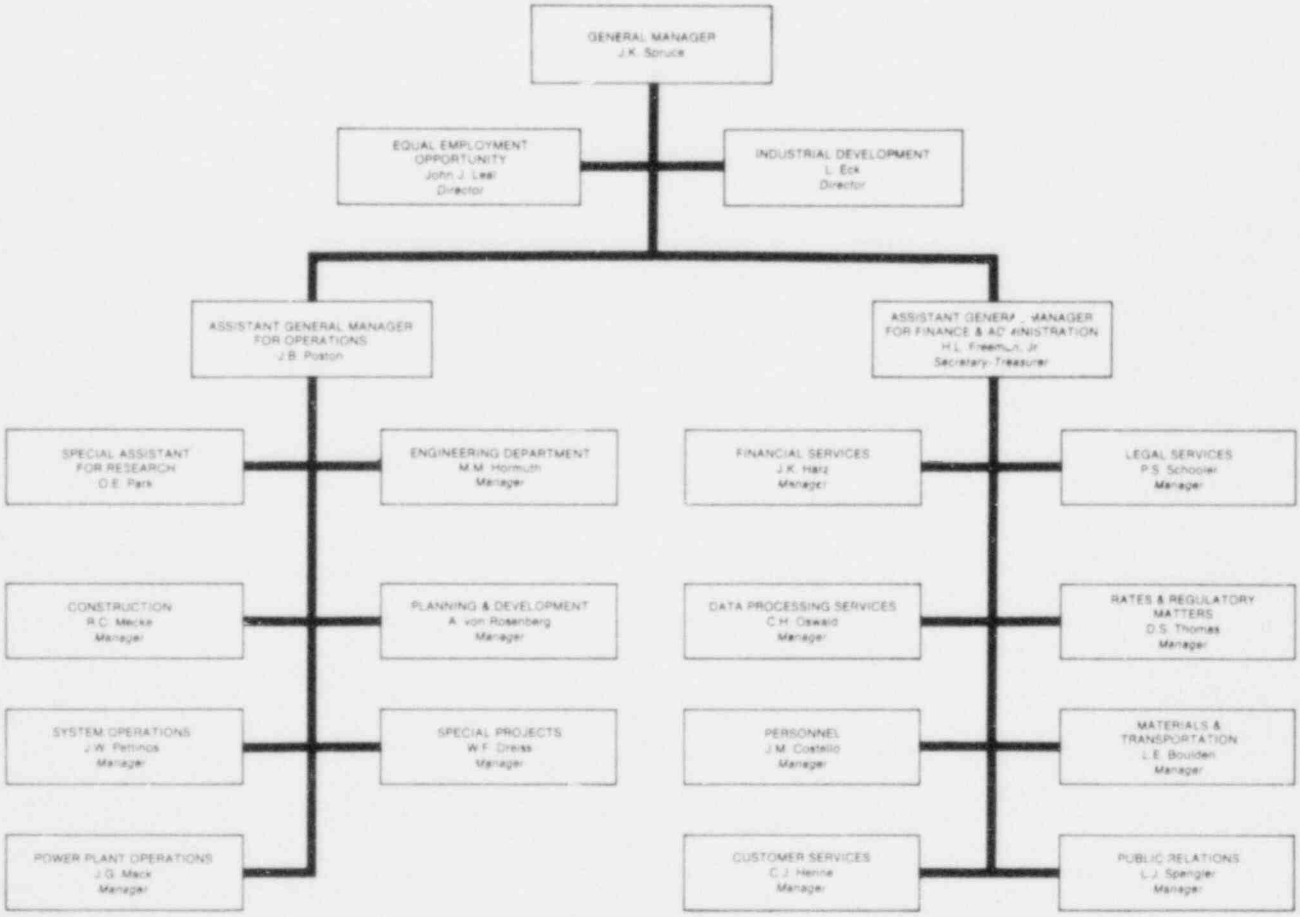
The Ordinances which authorize the issuance of the New Series Bonds, and which will control after the Old Series Bonds are no longer outstanding, contain similar management provisions. The management provisions of this Ordinance, which are set out in full in a previous section, add, among other things, the requirement that new Board appointees must also be approved or in certain cases appointed by a majority vote of the City Council and grants the City Council authority to review Board action with respect to research, development and planning.

ADMINISTRATION AND OPERATING PERSONNEL

Long-time career service is typical of CPS employees, who presently number 3,061. All executive and supervisory positions are held by individuals who have been thoroughly schooled and trained in the utilities field.

CPS employees have a full range of fringe benefits including a pension plan augmented by Social Security, group life insurance, hospitalization and major medical and other benefits. Generally good working conditions have produced a stable, well-qualified, highly motivated work force which for the past year recorded the very low turnover rate of 0.69% per month.

Principal executive personnel and organization are shown on the following chart. Mr. Spruce has been an employee of CPS since 1947 and served as Manager of Commercial Department, Manager of Construction and Assistant General Manger for Operations prior to becoming General Manager in 1976. Mr. Poston has been an employee of CPS since 1949 and served as Manager of Commercial Department, Manager of Special Engineering and Manager of Engineering prior to becoming Assistant General Manager for Operations in 1976. Mr. Freeman has been an employee of CPS since 1959 and served as Superintendent of Customer Accounting, Chief Accountant and Controller prior to becoming Assistant General Manager for Finance & Administration.

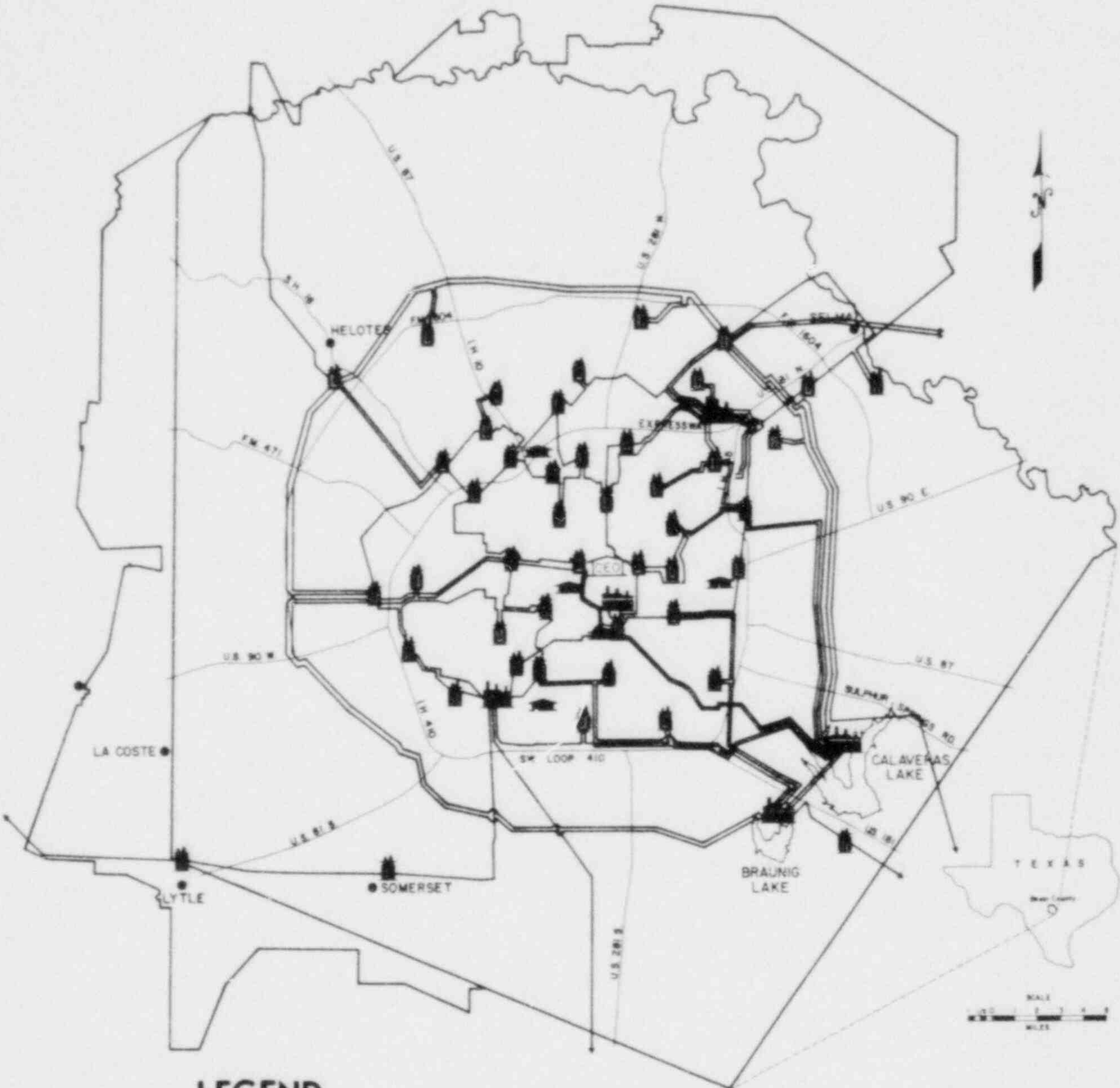


ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY

	Fiscal Years Ended January 31				
	1978	1979	1980	1981	1981*
ELECTRIC SYSTEM					
SALES IN KWH					
Residential	2,155,884,079	2,318,020,427	2,344,080,869	2,799,273,535	2,852,145,711
Commercial & Industrial	2,919,511,452	3,059,620,744	3,154,478,046	3,467,354,187	3,578,306,900
Street Lighting	65,257,868	66,085,279	67,074,040	67,555,264	67,625,548
Public Authorities	1,025,463,732	1,050,896,902	983,025,257	1,087,129,219	1,115,110,138
Other Utilities	105,999,400	335,000,540	438,692,900	196,529,460	204,328,720
ANSL	9,372,657	9,697,386	9,970,789	10,332,736	10,430,155
Total Sales in KWH	6,281,489,188	6,839,321,278	6,997,321,901	7,628,174,401	7,827,947,172
AVERAGE NUMBER OF CUSTOMERS					
Residential	250,072	262,769	276,008	292,125	298,396
Commercial & Industrial	28,155	29,393	30,528	31,779	32,297
Street Lighting	35	41	40	38	37
Public Authorities	2,351	2,403	2,492	2,564	2,623
Other Utilities	3	5	5	5	5
ANSL	6,078	6,249	6,414	6,676	6,763
Total Customers	286,694	300,860	315,487	333,187	340,121
GAS SYSTEM					
SALES IN MCF					
Residential	13,248,917	15,597,842	14,354,962	14,403,649	13,977,092
Commercial	6,109,391	6,856,216	6,247,102	6,168,107	6,219,390
Industrial	5,221,150	5,076,945	4,916,748	4,595,069	4,238,673
Public Authorities	1,944,347	2,279,048	2,060,942	1,969,362	1,896,818
Total Sales in MCF	26,523,805	29,810,051	27,579,754	27,136,187	26,331,973
AVERAGE NUMBER OF CUSTOMERS					
Residential	218,840	226,168	232,901	240,049	242,954
Commercial	16,494	16,723	16,976	17,367	17,487
Industrial	349	370	370	354	346
Public Authorities	2,104	2,074	2,032	2,016	2,029
Total Customers	237,787	245,335	252,279	259,786	262,816
KWH SALES PER CUSTOMER					
Residential	8,621	8,882	8,493	9,582	9,558
Commercial & Industrial	103,694	104,094	103,331	109,108	110,794
MCF SALES PER CUSTOMER					
Residential	61	69	62	60	58
Commercial	370	410	368	355	356

* 12 months ending June 30, 1981.

ELECTRIC DISTRIBUTION SYSTEM



LEGEND

Substation

Central GEO System Control

Power Plants

Service Centers

Transmission Lines
345,000 volts
138,000 volts
869,000 volts

DESCRIPTION OF PHYSICAL PROPERTY

ELECTRIC SYSTEM

Generating Plants

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

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

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

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

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

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

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

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

Generating Station	Fuel	Year Installed	Capability MW*
J.T. Deely Plant	Coal/Oil	1978	418
	Coal/Oil	1977	418
O.W. Sommers Plant	Gas/Oil	1974	430
	Gas/Oil	1972	430
V.H. Braunig Plant	Gas/Oil	1970	400
	Gas/Oil	1968	230
	Gas/Oil	1966	220
W.B. Tuttle Plant	Gas/Oil	1963	160
	Gas/Oil	1961	100
	Gas/Oil	1956	100
	Gas/Oil	1954	65
Leon Creek Plant	Gas/Oil	1959	100
	Gas/Oil	1953	65
Mission Road Plant	Gas/Oil	1958	100
Total Active Capability			3,236
Units in Storage—Not Commercially Available			
Leon Creek Plant	Gas/Oil	1951	31
	Gas/Oil	1949	31
Mission Road Plant	Gas/Oil	1948	23
	Gas/Oil	1945	23
Total Capability in Storage			108

* For the gas/oil fueled units the capability shown are the gas ratings.

Transmission System

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

Interconnected System

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

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

These interconnections, through operating agreements between the several utilities, provide standby power in case of outages as well as firm power in the event capacity deficiencies occur at a particular locality within the area. The arrangements serve to reduce the standby capacity which each utility would otherwise need to have running. Recently, with the establishment of the Power Broker System in STIS, these interconnections have been utilized to transport economy energy between utilities, thereby allowing utilities to benefit from lower cost generation when available. This membership in TIS, which in turn is united with approximately 75 other utilities, municipalities and co-ops in Texas in the Electric Reliability Council of Texas (ERCOT), provides CPS with a high level of electric service reliability. (See *Material Litigation — Interconnected System Matters* p. 40 for discussion of related matters.)

Distribution System

The Distribution System is supplied by 55 substations strategically located on the high voltage (69 KV and 138 KV) transmission system.

The central business section of San Antonio is served by five underground network systems, each consisting of four primary feeders operated at 13 KV, transformers equipped with network protectors, and both a 4 wire 120/208 volt secondary grid system and a 4 wire 277/480 volt spot grid system. This system is well designed for both service and reliability.

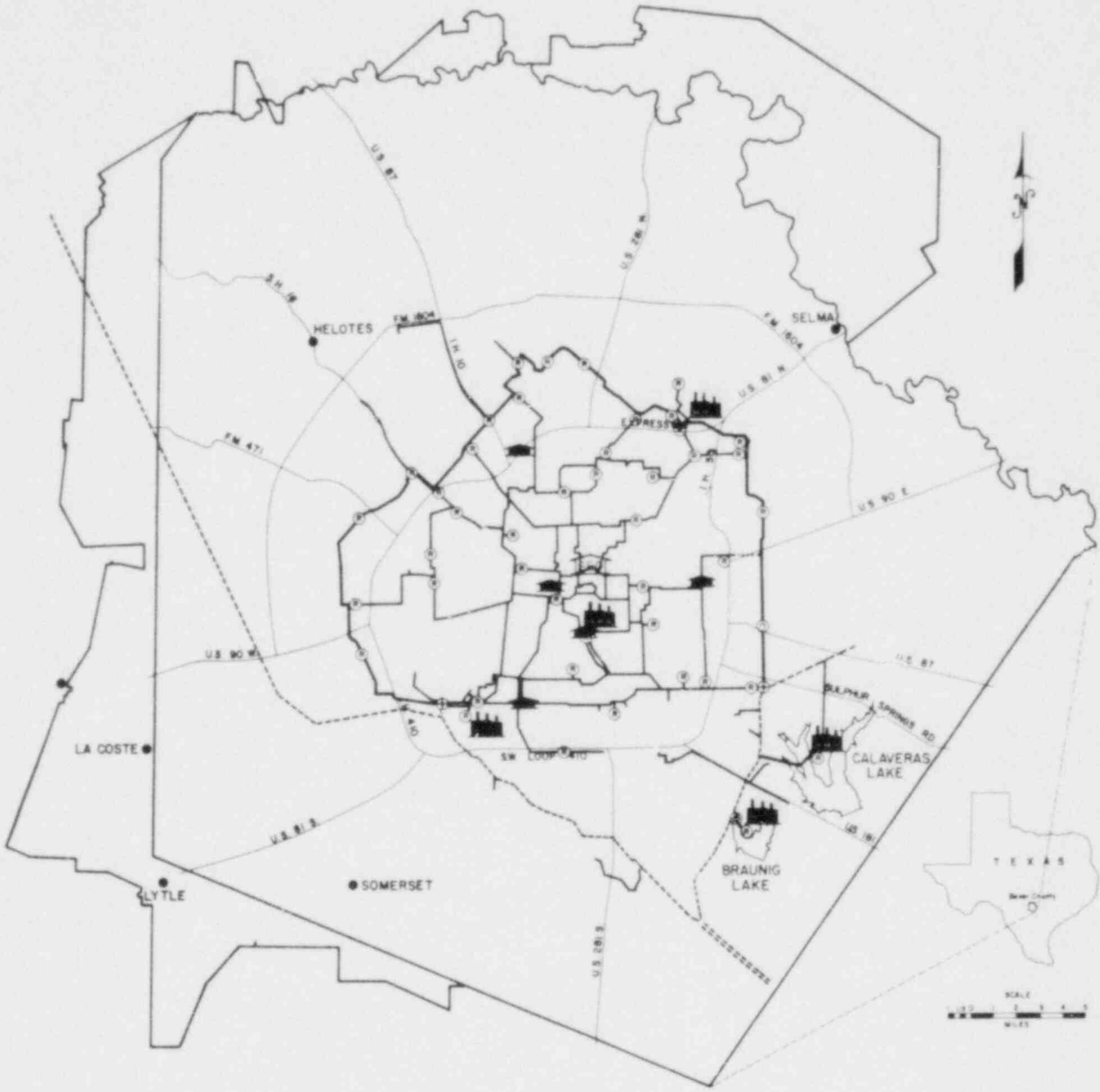
There are over 6,400 miles of pole lines and over 393 miles of underground duct lines in the distribution system. The overhead lines also carry secondary circuits and street lighting circuits. Presently there are over 42,000 street lighting units in service, with the vast majority of these being modern, high intensity units. Many of the subdivisions added in recent years have been served by underground distribution systems.

TOTAL TRANSFORMER CAPACITY
INDICATING NET ANNUAL INCREASE
KVA

F/Y Ended 1-31:	Overhead	Underground	Total
1972	2,007,134.5	199,781.0	2,206,915.5
1973	2,183,263.5	203,781.0	2,387,044.5
1974	2,337,149.5	202,856.0	2,540,005.5
1975	2,563,716.0	204,331.0	2,768,047.0
1976	2,731,886.5	205,081.0	2,936,967.5
1977	2,915,456.0	205,581.0	3,121,037.0
1978	3,120,524.5	213,581.0	3,334,105.5
1979	3,383,280.0	214,081.0	3,597,361.0
1980	3,616,038.5	230,181.0	3,846,219.5
1981	3,863,965.5	227,656.0	4,091,621.5
1981*	3,998,972.0	231,231.0	4,230,203.0

* As of June 30, 1981

GAS DISTRIBUTION SYSTEM



LEGEND

GEO — CENTRAL GEO SYSTEM CONTROL

SERVICE CENTERS

Ⓡ GAS REGULATING STATION

⊕ GAS DELIVERY STATION

——— GAS SUPPLY LINES

- - - - - VALERO GAS SUPPLY

PLANNED SUPPL: LINE

GAS SYSTEM

Gas Delivery

Natural gas is transported to San Antonio by Valero Transmission Company, a subsidiary of Valero Energy Corporation, through two 24-inch transmission lines from South Texas, and a 30-inch transmission line from West Texas. Gas is purchased and metered at two City Gate Stations and at the O.W. Sommers and V. H. Braunig Power Plants.

Outer Supply Line System

The CPS has constructed 54.3 miles of 24 and 30-inch lines to form an outer loop supply line system between the two City Gate Stations. Twin one-mile lengths of 20-inch line connect the V.H. Braunig Plant to Valero's transmission line. Gas is brought to O.W. Sommers Power Plant through 3.2 miles of 16-inch and 4.5 miles of 24-inch line giving that station a feed from two different Valero transmission lines.

Controlled Supply Line System

A network of approximately 140 miles of main ranging from 4 to 20-inch, supply gas at high pressures to regulator installations located at strategic points throughout the distribution system. The controlled supply line system operates at pressures of from 25 to 145 p.s.i. These pressures are maintained and controlled through the use of remote control equipment at many locations.

Distribution System

The controlled supply line system feeds into the distribution system operating at an intermediate pressure of 7 psi consisting of over 3,098 miles of 2 to 16-inch mains, together with the necessary pressure control equipment, valves, gauges, service lines, service regulators and meters. A program to replace all old mains and services with new welded and coated steel pipe is substantially completed. Cathodic protection for prevention of corrosion has been completed for substantially all of the gas distribution system. A high molecular weight polyethylene pipe has been used for distribution mains and service through 4-inch sizes since 1974.

GENERAL PROPERTIES

Operation Control System

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

Support Facilities

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

General Offices

The general offices are located at the intersection of Navarro and Villita Streets in the central business district of San Antonio. The administrative, accounting and engineering functions are handled at this location. Adjacent thereto are a parking garage and the Customer Service Center. At this location customer contacts are handled either in person or by telephone. Information concerning any customer account is available to contact personnel in a matter of seconds from the computer system by use of video data terminals. A second Customer Service Center was opened in 1978, at the site of the Mission Road Power Plant approximately one mile south of the downtown area. The new center was established to provide the same services as the original center but in a location more accessible to the freeways, without the downtown traffic congestion and with ample parking.

Assembly Building

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

Vehicles and Work Equipment

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

TERRITORY SERVED

The electric system serves a territory consisting of all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson and Kendall. Certification of this service area has been approved by the Texas Public Utility Commission. In addition to the area served at retail, electricity is sold at wholesale rates to the City of Floresville Electric Light and Power System, City of Hondo Utilities and the City of Castroville for resale.Also, agreements have been entered into between CPS and Houston Lighting & Power Company providing for power sales by CPS to Houston in amounts ranging from 200 to 500 MW between 1981 and 1987. The CPS gas system serves the City of San Antonio and its environs.

THIRTY LARGEST CUSTOMERS
Excluding Government Bases and City of San Antonio
(Based on Sales for Calendar Year of 1980)

Gas Customers

Customer Name	Annual MCF
Lone Star Energy Corporation	440,477.1
Howell Refinery	309,919.2
Pearl Brewing Company	261,479.0
San Antonio Portland Company	231,580.0
Barrett Industries	203,867.0
Celotex Corporation	173,725.0
Frito Lay	153,815.8
Lone Star Brewing (Brewing)	145,444.6
Roegelein Provision Company	134,969.6
Swift Packing Company	129,165.0
UTSA Thermal Energy	123,904.1
City Water Board (Chilled Water Plant)	115,589.0
McDonough Bros. Inc.	110,941.2
Santa Rosa Hospital	91,296.4
L&H Packing Company	76,594.6
Baptist Memorial Hospital (Richmond St.)	74,374.7
Gebhardt Chili	70,655.0
Aztec Ceramic Inc	64,042.5
American Company Inc. (Can Plant)	62,192.8
Texas State Hospital & Spec. School	60,640.1
Flint Chemical	59,279.1
S.W. Texas Methodist Hospital	59,163.1
Southwest Research Institute #1	55,970.9
Turbine Support Division	55,832.4
Friedrich Refrigeration Company	55,653.2
San Antonio State Hospital	52,596.4
K.O. Steel Castings Inc.	51,861.0
San Antonio Linen Service	49,063.1
Colonial Cake	48,028.6
Gaylord Containers	44,437.4

Electric Customers

Customer Name	Annual KWH
Capitol Cement	56,790,000
San Antonio Portland	51,664,200
United Service Automobile Association	39,166,400
University of Texas Health Science Center	34,209,000
Pearl Brewing Company	33,073,600
Kaiser Cement & Gypsum Corporation	32,296,000
Southwest Research Institute #1	29,896,000
Santa Rosa Hospital	23,385,600
S.W. Telephone Company (Martin St.)	22,560,000
Longhorn Portland Cement Company	21,194,860
Trinity University	20,991,600
City Water Board (Basin St.)	19,895,000
City Water Board (Wurzbach Rd.)	19,543,200
City Water Board (Chilled Water Plant)	19,080,000
Southwest Texas Methodist Hospital	17,609,600
Frost National Bank	16,807,680
Lone Star Energy Company	16,548,000
University of Texas at San Antonio	16,542,400
Melvin Simon Assoc. Inc. DBA Ingram Mall	16,432,320
S.W. Bell Telephone Co. (N. St. Mary's St.)	16,124,160
H.E. Butt Grocery Co. (N. Pan Am Expy.)	15,187,200
American Can Company	15,177,600
Audie L. Murphy Mem. Veteran Hospital	14,880,600
Lone Star Brewing Co. (Brewery)	13,832,000
Roegelein Provision Company	13,584,200
San Antonio Union Junior College Unit	13,288,000
Baptist Memorial Hospital (Richmond St.)	12,792,960
K.O. Steel Castings Inc.	11,364,587
Bexar County Hospital District (Medical Dr.)	11,344,000
H.E. Butt Grocery Company	11,107,200

STATEMENT OF REVENUES, EXPENSES AND NET INCOME

	Fiscal Years Ended January 31.				
	1978	1979	1980	1981	1981*
ELECTRIC DEPARTMENT					
BILLED REVENUES					
Residential	$ 97,534,606	$102,567,648	$106,968,115	$138,805,659	$142,666,405
Commercial & Industrial	107,065,657	108,724,239	116,674,339	140,457,653	144,347,846
Street Lighting	4,676,029	4,742,370	4,951,918	5,316,218	5,329,379
Public Authorities	33,040,451	32,622,424	32,064,650	39,360,863	40,438,498
Other Utilities	3,117,915	7,597,096	12,395,548	8,101,100	8,584,793
Miscellaneous	1,190,126	1,421,615	1,546,518	1,613,980	2,066,187
Total Revenues	246,624,784	257,675,392	274,601,088	333,655,473	343,433,108
OPERATION & MAINTENANCE					
OPERATION & MAINTENANCE EXPENSE					
Production	132,270,382	134,254,461	144,438,157	177,169,506	179,342,505
Transmission	469,254	445,477	513,501	723,413	828,378
Distribution	7,783,894	8,745,565	9,668,238	11,361,741	11,737,778
Customer Acc't & Collection	2,153,074	2,303,922	2,481,828	2,907,577	3,076,203
Customer Information	668,103	605,283	693,921	727,425	848,863
Administrative & General	8,243,504	8,162,643	10,295,627	12,772,686	13,512,997
Payroll Taxes	954,232	1,229,912	1,468,641	1,695,182	1,792,662
Total Expenses	152,542,443	155,747,263	169,559,913	207,357,530	211,139,386
Operating Income-Electric	94,082,341	101,928,129	105,041,175	126,297,943	132,293,722
GAS DEPARTMENT					
BILLED REVENUES					
Residential	36,633,834	44,000,955	44,363,495	51,948,637	54,831,808
Commercial & Industrial	26,212,056	28,421,774	28,835,322	32,716,063	34,942,294
Public Authorities	4,561,102	5,432,901	5,357,236	6,020,917	6,395,912
Miscellaneous	380,709	450,596	523,962	589,503	616,625
Total Revenues	67,787,701	78,306,226	79,080,015	91,275,120	96,786,639
OPERATION & MAINTENANCE EXPENSE					
Gas Purchased	55,360,622	66,117,264	64,459,836	74,753,600	80,015,437
Distribution	3,594,477	4,126,944	4,364,937	5,373,454	5,513,484
Customer Acc't & Collection	1,559,123	1,668,357	1,797,186	2,105,487	2,227,595
Customer Information	286,330	259,407	297,395	311,754	363,798
Administrative & General	3,367,066	3,334,038	4,205,256	5,217,012	5,519,394
Payroll Taxes	320,899	366,123	450,279	520,210	568,041
Total Expenses	64,488,517	75,872,133	75,574,869	88,281,517	94,207,749
Operating Income-Gas	3,299,184	2,434,093	3,505,126	2,993,603	2,578,890
Combined Operating Income-Electric and Gas	97,381,525	104,362,222	108,546,301	129,291,546	134,872,612
Non-Operating Income	5,275,279	7,275,239	13,668,985	19,099,049	20,512,864
Total	102,656,804	111,637,461	122,215,286	148,390,595	155,385,476
Add: Interest During Construction	13,511,090	12,866,866	18,784,023	32,765,519	33,073,969
Less: Amortization of Debt Expense and Other Interest	52,508	65,714	117,897	266,702	333,102
Net Revenues	116,115,386	124,438,613	140,881,412	180,889,412	188,126,343
OTHER DEDUCTIONS					
Interest on Bonds	26,929,420	34,362,315	44,216,592	55,797,703	61,116,565
Payments & Refund to City	36,718,574	39,621,139	43,310,425	52,569,716	48,470,630
Depreciation	20,889,372	27,502,563	29,274,058	30,100,937	30,576,722
Total Deductions	84,537,366	101,496,017	116,801,075	138,468,356	140,163,917
Net Income	$ 31,578,020	$ 22,942,596	$ 24,080,337	$ 42,421,056	$ 47,962,426

* 12 months ending June 30, 1981.

CONDENSED STATEMENTS OF ASSETS AND LIABILITIES
January 31, 1971 to June 30, 1981

Assets

Date	Plant and Equipment Accounts: At Cost	Plant and Equipment Accounts: Accumulated Depreciation	Plant and Equipment Accounts: Net	Current Assets & Construction Funds	Other Assets	Total
1-31-71	$ 457,741,134	$ 93,632,443	$ 364,108,691	$ 37,470,509	$ 6,638,506	$ 408,217,706
1-31-72	501,731,982	103,189,742	398,542,240	56,116,968	7,979,136	462,638,344
1-31-73	546,423,222	108,512,170	437,911,052	41,011,811	8,504,627	487,427,490
1-31-74	599,315,589	120,160,491	479,155,098	53,117,044	10,371,751	542,643,893
1-31-75	677,114,390	134,194,473	542,919,917	104,119,549	12,358,323	659,397,789
1-31-76	809,025,826	149,252,780	659,773,046	73,118,432	17,162,152	750,053,630
1-31-77	954,207,395	163,811,352	790,396,043	82,349,961	19,982,542	892,728,546
1-31-78	1,100,709,068	182,598,717	918,110,351	100,666,917	24,887,407	1,043,664,675
1-31-79	1,265,232,510	209,126,958	1,056,105,552	132,666,709	32,174,890	1,220,947,151
1-31-80	1,449,572,698	236,614,266	1,212,958,432	161,031,242	71,261,778	1,445,251,452
1-31-81	1,626,916,440	263,151,527	1,363,764,913	176,349,247	81,869,611	1,621,983,771
6-30-81	1,697,250,951	274,537,178	1,422,713,773	192,273,590	123,649,466	1,738,636,829

Liabilities

Date	Revenue Bonds	Current Liabilities*	Deferred Credits and Reserves	Contributions In Aid Of Construction	City Equity In Plant	Total
1-31-71	$ 67,910,000	$ 8,484,040	$ 1,672,557	$ 10,064,750	$ 320,086,359	$ 408,217,706
1-31-72	94,190,000	10,511,602	1,250,383	11,870,539	344,815,820	462,638,344
1-31-73	90,345,000	11,871,812	2,702,383	14,013,491	368,494,804	487,427,490
1-31-74	120,860,000	16,154,612	1,724,969	15,888,615	388,015,697	542,643,893
1-31-75	201,195,000	28,147,738	1,794,946	16,858,703	411,401,402	659,397,789
1-31-76	245,595,000	48,331,153	1,891,712	17,259,079	436,976,686	750,053,630
1-31-77	358,110,000	48,142,063	3,158,921	18,529,474	464,788,088	892,728,546
1-31-78	484,290,000	40,651,961	2,075,149	20,367,567	496,279,998	1,043,664,675
1-31-79	622,975,000	54,035,211	2,538,062	22,175,416	519,223,462	1,220,947,151
1-31-80	783,645,000	59,596,985	34,346,140	24,261,647	543,401,680	1,445,251,452
1-31-80	926,505,000	47,497,568	35,353,271	26,681,508	585,946,424	1,621,983,771
6-30-81	1,001,505,000	46,676,755	35,169,605	27,968,447	627,317,022	1,738,636,829

* Excludes current maturities of long-term debt.

COMPARATIVE ANALYSIS OF ELECTRIC AND GAS UTILITY OPERATIONS[1]
(Dollar Amounts In Thousands Rounded)

	Fiscal Years Ending January 31:											Increase
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1981[3]	1972-1981
INCREASE												
DOLLARS												
Revenue	$90,716	$100,614	$107,098	$179,592	$247,960	$290,665	$319,688	$343,257	$367,350	$444,030	$460,732	408%
Operating Expense	38,907	45,795	55,816	112,543	172,382	206,354	217,083	231,685	245,253	295,906	305,680	686%
Balance Available For Debt Service	51,809	54,819	51,282	67,049	75,578	84,311	102,605	111,572	122,097	148,124	155,052	199%
Depreciation Expense	10,855	12,558	13,856	15,405	16,233	17,478	20,889	27,502	29,274	30,101	30,577	182%
Earnings Before Interest Expense	40,954	42,261	37,426	51,644	59,345	66,833	81,716	84,070	92,823	118,023	124,475	204%
Interest on Bonds	4,041	3,997	5,528	7,656	11,810	19,462	26,929	34,362	44,216	55,798	61,117	1,412%
Payments and Benefits To City[2]	12,168	13,697	14,475	22,759	27,815	31,710	36,719	39,631	43,310	52,570	48,470	298%
Interest During Construction	-0-	-0-	(2,098)	(2,154)	(5,845)	(13,128)	(13,511)	(12,867)	(18,784)	(32,766)	(33,074)	-0-
Net Income	$24,745	$24,567	$19,521	$23,383	$ 25,565	$ 28,789	$ 31,579	$ 22,944	$ 24,081	$ 42,421	$ 47,962	94%
PERCENTAGES												
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
Operating Expense	42.89%	45.52%	52.12%	62.67%	69.52%	70.99%	67.90%	67.50%	66.76%	66.64%	66.35%	
Balance Available For Debt Service	57.11%	54.48%	47.88%	37.33%	30.48%	29.01%	32.10%	32.50%	33.24%	33.36%	33.65%	
Depreciation Expense	11.97%	12.48%	12.94%	8.58%	6.55%	6.01%	6.53%	8.01%	7.97%	6.78%	6.64%	
Earnings Before Interest Expense	45.14%	42.00%	34.94%	28.75%	23.93%	23.00%	25.57%	24.49%	25.27%	26.58%	27.01%	
Interest on Bonds	4.45%	3.97%	5.16%	4.26%	4.76%	6.70%	8.42%	10.01%	12.04%	12.57%	13.27%	
Payments and Benefits To City[2]	13.41%	13.61%	13.51%	12.67%	11.22%	10.91%	11.49%	11.55%	11.79%	11.84%	10.52%	
Interest During Construction	-0-	-0-	(1.96%)	(1.20%)	(2.36%)	(4.52%)	(4.23%)	(3.75%)	(5.11%)	(7.38%)	(7.18%)	
Net Income	27.28%	24.42%	18.23%	13.02%	10.31%	9.91%	9.89%	6.68%	6.55%	9.55%	10.41%	
Times Bonds Interest Covered	12.82	13.72	9.28	8.76	6.40	4.33	3.81	3.25	2.76	2.65	2.54	
Number of Customers (Average For Period)												
Electric	246,520	256,821	265,832	270,190	271,565	277,619	286,694	300,860	315,487	333,187	340,121	38%
Gas	208,699	215,647	222,475	227,078	228,806	232,567	237,787	245,335	252,279	259,786	262,816	26%

Footnotes:

[1] The only changes in rates during the 10-year period shown were increases of approximately 19% in June, 1974, 5.25% in August, 1976, 7.4% for gas in September, 1979, and 5.4% for electric in October, 1979, and 6% on the total bill in June, 1981.

[2] Does not include Street Light Construction.

[3] 12 months ending June 30, 1981.

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

F/Y Ended 1-31:	Net KWH Generation	Percent Increase	Maximum KW Demand	Percent Increase	Average[1] KW Demand	Percent Load Factor
1965	2,636,078,000	2.66	625,000	9.46	456,000	48.15
1966	2,811,697,900	6.66	664,000	6.24	486,000	48.34
1967	3,107,039,900	10.50	759,000	14.31	562,000	46.73
1968	3,512,454,400	13.05	840,000	10.67	625,000	47.60
1969	3,930,310,100	11.90	941,000	12.02	689,000	47.68
1970	4,524,422,200	15.12	1,107,000	17.64	786,000	46.66
1971	4,827,311,000	6.69	1,144,000	3.34	834,000	48.17
1972	5,334,120,600	10.50	1,274,000	11.36	964,000	47.67
1973	5,884,186,800	10.31	1,364,000	7.06	1,060,000	49.25
1974	5,784,500,600	(1.69)	1,415,000	3.74	1,059,000	46.67
1975	5,806,029,700	.37	1,412,000	(.21)	1,031,000	46.94
1976	6,071,902,600	4.58	1,493,000	5.74	1,089,000	46.42
1977	6,211,489,100	2.30	1,560,000	4.49	1,078,000	45.45
1978	6,691,908,500	7.73	1,641,000	5.19	1,133,000	46.55
1979	7,267,236,400	8.60	1,688,000	2.86	1,203,000	49.15
1980	7,453,424,800	2.56	1,707,000	1.13	1,265,000	49.84
1981	8,079,949,500	8.40	1,950,000	14.24	1,363,000	47.30

[1] Average of Monthly Peak Demands.

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

	Fiscal Years Ended 1-31:				
	1982[2]	1983[2]	1984[2]	1985[2]	1986[2]
Gross Revenues[1]	$485,505[3]	$588,610[3]	$686,445[3]	$725,232[3]	$860,076[3]
Total Operating Expenses	322,675	389,452	458,827	471,330	551,777
Available for Debt Service	$162,830	$199,158	$227,618	$253,902	$308,299
Anticipated Bond Issues	$135,000	$190,000	$175,000	$135,000	$115,000
Annual Debt Service Requirements	$ 90,838	$107,192	$128,543	$141,656	$152,646
Estimated Debt Service Coverage	1.79x	1.86x	1.77x	1.79x	2.02x
Estimated KWH Sales (000,000)[4]	7,011	7,366	7,771	8,274	8,719
Revenue per KWH (At Current Rates)					
Total	4.70¢	5.19¢	5.66¢	5.12¢	5.62¢
Residential	5.20¢	5.68¢	6.11¢	5.56¢	6.05¢
Estimated Peak Demand (MW) (Excluding HL&P Sales Agreement)	1,855[5]	1,947	2,050	2,172	2,291

[1] The foregoing estimates assume future rate increases annually as follows: 2.1% on total bill effective in October, 1981; and approximately 6% on basic rates for each of the fiscal years 1983-86. While small annual rate increase requests are currently anticipated, there is no assurance that exact increases shown will be requested. Each rate increase, of course, is subject to City Council approval and there is no assurance that current and future City Councils will approve any particular rate increase requested. (See *Rate Increases*, p. 42).

[2] Includes some reduction in revenues or expenses from LoVaca Settlement Trust valued at $30.5 million to be distributed over a six-year period beginning in the fiscal year 1981-1982.

[3] Includes demand charge revenues from HL&P for the following years: 1982 — $750,000; 1983 — $8,850,000; 1984 — $6,900,000; 1985 — $4,050,000; 1986 — $8,550,000.

[4] Forecast does not include effects of potential short term energy sales. In addition, actual sales are currently exceeding forecast amounts. A new forecast is being prepared and will be available later this fall.

[5] Actual peak demands through July 31, 1981 was 1,893 MW.

EBASCO BUSINESS CONSULTING COMPANY
A Division of EBASCO SERVICES INCORPORATED

EBASCO

August 3, 1981

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

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

Gentlemen:

At your request we have reviewed the need for the issuance of $60 million of revenue bonds which the Board proposes to sell. This is the first issue of bonds which the Board plans to sell during the fiscal year 1981-82 to help finance $675 million in new construction that it estimates will be required during the fiscal period 1981-82 to 1983-84. Of this amount, $204 million is scheduled for construction during the fiscal year 1981-82.

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

As part of this assignment, we have reviewed the Board's long-range (1981-1995) system development and electric generation plans and have discussed the assumptions and conclusions upon which these plans are based. In our opinion, the timing of the installation of the major facilities included in the Board's three-year construction program (a) is compatible with the realities of its changed fuel situation and (b) includes projections which are consistent with practices followed by the public utility industry.

We have reviewed the estimated costs of the Board's three-year construction program and find that they were prepared in a reasonable and consistent manner. Out of a construction budget of $675 million, a total of $505 million, or 75%, is scheduled for power plant construction and the remaining $170 million, or 25%, is for other gas and electric system construction requirements.

Improvements to the gas system during this three-year period are scheduled at $26 million, while the improvements to the electric distribution system are $85 million and the electric transmission system are $18 million during the same period. Improvements to property common to the gas and electric systems are $41 million.

The largest portion of the capital requirements during this period, is for the CPS' 28% interest in the South Texas Nuclear Project. The first unit of the project is currently approximately 60% complete, while the second 1,250 MW unit is about 22% complete. Total expenditures for this project are expected to be $469 million during the three-year period and account for 69% of the total capital requirements.

The Board's selection of coal and nuclear generating facilities was based on engineering judgment which took into consideration the uncertainty of future gas and oil supplies for electric power plant operations. In our opinion, the Board's three-year construction program reflects its obligation and necessity to keep ahead of the demands on its electric and gas systems and at the same time to provide the people it serves with reliable service at the lowest practical cost. The Board proposes to finance this construction program mainly through revenue bond issues. In our opinion, this issue of $60 million of revenue bonds is necessary to meet obligations under current commitments and contracts for construction projects which may not be deferred at this time without risking service reliability.

Sincerely yours,

Julius Breitling

Julius Breitling
Consulting Engineer

THE 1982 - 1984 CONSTRUCTION PROGRAM

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

In June, 1981, a sale of $25 million CPS bonds was scheduled to finance the construction of a 300,000 square foot CPS office building and to purchase the site therefor. This sale was subsequently cancelled to permit consideration of acquiring the needed facilities through a lease arrangement and for study of possible other uses of the proposed office building site. Although CPS has agreed to purchase the proposed site, its availability is uncertain. Building plans are awaiting final site decision. (See *Material Litigation — General Matters* p. 39)

The current three-year forecast calls for construction expenditures of $675 million. The $60 million which will be raised by this issue will supply certain of the required funds, as will revenues from operations. It is anticipated that additional revenue bonds will be issued to help fund the total program, with the next sale of additional New Series Bonds tentatively scheduled for early 1982.

Currently proposed capital expenditures for fiscal years 1982 - 1984, based upon detailed estimates which include interest during construction, are shown in the following table:

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

	Fiscal Years Ending 1-31:		
	1982	1983	1984
GAS	$ 8,474	$ 8,823	$ 9,023
ELECTRIC:			
Distribution	28,949	28,110	27,945
Transmission	6,529	8,658	3,382
Production (Power Plants):			
South Texas Project	138,897	167,666	162,462
Acquisition of Additional Fuel Reserves	1,829	3,801	4,938
Tools and Equipment	927	270	292
Railroad Car Purchase and Replacement	21	23	23
Special Projects	3,865	6,344	8,141
1990 Lignite Site	891	213	638
1990 Lignite Mine	465	405	388
1990 Lignite Unit	103	112	773
Plant Modification for Houston Lighting & Power Sales	1,532	-0-	-0-
Total Electric	184,008	215,602	208,982
General Property	11,786	19,429	9,234
TOTAL CONSTRUCTION BUDGET	$ 204,268	$ 243,854	$ 227,239
ANTICIPATED BOND ISSUES	$ 135,000	$ 190,000	$ 175,000

Since commencement of construction of the South Texas Project, cost estimates have escalated continually due in part to numerous delays, the resultant effect of inflation and other factors. Should this pattern persist, the capital expenditure estimates above may be subject to substantial additional upward revision. CPS and other participants in the South Texas Project are currently reviewing the circumstances resulting in past delays and increased cost of the Project in order to develop and to seek the satisfaction of any claims of the participants resulting from such delays and increased costs. (See discussion under *New Generating Units* pp. 34-35.)

The estimated expenditures above are based upon a cost of the CPS interest in the two nuclear units of the South Texas Project estimated to be approximately $1,449.00 per KW, including an allowance for funds used during construction but excluding fuel costs. The construction cost of the lignite unit which is included in tentative plans for 1990 is estimated to be $1,692.00 per KW. CPS engineers estimate that the construction cost of any additional generating units required in the mid-1990's would exceed $2,000.00 per KW.

NEW GENERATING UNITS

The major portion of the scheduled 1982-1984 construction program is for new nuclear generating units at the South Texas Project, (the "Project" or "STP"). In June, 1973, CPS agreed to participate in the Project, which involves the construction of two 1,250,000 KW units in the Palacios-Bay City area near the Texas Gulf Coast. Participants in the Project and their share therein are as follows:

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

A 12,000 acre site for the Project has been purchased and the required construction permits approving the Project were awarded by the Nuclear Regulatory Commission (NRC) in December, 1975. San Antonio's share of the two 1,250,000 KW units is 700,000 KW. When completed, this capacity will serve a significant portion of San Antonio's basic kilowatt hour needs.

A Project cost and schedule estimate, the baseline, was issued by the Project Manager, HL&P in September, 1979. This estimate was the result of an intensive review and reevaluation by HL&P, the contractor, and a management consultant of the scope of the Project, quantities of material and labor required, productivity, and inflation. The results of the estimate indicated a substantial increase in the estimated cost of the Project as well as significant delays in the completion of each of the two units over previous estimates of cost and schedule. Changes from previous estimates primarily in greater material quantities, lower labor productivity, and higher unit costs were identified as major factors responsible for the schedule delays and accompanying estimated cost increases. Following review by the Project participants and an independent consultant in 1980, commercial operation of Units 1&2 has been projected for 1984 and 1986, respectively, with a total Project estimated cost of $2.720 billion, made up of $2.565 billion baseline with allowances for contingencies and a $155 million reserve for out of scope items. Based upon these projections, the total estimated cost of the CPS share of the Project would be $1.014 billion for construction and interest during construction and $128 million for fuel to be purchased prior to commercial operation of each unit. To date, CPS has expended some $571 million on the Project including advance payments on fuel.

The independent consultant's review basically confirmed the Project baseline schedule and estimate. However, the consultant's report included a possible six-month schedule slip and recommended an increase in contingency which if required would increase the total Project cost to over $2.8 billion.

On April 28, 1980, the Nuclear Regulatory Commission (NRC) issued a report on the results of a three-month investigation it had conducted into the adequacy of the construction and inspection procedures in the areas of quality assurance and safety for STP. The report concluded that HL&P and the principal contractor for the project had failed to establish and maintain a program of quality assurance and quality control required to assure that STP will be constructed in accordance with NRC requirements. Included in the report were findings that quality control inspectors had been harassed, threatened and intimidated by construction personnel. While such acts were not found to have caused major deficiencies in any of the construction already completed, the report concluded that the potential for future significant construction deficiencies existed if the quality assurance program for STP is not improved prior to proceeding to the more complex construction stages. The report also found that certain of STP's quality assurance procedures were inadequate, including those relating to welder qualification, concrete placement and testing of soil densities. Based on such report, on April 30, 1980, the Director of the NRC's Office of Inspection and Enforcement (Enforcement Director) proposed that HL&P be fined $100,000. He also ordered HL&P to show cause why safety-related construction activities on STP should not be stopped 90 days from the date of the order and remain stopped until such time as HL&P complied with certain specified steps designed to assure the NRC that the program for quality assurance and quality control at STP meets NRC standards and that certain of the procedural deficiencies found in the report have been corrected. HL&P has paid the fine and has provided its response to the Enforcement Director's order. In its response, HL&P committed to substantial organizational changes in the quality assurance and quality control organizations of both itself and the contractor. HL&P also outlined measures to be taken to prevent recurrence of the problems indentified by the NRC.

HL&P and the principal contractor voluntarily suspended certain concrete pouring operations in December, 1979 and safety-related welding in March, 1980 at STP pending completion by the NRC of its investigation and subsequent completion of corrective action commitments contained in HL&P's response to the Enforcement Director's order. Safety-related structural welding resumed, on a limited basis, in October, 1980, and safety-related pipe welding resumed in November, 1980, also on a limited basis. Safety-related concrete pouring operations in complex configurations resumed in January, 1981, on a limited basis. Both types of welding activities as well as complex concrete pours are expected to expand to full production as satisfactory compliance with HL&P commitments to the Enforcement Director's order is successfully demonstrated, although no assurance can be given that such will be the case.

The scheduled commercial operation dates and estimated cost of the South Texas Project previously discussed do not reflect the delays expected to be experienced or substantial additional costs expected to be incurred on the basis of the matters discussed in the two preceding paragraphs. HL&P has reported that analysis indicates a significant slip in the estimated completion dates of the units. The extent to which such dates and costs have been affected by these developments must be determined jointly by all participants in the Project following a comprehensive engineering and financial review which is expected to be completed in September, 1981.

The existing construction permits for the two units in the South Texas Project are scheduled to expire in May, 1982 and October, 1983, respectively. In order to complete construction of the project, it will be necessary to obtain authorization of the NRC for extension of such permits. For a description of pending operating licensing and other proceedings, See *Material Litigation — Nuclear Project Matters* pp. 40-41.

The CPS tentatively proposes the addition of further generator capacity for operation in 1990. This plant is tentatively planned to be a mine-mouth unit firing Texas lignite and may be built as a joint project with other utilities. CPS presently owns approximately 30 million tons of lignite reserves, but a decision to proceed with this unit will depend on the acquisition of additional environmentally suitable lignite reserves and future load growth developments.

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

Historically, peak demand on the CPS electric system increased about 11 percent per year until the early 1970's. Beginning about 1972, the growth rate of peak demand declined sharply because of rising energy prices, fuel shortages, and conservation efforts. Since that time, CPS has conducted extensive reviews of changing economic, demographic, and energy supply consideration and produced annual forecasts of electric growth. The latest forecast projects a peak demand growth rate averaging 5.2 percent per year over the 1981-1995 period. The CPS staff continually monitors growth trends in order to identify changes in time for appropriate modification of long range system plans.

ENVIRONMENTAL MATTERS

CPS is subject to extensive regulation with respect to air and water quality, solid waste disposal and other environmental matters by various federal, state and local authorities. Environmental standards have been established by the Texas Air Control Board, the Texas Department of Water Resources and the Environmental Protection Agency (EPA). CPS has permits from EPA and the Texas Department of Water Resources for liquid waste releases for all CPS power plants in Bexar County, and permit renewals are now being sought under revised EPA regulations. Construction permits have been obtained from the Texas Air Control Board for all new facilities having air emissions and operating permits will be obtained as CPS demonstrates compliance with the permit requirements or obtains alternative source standards. CPS has demonstrated compliance with all federal and state emission standards with the exception of the 20% opacity limitation on its J.T. Deely coal plant.

Due to inadequate performance by the air pollution control devices at the J.T. Deely coal plants, and despite extensive efforts to remedy the situation, CPS has voluntarily taken the units out of service periodically for short periods to clean the pollution control equipment in order to comply with certain state and federal opacity standards. CPS continues to pursue a remedial program to test possible solutions to the equipment problem, and has filed suit in federal district court against the supplier and its corporate surety, seeking recovery for its economic injury resulting from the equipment malfunction. An opacity adjustment from the EPA has been granted to another utility in Texas having similar equipment problems. CPS has filed with the EPA a petition seeking adjustment of the federal opacity standards applicable to the Deely plant. An opacity adjustment from the EPA as well as the granting of an alternate opacity standard from the Texas Air Control Board under recently promulgated rules are currently believed to be necessary if federal and state opacity standards are to be met on a long-term basis by CPS in the operation of its J.T. Deely plants. If CPS is unable to achieve applicable opacity standards on a long-term basis and if the applicable regulatory authorities do not grant appropriate relief, then possible sanctions for noncompliance include substantial state and federal fines and penalties or curtailment of operations.

FUEL SUPPLY

COAL

In May, 1974, CPS signed a 20-year contract for the purchase of coal from the Sun Oil Company. The contract provided a total of 55,450,000 tons of low-sulfur coal committed to San Antonio from the substantial reserves held by Sun Oil Company in Campbell County, Wyoming. The coal contract price consists of three parts, the mining, capital and reclamation segments. The mining segment is based on the actual mining costs incurred after the mine is in operation and is currently $2.25 per ton. The capital segment includes profit as well as cost for capital for the mine and is fixed at $3.50 per ton, which is subject to adjustment either up or down at the request of either party if the then current contract price is significantly out of line with the prevailing market price of sales of comparable coal and the other party does not wish to terminate the contract. The reclamation segment is set at 5 cents per ton which is equivalent to more than $4,000 per acre and shoul· be adequate to cover reclamation costs. In addition to this reclamation segment, the abandoned mine reclamation fee adds $0.35 per ton. The black lung tax took effect on April 1, 1978, and amounts to 2 percent of the price of coal at the mine, or about $0.13 per ton. On March 5, 1980 the Governor of Wyoming signed an Act passed by the 1980 Session of the Wyoming Legislature which effectively exempted 1980 coal production from portions of various taxes. The Act resulted in a refund of $1,136,602 to City Public Service in September, 1980 and cost per ton for coal at the mine of $6.60 during 1980.

In 1976, as a result of litigation instituted by CPS, the Interstate Commerce Commission ("I.C.C.") prescribed a railroad freight rate for the CPS coal transportation of $10.93 per net ton. Since that time, the railroads (Burlington Northern, Inc. and Southern Pacific Transportation Company) have been permitted to increase their rate on several occasions to recover cost increases attributable to inflation. Additionally, major rate increases were implemented in 1978, after I.C.C. approval, for the purposes of improving overall railroad profitability. In the summer of 1980, following a challenge by CPS, the U.S. Court of Appeals for the District of Columbia Circuit found that the I.C.C. had erred in its 1978 rate decision and the court vacated the decision. CPS estimates that the erroneous I.C.C. decision added approximately $8.00 per ton to the rate which it paid between 1978 and 1980. This matter is now pending before the I.C.C. and CPS may be entitled to an award for overcharges, if it demonstrates that the applicable maximum price for its coal traffic between 1978 and 1980 was less than that fixed by the I.C.C. in the order vacated by the court.

Following the action of the Court of Appeals in 1980, another dispute arose between CPS and the railroads as to the effective transportation price. CPS claimed that the maximum lawful price for its coal transportation was $6.12 per ton less than the amount sought by the railroads. Litigation of various sorts unsued. In June of 1981, the United States Court of Appeals for the District of Columbia Circuit found in favor CPS. The railroads have petitioned the court for a rehearing.

In the meantime, the *Staggers Rail Act of 1980* was enacted. This legislation contains a provision which applies to the CPS movement and which establishes the maximum rate for this service at an amount equal to 162 percent of variable costs, is less than the $23.05 permitted by the I.C.C., it will be entitled to a refund. As of August 1, 1981, the $23.05 rate had been increased to $24.64 to permit recovery of inflationary cost increases experienced by the railroads pursuant to a cost recovery index approved by the I.C.C. This index has also been challenged in the Court of Appeals by CPS and others as overstating actual cost increases.

In addition to the railroad t...iff, the average price of coal in inventory includes the cost of maintenance of the City-owned railcars and costs associated with the lease of a unit train used to transport the coal. These costs, in conjunction with the costs associated with coal yard operations, ash handling, and ad valorem taxes in states through which CPS railcars travel, amount to approximately $2.00 per ton, which adds approximately 12¢ per million BTU to the cost of coal.

For the twelve months ending June 30, 1981, CPS burned 3.3 million tons of coal at an average price of $26.15 per ton to produce electricity from the J.T. Deely Plant. Approximately 63% of the electricity provided during the period was from the coal fueled units. The CPS coal in stock as of June 30, 1981, was 1,436,551 tons, or approximately 4½ month's supply, and has an inventory cost of about $37.8 million.

NATURAL GAS

Valero Energy Corporation, formerly Coastal States Gas Producing Co. (Coastal Producing), and its wholly owned subsidiary Valero Transmission Company, formerly LoVaca Gathering Co. (LoVaca), currently supply CPS with natural gas for resale and for fuel use for electric generating stations under a contract which expires in 1982. Valero was spun-off by and separated from its former parent, Coastal Gas Corporation (Coastal, now Coastal Corporation) as a result of implementation of a settlement plan to resolve a dispute concerning natural gas supply between Coastal and its wholly owned subsidiaries and settling customers including CPS. In January, 1981, CPS requested proposals for a gas supply to begin in 1982, from Valero and other suppliers. At present, no proposals adequate for the full supply of San Antonio's long-term gas needs have been forthcoming. However, Valero's continued legal duty, as a public utility, to serve San Antonio after the expiration of the current contract has been confirmed by the Texas Railroad Commission which ordered, as part of the settlement plan:

> ..."That LoVaca will not cease natural gas service to any present intrastate customer because of contract term expiration, except as consented to by that customer....without express permission of the Commission granted after notice and hearing."

Valero is currently able to meet full natural gas requirements for CPS except for minor curtailments on certain peak days. In addition, the Coastal Corporation is bound by agreement to undertake a gas search program, for the benefit of settling customers of Valero, requiring a minimum expenditure by Coastal of $180 million over fifteen years to develop new gas reserves to be committed to Valero for settling customers at discounts ranging initially from prices of $1.50 per MCF to 85% of market price in the fifth year. Additional discounts are provided for after recoupment by Coastal of its costs. At the end of 15 years, Coastal must have dedicated 300 billion cubic feet of reserve under the program, of which 225 billion cubic feet must be at discount prices, or incur a penalty which would result in either a cash payment to a trust for the benefit of the customers or continued exploration and drilling. (See *Note 6 to Financial Statements* in Appendix B for additional settlement benefits.)

Under Order of September 4, 1979, of the Railroad Commission of Texas (the "Commission"), CPS will pay Valero Transmission Company for delivery of natural gas in January, 1981 and beyond at Valero's weighted average cost of gas plus 15¢ per MCF. The estimated cost of gas for the month of July, 1981 was $3.39 per MCF. This rate is subject to review and revision by the Commission, and the future price of natural gas can not be predicted. It is anticipated that the affect of the Natural Gas Policy Act of 1978 will result in an increase in the cost of gas in San Antonio as the phased NGPA deregulation progresses. Under the Commission's Order of December 22, 1980, Valero must interrupt natural gas deliveries to its customers in periods of supply shortages in accordance with priorities set in that order. In general, delivery of natural gas for distribution systems is interrupted last, for electric generation next, and large industrial use first. These priorities are subject to Commission review and revision and future priorities cannot be predicted.

Under the Power Plant and Industrial Fuel Use Act of 1978, natural gas may not be used as a primary energy source in an existing power plant on or after January 1, 1990, unless an exemption has been obtained. CPS also would be prohibited after May 8, 1979, from burning natural gas as a primary energy source in its five gas-fired electric generating stations in amounts exceeding the average yearly proportions used by each facility during the 1974 - 1976 base period, absent an exemption from the Act's provisions. CPS has been granted a two-year temporary exemption to burn natural gas in existing gas-fired plants from the Economic Regulatory Administration (ERA). After November 7, 1981, CPS currently plans to utilize the system compliance option under the Act which, if approved, may provide for phased reduction in gas usage and allow limited gas generation between 1990 and 2005, in addition to one hundred percent natural gas use in gas/oil units before January 1, 1990. The budget reconciliation efforts of the 97th Congress may result in repeal of Section 301 of the Fuel Use Act. Prohibitions will continue to be in effect for new facilities.

LIGNITE

CPS continues to study the feasibility of constructing a lignite-fired generating plant. Lignite reserves of from about 50 million to 70 million tons would be required to meet the long-term needs of a modern base load unit. CPS acquired in 1945 and presently owns approximately 30 million tons of lignite reserves located in Lee and Bastrop Counties, about 90 miles from San Antonio. CPS is attempting to acquire an estimated additional 25 million tons of lignite in Bastrop County. Additional lignite reserves in Bastrop, Washington, Lee, and Fayette Counties are also available for apportionment among the customer groups from implementation of Settlement of the Coastal/LoVaca lawsuit. The CPS is now actively engaged in reserve mapping and negotiation for the acquisition of additional lignite reserves in the Lee and Bastrop County area. An application has been filed with the Bureau of Land Management for a permit to mine lignite reserves under Camp Swift Military Reservation located in Bastrop County, Texas near existing lignite reserves owned by CPS. An agreement has been signed which would enable the City of Austin Electric Utility Department, the Lower Colorado River Authority and CPS to share the Camp Swift lignite reserves. Under the agreement CPS has the right to transport one-third of the lignite to the proposed CPS 1990 lignite unit site. The Bureau of Land Management has issued the final environmental impact statement which assesses the impact of leasing the Camp Swift Lignite for mining operations. The final impact statement is generally favorable to leasing the Camp Swift lignite.

FUEL OIL

CPS has the capability of using fuel oil to supplement natural gas as an input fuel to generate electricity. Total fuel oil consumption by CPS for generation amounted to 14,768 barrels for the twelve month period ending June 30, 1981. CPS has a usable oil storage capability of 1.4 million barrels. As of June 30, 1981, the oil inventory was 549,236 barrels. Very little fuel oil is currently being burned due to the replacement cost of oil being considerably higher than natural gas equivalent.

NUCLEAR

The supply of fuel for nuclear generating facilities involves the acquisition of uranium concentrate, its conversion to uranium hexaflouride, enrichment of gaseous uranium hexaflouride, and fabrication of nuclear fuel assemblies. Following use of the nuclear fuel assemblies, they must either be disposed of or reprocessed to recover remaining fuel value.

Westinghouse Electric Corporation and others have contracted to provide the South Texas Project Participants with at least 8,377,000 pounds of uranium concentrate, which, together with a minimum of 5,600,000 pounds to be provided by Chevron USA, Inc., is expected to support the operation of both STP units through 1996. Options are held under these supply contracts to purchase additional uranium concentrate subject to the development of additional uranium reserves.

Contracts with Westinghouse and others for conversion services will support the operations of both STP units through 1991. Contracts for enrichment services provide coverage for up to thirty years operation. Westinghouse has also contracted to furnish fuel fabrication services for the initial core and sixteen years of reloads for both units. These services will support the operation of STP Unit 1 through the year 2000 and of Unit 2 through the year 2002.

FUEL SUPPLY SUMMARY

While the CPS gas supply situation has improved somewhat in recent years, the outlook for the future remains uncertain.

Public policy regarding the use of remaining gas reserves for boiler fuel makes the future use of gas in electric energy generation uncertain. As previously discussed, CPS will be subject to restrictions on natural gas used for boiler fuel under the Power Plant and Industrial Fuel Use Act except to the extent of any exemptions obtained and the terms of the system compliance option. Restrictions on natural gas used on existing electric generating units appears likely to be repealed. The Natural Gas Policy Act, in addition to its pricing provisions, subjects intrastate gas, including gas intended for boiler fuel use, to Presidential emergency purchase authority and emergency allocation authority to assist in meeting interstate natural gas requirements for high priority uses. The present Administration in Washington, D.C. has stated its intent to decontrol natural gas prices rather than deregulating prices between now and 1985 under the Natural Gas Policy Act. Decontrol would likely increase the near term cost of gas in San Antonio. The future effect of existing law and Administration policies on the price and availability of the City's supply of natural gas cannot now be accurately predicted.

Several years ago, CPS completed essential conversion of its existing gas-fired generating units for oil firing to provide greater input fuel flexibility. However, the current price of oil makes its use impractical at the present time. At June 30, 1981, the cost of fuel used by CPS was as follows:

Gas — $3.27 per million BTU
Oil — $5.05 per million BTU (#6 Fuel Oil - Texas Gulf Coast spot market, including transportation)
Coal — $2.03 per million BTU (At a transportation rate of $24.64 per ton)

For the long term, CPS plans call for diversification of the electric generating system to emphasize the use of coal, nuclear or lignite as the fuel for base load capacity. As previously detailed, CPS has a long-term coal contract for the purchase of an adequate fuel supply for the two new coal-fired units. Under the terms of the Westinghouse settlement, along with other contracts entered into, initial requirements of nuclear fuel for the South Texas Project will be adequate and at costs below those used by CPS in confirming the economic feasibility of the City's participation in the Project.

ENERGY CONSERVATION PROGRAM

For the past several years, CPS has been encouraging voluntary conservation of the use of electricity and natural gas. CPS continues to inform all customers of the various methods available by which customers can reduce energy consumption through the use of conservation and by the elimination of unnecessary waste of energy. The results of the voluntary conservation programs and the effect of increasing utility prices have been reflected in the previously mentioned decline in the growth rate of peak demand. The results of the CPS conservation programs will be carefully studied in the development of CPS plant expansion requirements.

CPS is subject to the provisions of the National Energy Conservation Policy Act (NECPA). This 1978 federal energy legislation establishes certain residential conservation standards and requires all electric and/or gas utilities classified as a "covered utility" to follow a plan for implementing the standards under the Residential Conservation Service program. CPS is one of twenty-one "covered utilities" included in the Residential Conservation Service plan of the State of Texas. The Texas

Plan has been approved by the Department of Energy and is scheduled to be implemented by October 3, 1981. Current NECPA standards will require utilities to conduct an on-site energy audit of the customer's dwelling, inform customers of cost savings, inform the customers of the cost of installing conservation measures, and assist in arranging the financing of such measures.

Under the Reagan administration's proposed budget for fiscal year 1981-82, all funding for the Residential Conservation Service program has been eliminated. Legislation has also been drafted to repeal portions of NECPA, including the provisions regarding the RCS program. Whatever, the outcome of the budget proposal and the move for repeal, it appears that the cost of complying with the current RCS requirements may be significant. Current and future costs, however, cannot be accurately predicted at this time.

As previously stated, it has not been necessary for CPS to curtail any of its electric service to the public, and curtailment of natural gas service by CPS since 1974 has been minor and accomplished on a voluntary basis, with the exception of one customer.

MATERIAL LITIGATION

GENERAL MATTERS

The City of San Antonio has received an Urban Development Action Grant from the United States Department of Housing and Urban Development for the redevelopment of a 134-acre area west of downtown San Antonio. As a part of this project (known as "Vista Verde South"), San Antonio Development Agency, the Urban Renewal Agency of the City of San Antonio, is to acquire, by purchase or eminent domain, certain tracts of land for development by others. CPS has contracted with the City and San Antonio Development Agency that an 11-acre tract will be acquired from the Agency for an addition to the San Antonio Gas and Electric Systems and that CPS will spend $18.5 million to construct a general office and customer service facility thereon.

Two landowners in the project filed suit against the City and San Antonio Development Agency seeking injunctions against the taking of their property by eminent domain proceedings. These suits have been consolidated. On April 28, 1981, the plaintiff whose land is in the tract which CPS has agreed to purchase filed an amended petition joining CPS as a defendant and seeking an injunction against CPS from occupying, controlling or managing the property and against the City from issuing bonds for the purpose of financing the acquisition of this Plaintiff's property. This suit, *Mauro F. Cantu Co., Inc. v San Antonio Development Agency et al.*, No. 81-CI-6036, is pending in the 225th Judicial District Court, Bexar County, Texas.

In the Plaintiff's amended petition it is contended that, since it was held in *Byrd v City of San Antonio*, 587 F.2d 184 (5th Cir. 1979, cert den.), that CPS is not a "form of government" under Article 4, Section 4 of the U.S. Constitution, the Board as constituted pursuant to the indenture (See *History and Management* p. 19) is a "self-perpetuating private board" which cannot be legally vested with the management and control of the city-owned property. It is further contended that only the City Council of San Antonio may legally control and manage property to be acquired from Plaintiff and that management and control by a "private self-perpetuating" CPS Board is contrary to various Texas statutes and constitutional provisions. CPS contends that, while not a "form of government," it is an agency of the City of San Antonio, validly vested with management and control of the City's Gas and Electric Systems pursuant to validly enacted Texas statutes.

Although Plaintiff seeks preliminary and permanent injunctions against the City's advertising for bidders, seeking approval of or issuing revenue bonds for financing the acquisition of or improvements upon his property, based upon use of their proceeds for alleged "unlawful taking" and "illegal" management by CPS, Plaintiff has not challenged the authority concerning the issuance of the New Series 1981-A Bonds or the provisions for their payment or security thereof. On May 5, 1981, the District Court denied preliminary injunctions in the combined litigation. Although the District Court's ruling has been appealed by the Plaintiffs to the Fourth Court of Civil Appeals, counsel for the Board are of the opinion that the contentions regarding CPS and the issuance of these Bonds are without merit.

INTERCONNECTED SYSTEM MATTERS

Other utilities, in addition to CPS, which are members of the Texas Interconnected System (TIS) are identified on p. 24 of this Official Statement.

CP&L and WTU are subsidiaries of the Central and Southwest Corporation (C&SW), a public utility holding company which also owns and operates electric utilities within the Southwest Power Pool (SWPP) which serves portions of Oklahoma, Arkansas and Louisiana. Since 1974, C&SW has taken the position in a number of proceedings that its subsidiaries can be most economically operated as a single synchronous system and that this result will be best achieved by an interconnection between SWPP and the now intrastate TIS/ERCOT. HL&P and the Texas Utilities (TU) subsidiaries of TESCO, DP&L and

TP&L have claimed the right, in the interests of their own customers, to operate on an intrastate basis. San Antonio, Austin and LCRA have historically viewed their own customers' best interest as lying in an intrastate system including the power reserves of the HL&P and TU systems, preferably the existing TIS, and have participated in many of the contested proceedings. Those proceedings include a 1977 proceeding before the Public Utility Commission of Texas, now on appeal before a state district court, a Public Utility Holding Company Act proceeding before the U.S. Securities and Exchange Commission, an antitrust suit brought in a Dallas Federal District Court and now on appeal before the Fifth Circuit, an antitrust proceeding before the Nuclear Regulatory Commission (See *Nuclear Project Matters*, p. 40), and an interconnection proceeding before the Federal Energy Regulatory Commission (FERC), initiated by a joint application of the C&SW subsidiaries in February, 1979, and intervened in by San Antonio, Austin, LCRA, HL&P, TU, and others. The relief sought in the C&SW Companies' petitions at FERC is based on FERC authority to order interconnections between utilities and require the provision of transmission services by one utility to another ("Wheeling"), based on considerations of public interest, energy conservation, reliability, and other factors.

On June 9, 1980, TU, HL&P and C&SW signed a settlement agreement intended to resolve all pending controversies between these parties relating to the TIS interconnection issues. Under the terms of the settlement, which is designed to be implemented by an order of FERC, two direct current ties connecting ERCOT with SWPP systems are to be constructed which are intended to integrate C&SW's subsidiaries on a nonsynchronous basis. The direct current nature of the ties is intended to preserve the compact size of TIS/ERCOT and protect electric utilities within Texas from power disturbances outside TIS/ERCOT. By a letter of September 11, 1980, agreed to by TU, HL&P, C&SW and the FERC and NRC Staffs, modifications to the settlement proposal were submitted to FERC, including provision for the agreeing systems to file wheeling rate tariffs with FERC for transfers involving the DC ties. The tariffs would be uniform for each type of service on an entity's entire system, regardless of distance and based on load flow studies. HL&P and C&SW, as owners of the DC ties, agree to reserve a portion of their capacity for use and possible purchase by smaller systems. Implementation of the settlement will require its approval by FERC as well as other regulatory agencies involved in the controversy and by other affected systems. San Antonio has not objected to the settlement. The Settlement has been referred to FERC by the presiding administrative law judge as an "uncontested offer of settlement" and is awaiting action by the Commission.

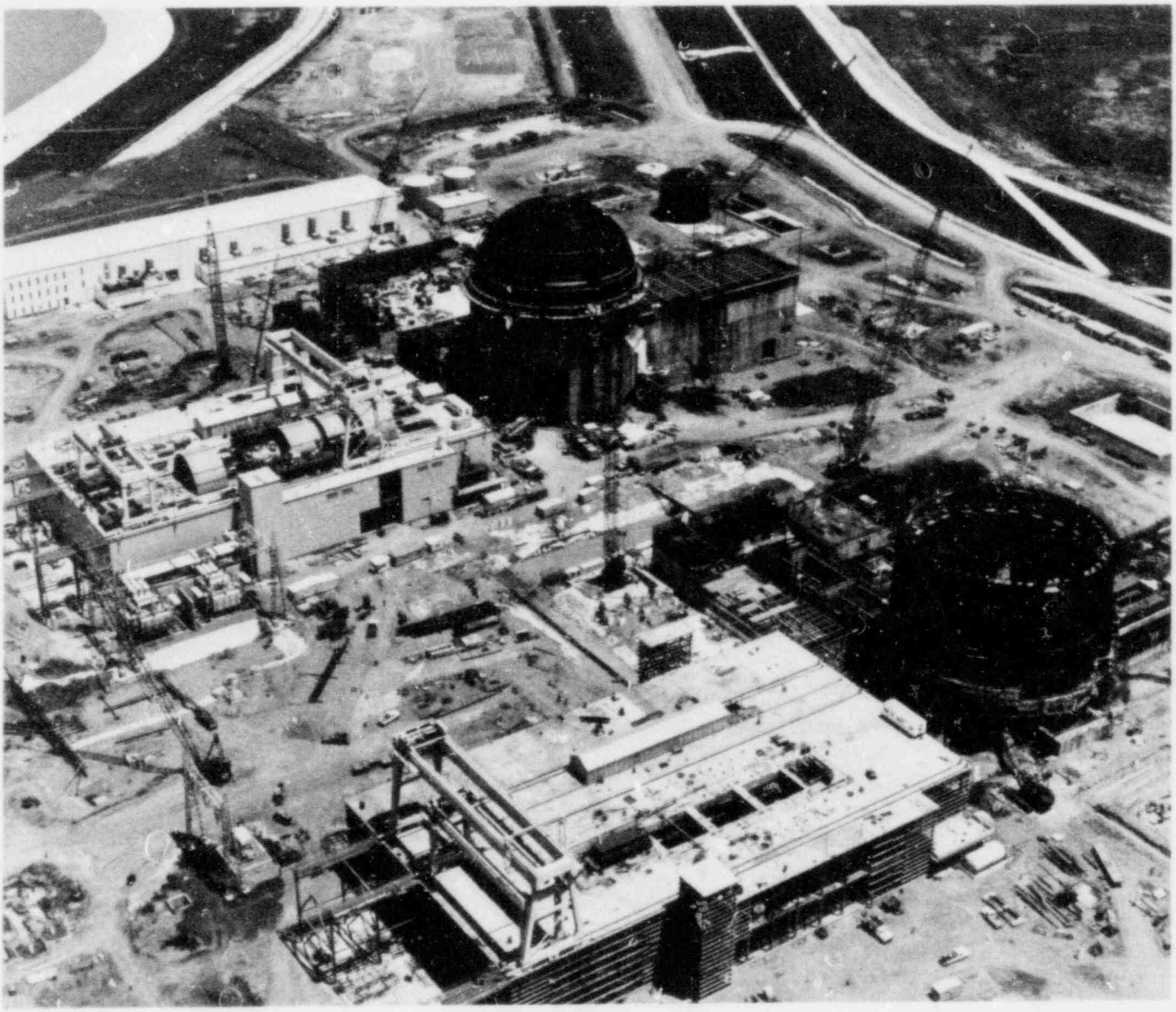
NUCLEAR PROJECT MATTERS

On June 4, 1976, CP&L, one of the four South Texas Project participants, petitioned the NRC to convene an out-of-time antitrust hearing on grounds of a significant change in circumstances arising from attempts by CP&L's parent, C&SW, to effect a merger of the ERCOT with SWPP, seeking the modification of the construction permits for the Project to require replacement of the historically intrastate electrical connections existing among the participants and with other utilities and to allow access to their transmission lines by third parties operating interstate. (See *Interconnected System Matters*, above). The NRC in 1977 held that such antitrust allegations must be reviewed in the context of licensing proceedings and that it would grant a request by HL&P to consider the need for an antitrust hearing in the context of an expedited application for operating licenses for the Project. The Atomic Safety and Licensing Board (the "Board") designated to conduct the hearing has temporarily postponed its schedule for commencing the hearing, pending on-going settlement discussion among the parties, the U.S. Department of Justice and the NRC Staff, relative to the settlement agreement signed by certain of the parties on June 9, 1980. (See *Interconnected System Matters* above.)

On September 15, 1980, proposed settlement license conditions agreed to by the four Project participants and the NRC staff and Department of Justice were submitted to the Board. Under the proposed license conditions, CP&L would be required to afford the Public Utility Board of Brownsville, its bulk power customer, an opportunity to participate in the South Texas Project at cost on reasonable terms as well as reasonable transmission and power coordination services. Among other things, all the Project participants are required to furnish other entities with reasonable, fully compensated transmission services subject to the jurisdiction of "appropriate regulatory agencies," and to plan for the transmission capacity needs of such other entities on a fully compensated basis. HL&P is prohibited from agreeing to refuse to deal with others in order to maintain its nonjurisdictional status and is prohibited from disconnecting from others' facilities to avoid the effects of interstate commerce, provided that any entity wishing to make connections which could affect HL&P's jurisdictional status first must seek approval at FERC. The Participants also agree to use best efforts to seek approval at FERC of a settlement including the provisions of the September 11, 1980, letter submitted to FERC. Adoption of these proposed license conditions is contested by the Public Utility Board of Brownsville with respect to matters related to proposed wheeling rates, terms and conditions, and matters related to the proposed asserted rights of any utility to disconnect from other utilities. If the settlement is consummated, CP&L will advise the NRC that its antitrust concerns have been removed. It is not yet known what operating license conditions, if any, will be required by the NRC beyond the conditions in the settlement agreement.

A separate Atomic Safety and Licensing Board has been appointed to conduct a hearing in connection with the application for operating licenses. Five petitions to intervene were filed based upon various safety, environmental and financial allegations. On April 3, 1979, the Board issued an Order granting, over the participants' opposition, the intervention of two groups based upon the residency of members living near the STP site as to issues involving construction quality, safety standards and local environmental conditions.

At a prehearing conference held on March 18, 1981, the Board set a schedule for completion of discovery and commencement of a hearing on specified Quality Assurance/Quality Control issues, including whether HL&P has the necessary managerial competence and character to operate STP, whether the organizations and practices of HL&P and its contractor will allow completion of STP in conformance with the construction permits and applicable requirements, and whether existing structures at the site comply with all requirements or are being corrected to do so. Commencing on May 12, 1981, the hearing continued during portions of June and July and is scheduled to resume in mid-September, 1981.



Construction on the South Texas Nuclear Project in progress.

RATES

Under the Texas Public Utility Regulatory Act, passed in 1975, significant original jurisdiction over the rates, services and operations of electric and gas public utilities is vested in the Texas Public Utility Commission and Texas Railroad Commission, respectively. While the Act generally excludes from its coverage municipally-owned utilities, the CPS is subject to appellate but not original rate regulatory jurisdiction by the two Commissions in unincorporated areas in which it serves, is subject to less stringent certification requirements for service area and facilities expansion than public utilities, and is not liable for the annual gross receipts fee payable by public utilities. The San Antonio City Council exercises general original rate regulatory jurisdiction over the service area, including unincorporated areas served by CPS, as a municipally-owned utility.

Under Titles I and III of the Public Utility Regulatory Policies Act of 1978 (PURPA), certain federal standards relating to rate design and service policy are established which must be given consideration subject to public notice and hearing by state utility regulatory authorities and by retail electric and gas utilities classified as "nonregulated", such as CPS. Hearings have been held by CPS as outlined under PURPA and final determinations regarding whether or not to adopt or implement each of the standards based on the hearings record were made by the Board of Trustees on October 27, 1980. The utility must report annually to the Secretary of Energy regarding subsequent action taken as to the standards.

Pursuant to Section 133 of PURPA, the Federal Energy Regulatory Commission (FERC) has promulgated regulation requiring significant reporting by electric utilities, including CPS, of data relating to the costs of providing retail electric service. This information must be filed every two years. The regulations require submission of certain data not previously available at CPS, including marginal cost information and expanded load studies. Costs will also be incurred by CPS in complying with FERC regulations promulgated to implement the cogeneration and small power production directives of PURPA, Title II. The Act requires sale and purchase of electric power to and from qualifying small power procedures and cogenerators by electric utilities, and will necessitate the design of an appropriate rate structure and issuance of regulations.

In February, 1981, a federal district court in Mississippi declared Titles I and III and the cogeneration requirements of PURPA unconstitutional. However, the U.S. Department of Justice and FERC have since petitioned the U.S. Supreme Court for an appeal of this decision. The outcome of this appeal will determine the final extent to which compliance with PURPA's cogeneration, data reporting and other requirements will need to be met in the future. The final decision in this litigation cannot be predicted at this time.

RATE INCREASES

The City of San Antonio is obliged under the Trust Indenture and the New Series Bonds Ordinance to establish rates and collect charges in an amount sufficient to pay all electric and gas system operation and maintenance expenses, to service all Old Series and New Series Bonds, and to make all other payments prescribed in the Old Series Bonds Trust Indenture and New Series Bond Ordinance. Rate changes over the past decade have consisted of increases of approximately 19% in June, 1974; 5.25% in August, 1976 [illegible] for gas in September, 1979; and 5.4% for electric in October, 1979. On May 21, 1981, the City Council increased rates approximately 6% on the total bill, effective in June, 1981, and agreed to a subsequent review of revenue requirements in the Fall of 1981. There is no assurance that any particular rate increase requested by CPS will be approved.

Current gas and electric supply line extension charges, miscellaneous other charges, and service rules and regulations were placed in effect throughout the CPS service area on April 24, 1978.

ELECTRIC AND GAS RATE SCHEDULES

The electric rates approved July 1, 1979 which were placed into effect on October 30, 1979, continue to encourage conservation during peak usage periods. The principal electric rate schedules now in effect, as amended by the six percent increase effective in June, 1981, are as follows:

MONTHLY RATE
Residential Service[1]

Rate

Summer Billing (June through September)

$2.50	Service Availability Charge
4.45¢	per KWH for all KWH

Nonsummer Billing (October through May)

$2.50	Service Availability Charge
4.45¢	per KWH for all KWH up to a total consumption equal to 40% of the average monthly use* of the previous Summer Billing period.
3.4¢	per KWH for all KWH in excess of 40% of the average monthly use* of the previous Summer Billing period.

*Until a summer average use (at least one complete summer month's billing cycle) has been established, the Nonsummer 4.45¢ block shall include consumption up to 350 KWH. The 3.4¢ block shall include all consumptions above 350 KWH.

[1] Current bills are computed by application of above rate schedules and then increased by the 6% revenue adjustment previously noted.

General Service[1]

Rate	
$2.50	Service Availability Charge
5.0¢	per KWH for the first 1,200 KWH*
4.4¢	per KWH for the next 3,400 KWH
3.0¢	per KWH for all additional KWH

*145 KWH are added for each KW of Billing Demand over 5 KW. Billing demand from October through May may not be less than 80% of highest measured demand from June through September. Billing demand from June through September is the highest measured demand.

Large Lighting and Power[1]

Rate	
Demand Charge	
$330.00	for the first 100 KW of Billing Demand
2.85	per KW for all additional KW of Billing Demand
Energy Charge	
3.00¢	per KWH for the first 70,000 KWH
2.37¢	per KWH for all additional KWH

*Billing demand from October through May may not be less than 80% of highest demand from June through September. Billing demand from June through September may not be less than 100 KW.

The principal gas rate schedules are:

MONTHLY RATE
General Service[1]

Rate	
$2.00	Service Availability Charge
$0.2595	per 100 cubic feet for all cubic feet

Industrial Class A[1]

Rate	
$15.00	Service Availability Charge
$ 0.261	per 100 cubic feet for the first 100,000 cubic feet
$ 0.253	per 100 cubic feet for all additional cubic feet

Industrial Class B[1]

Rate	
$15.00	Service Availability Charge
$ 0.237	per 100 cubic feet for the first 600,000 cubic feet
$ 0.230	per 100 cubic feet for all additional cubic feet

[1] Current bills are computed by application of above rate schedules and then increased by the 6% revenue adjustment previously noted.

FUEL AND GAS COST ADJUSTMENT

The foregoing rate schedules approved by the San Antonio City Council on July 19, 1979, as amended May 21, 1981, contain a fuel cost adjustment clause in the electric rates and a gas cost adjustment clause in the gas rates which allows the recovery of fuel and gas costs that vary above or below the costs which are included in the basic rates. Electric basic rates are subject to an adjustment of plus or minus the amount of change in the price of fuel above or below a basic cost of $0.0186 per KWH sold. The gas basic rates are subject to an adjustment of plus or minus the amount of change in the price of gas sold above or below a basic cost of $2.15 per MCF sold.

ELECTRIC CUSTOMER STATISTICS

	Fiscal Years Ended January 31:										
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1981[1]
RESIDENTIAL											
Average Monthly KWH/ Customer	698	766	724	686	681	663	718	735	706	799	797
Average Monthly Bill/ Customer	$12.98	$14.14	$14.42	$20.62	$25.86	$28.42	$32.50	$32.53	$32.29	$39.60	$39.84
Average Monthly Revenue/KWH	$.0186	$.0184	$.0199	$.0301	$.0380	$.0429	$.0452	$.0442	$.0456	$.0496	$.0500
COMMERCIAL AND INDUSTRIAL											
Average Monthly KWH/ Customer	7,256	7,515	7,368	7,642	8,339	8,500	8,641	8,675	8,610	9,092	9,233
Average Monthly Bill/ Customer	$93.35	$97.18	$105.05	$176.41	$261.31	$305.82	$316.89	$308.25	$318.49	$368.32	$372.45
Average Monthly Revenue/KWH	$.0129	$.0129	$.0143	$.0230	$.0313	$.0360	$.0367	$.0355	$.0370	$.0405	$.0403
ALL CUSTOMERS											
Average Monthly KWH/ Customer	1,699	1,798	1,718	1,689	1,754	1,750	1,826	1,894	1,848	1,908	1,918
Average Monthly Bill/ Customer	$24.46	$25.99	$27.13	$42.19	$58.03	$66.12	$71.34	$70.98	$72.13	$83.05	$83.64
Average Monthly Revenue/KWH	$.0144	$.0145	$.0158	$.0249	$.0331	$.0378	$.0391	$.0375	$.0390	$.0435	$.0436

[1] 12 months ending June 30, 1981.

TYPICAL RESIDENTIAL GAS AND ELECTRIC BILLS OF SIX TEXAS CITIES[1]
Usages: 500 Kilowatt hours for Electric, 5,000 Cubic feet for Gas

City	Electric Bill	Gas Bill	Total Bill
SAN ANTONIO	$29.38	$21.91	$51.29
Houston	32.09	21.99	54.08
Corpus Christi	32.32	22.49	54.81
Fort Worth	34.48	21.08	55.56
Dallas	38.49	17.76	56.25
Austin	34.66	24.24	58.90

[1] Based upon June, 1981 billings including Fuel and Gas Cost Adjustments.

TEN YEAR RECORD OF CITY OF SAN ANTONIO BENEFITS FROM CITY'S ELECTRIC AND GAS UTILITY SYSTEMS

Year Ending 1-31:	Payments To City[1]	Increase in City's Equity in System	Total Annual Benefits to City
1971	$ 11,683,183	$ 23,754,307	$ 35,437,490
1972	12,700,217	24,729,461	37,429,678
1973	14,085,974	23,678,984	37,764,958
1974	14,993,759	19,520,893	34,514,652
1975	23,387,116	23,385,705	46,772,821
1976	28,447,237	25,575,284	54,022,521
1977	32,189,018	27,811,402	60,000,420
1978	36,996,987	31,491,910	68,488,897
1979	39,557,154	22,943,464	62,500,618
1980	43,310,425	24,178,218	67,488,643
1981	52,569,716	42,544,744	95,114,460
Totals	$309,920,786	$289,614,372	$599,535,158

[1] Payments to City annually include cash payments, refund of charges for furnishing City electricity and gas, and construction of street lighting facilities for City.

LEGAL OPINION

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

FINANCIAL ADVISOR

Russ Securities Corporation, the Municipal Finance Subsidiary of Rotan Mosle Financial Corp., is employed as Financial Advisor to the Board under an agreement providing for a fee based on a percentage of the face amount of each separate issuance of bonds, such fee to be contingent upon the bonds actually being issued, sold and delivered. Although Russ Securities Corporation performed an active role in the drafting of the Official Notice of Sale and Official Statement, it has not independently verified all of the information set forth herein. No person, therefore, is permitted to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to the completeness and accuracy of such information.

AUTHENTICITY OF INFORMATION

The financial data and other information set forth in this Official Statement has been obtained from CPS and City records and other sources which are believed to be reliable, but it is not guaranteed as to the accuracy or completeness thereof, and its inclusion herein is not to be construed as a representation to that effect. Also, there is no guarantee or representation that any of the assumptions or estimates contained herein will ever be realized. All of the summaries or excerpts of statutes, ordinances, regulatory agency orders, judgments or other documents do not purport to be complete statements and are made subject to all of the provisions of such statutes, ordinances and documents. Reference should be made to such original sources in all respects.

CERTIFICATION OF THE OFFICIAL STATEMENT

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

This Official Statement has been duly approved by the City Council of San Antonio, Texas and by the City Public Service Board of San Antonio.

CITY OF SAN ANTONIO, TEXAS

Henry Cisneros

Henry G. Cisneros
Mayor, City of San Antonio, and
Ex Officio Member, Board of Trustees

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Glenn Biggs

Glenn Biggs
Chairman, Board of Trustees

APPENDIX A

CITY OF SAN ANTONIO, TEXAS - GENERAL INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the area in which the City is located and does not constitute a part of this Official Statement. Information in this Appendix is believed to be reliable, although no investigation has been made to verify the accuracy of such information.

DEMOGRAPHIC AND ECONOMIC DATA

Location and Population

The City of San Antonio is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest from the Gulf of Mexico, and 150 miles northeast from the Mexican border cities of Del Rio, Eagle Pass and Laredo. The land area of the City covers approximately 317 square miles.

The City was founded in the early eighteenth century and was incorporated by the Republic of Texas in 1837, and is the County seat of Bexar County. The Bureau of Census 1980 Advance Report sites the population of the City to be 785,410, making it the third largest city in Texas and the eleventh largest in the United States.

The following table provides, at the dates shown, the population of the City, Bexar County, and the San Antonio SMSA, which includes Bexar, Comal and Guadalupe Counties.

Year	City of San Antonio	Bexar County	San Antonio SMSA
1920[1]	161,399	202,096	238,639
1930[1]	231,542	292,533	333,442
1940[1]	253,854	338,176	376,093
1950[1]	408,442	500,460	542,209
1960[1]	587,718	687,151	736,066
1970[1]	654,153	830,460	888,179
1980[2]	785,410	988,800	1,071,954

[1] *Source: U.S. Census of Population, 1920-1970 as of April 1 of the year shown.*
[2] *Source: 1980 Advance Report — P.H.C. 80-V-45, 1980 Census of Population and Housing Bureau of Census, March, 1981.*

Economic Factors

The City of San Antonio, the County seat of Bexar County, and as indicated in the foregoing section, is included in the three-county San Antonio Standard Metropolitan Statistical Area. San Antonio has a diversified economic base which is composed of agribusiness, manufacturing, construction, tourism, the South Texas Medical Center complex, and is the site of the largest concentration of military installations in the United States. The City's proximity to Mexico provides favorable conditions for international business relations with Mexico in the areas of agriculture, tourism, manufacturing, wholesale and retail markets for citizens of Mexico. Industry ranges from the manufacturing of apparel, food products, aircraft, electronics and pharmaceuticals to iron and steel products and oil well equipment. San Antonio is also a major insurance center in the southwest, serving as the headquarters for several insurance companies, including United Services Automobile Association, the nation's 8th largest private automobile insurer and the 15th largest homeowners insurer. Educational facilities in the City include ten colleges and universities with a combined total enrollment of 50,165 for the fall semester 1980.

Military Installations

The Military presence in Bexar County is a principal component of the area economy. As of December 31, 1980, approximately 41,351 active duty military personnel were located in the County, according to the Greater San Antonio Chamber of Commerce, having a combined active military/civilian annual payroll of $827,281,988. The major installations located in the County include Fort Sam Houston, the U.S. Army Health Services Command, Randolph Air Force Base, Brooks Air Force Base, the San Antonio Air Logistics Center, and the Air Force Military Training Center at Lackland Air Force Base.

Agricultural Receipts

The following table shows the total amount of receipts received from crops and livestock in Bexar County for the years indicated:

Year	Crops	Livestock	Federal Payments	Total[1]
1974	$ 7,902,000	$18,383,000	222,000	$26,507,000
1975	8,662,000	20,433,000	102,000	29,197,000
1976	9,828,000	23,271,000	74,000	33,173,000
1977	12,232,000	22,841,000	565,000	35,638,000
1978	12,276,000	28,639,000	172,000	41,087,000
1979	17,179,000	33,968,000	206,000	51,353,000

[1] Figures do not include federal agricultural subsidies.

Source: Texas Crop and Livestock Reporting Service.

Construction Activity

The City has experienced continuing expansion in construction activity, capital investment and industrial job growth. According to the City of San Antonio Department of Economic and Employment Development, recent expansion of local companies has created approximately 2,350 new jobs. New companies which have recently located in San Antonio have collectively created approximately 6,025 new jobs, and have announced plans for an additional 2,500 new jobs.

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated.

	Residential Single Family		Residential Multi-Family[1]		Other[2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
1975	1,492	$ 31,529,001	184	$11,757,998	12,015	$115,508,444
1976	2,025	48,568,523	149	10,298,267	10,980	104,997,735
1977	2,935	71,971,872	194	17,937,023	11,110	123,742,635
1978	2,550	68,551,313	320	31,751,780	11,405	138,132,132
1979	2,265	68,976,660	529	70,665,934	10,059	220,036,943
1980	2,376	$114,756,432	535	77,102,937	13,210	252,110,675

[1] Includes two family duplex projects.
[2] Includes commercial building permits, commercial additions, improvements and extensions, and certain residential improvements.

Source: Department of Housing and Inspections, City of San Antonio.

Convention Statistics

The City's climate and recreational facilities make San Antonio a favorable convention site in the southwest. The following convention statistics were compiled by the San Antonio Convention and Visitors Bureau:

Calendar Year	Conventions	Number of Room Nights	Estimated Dollar Value
1975	415	323,440	$29,247,850
1976	465	308,396	27,783,600
1977	434	287,910	29,613,980
1978	488	329,816	34,129,800
1979	689	378,387	68,760,822
1980	733	432,702	81,003,504
1981[1]	375	301,379	28,845,000

[1] As of June 30, 1981.

Two new hotels, the Plaza Nacional and Marriott with a combined total of 750 rooms, have recently been completed. Currently under construction, in the central downtown area, is the Alamo Plaza — Paseo del Rio Linkage Project which includes: construction of a new 641 room Hyatt Regency Hotel; development of the Riverwalk Linkage, which is a multi-level pedestrian walkway between Alamo Plaza and Paseo del Rio; development of a shopping mall and sidewalk dining, shopping and entertainment areas along the Riverwalk Linkage; and the recently completed 532 car parking garage. The addition of those new facilities in the downtown area would permit the city to accommodate larger convention groups and tourists.

Medical and Research Facilities

The City continues to play a significant role in expanding medical service, research and development. In addition to the 23 hospitals serving the City, the South Texas Medical Center employs an estimated 11,738 people, and contains a total of 25 major facilities plus support facilities valued at approximately $323,314,975. Construction in progress amounts to approximately $23,850,000, and planned new construction over the next two to five years is estimated at an additional $35,820,000 for a total in excess of $59,670,000. The Southwest Research Center is one of the largest and most respected organizations of its type. With a staff of over 2,245 and an annual budget over $88 million, Southwest Research Center specializes in Biological Growth and Development, Reproductive Physiology, Microbiology and Infectious Diseases, and Environmental Health Science, and Engineering and Applied Research.

Business Establishments With 500 or More Employees

Manufacturing

Firm	Product/Service
Atherton Industries	Heavy Equipment and Lift Truck Service
Coca-Cola Bottling Company of San Antonio	Soft drink manufacturer
Datapoint Corporation	Computers and peripherals
Finesilver Manufacturing Company	Men's, youths', and boys' clothing
Friedrich Group	Air condition units and products
Levi Strauss & Company	Women's wear
Levi Strauss & Company	Youthwear
Miller Curtain Company	Curtains and draperies
Pearl Brewing Company	Malt beverages
Roegelein Company	Meat processing
Santone Industries	Men's clothing
Structural Metals Inc.	Reinforcement steel bars
Swearingen Aviation Corporation	Aircraft manufacturer
Tesoro Petroleum Corporation	Petroleum products
Valero Energy Corporation	Petroleum products

Transportation, Communication and Utilities

Firm	Product/Service
City Public Service Board	Municipal gas and electric utility
City Water Board	Water utility
Red Arrow Freight Lines Inc.	Common carrier
San Antonio Express-News Corporation	Newspaper
San Antonio Light	Newspaper
Southern Pacific Railroad	Transportation
Southwestern Bell Telephone Company	Telephone Utility
Southwestern Motor Transport, Inc.	Common carrier
VIA Metropolitan Transit	Public Transportation

Wholesale

Firm	Product/Service
Alamo Iron Works	Aluminum, Brass and Steel Products

Retail

Firm	Product/Service
H.E. Butt Grocery Company	Supermarket
Cafeterias, Inc. (Luby's)	Cafeteria
Church's Fried Chicken, Inc.	Fast food chain
Dillard's Department Stores	Department store
Food City, Inc.	Supermarket
Frontier Enterprises	Restaurant
Handy Andy, Inc.	Supermarket
Jack-in-the-Box	Fast food chain
Joske's	Department store
Montgomery Ward & Company	Retail merchandise
Mr. M Food Stores	Convenience store
J.C. Penney & Company	Department store
Sears, Roebuck & Company	Department store
Sigmor Corporation	Gasoline outlet
Sommers Discount Drug Stores	Drug store
Winn's Stores Inc.	Variety store
Woolco	Discount store

Services

Firm	Product/Service
Awalt Caterers, Inc.	Caterer
Baptist Memorial Hospital System	Hospital
Bexar County Hospital District	Hospitals (Robert B. Green and Bexar County)
Chromalloy American Corporation	Jet engine repair
EG&G Automobile Research, Inc.	Automotive testing
Edgewood Independent School District	Public school district
Harlandale Independent School District	Public school district
Judson Independent School District	Public school district
Kelly Services, Inc.	Temporary help services
La Quinta Motor Inns, Inc.	Motor inn
Manpower Temporary Services	Temporary service
Metropolitan General Hospital	Hospital
Murphy, Audie L., Memorial V.A. Hospital	Federal hospital
Nix Professional Building, Inc.	Health care
North East Independent School District	Public school district
Northside Independent School District	Public school district
Peakload, Inc.	Temporary labor contractor
River Hotel Co. (La Mansion Hotels)	Hotels
San Antonio Community College District	Educational institution
San Antonio Community Hospital	Hospital
San Antonio Housing Authority	Public housing office
Santa Rosa Medical Center	Hospital
Smith, Stanley, Security, Inc.	Security service
South San Antonio Independent School District	Public school district
Southwest Research Institute	Nonprofit research institute
Southwest Texas Methodist Hospital	Hospital
University of Texas at San Antonio	Educational institute
University of Texas Health Science Center at San Antonio	Teaching and health care institution
University of Texas Institute of Texan Cultures at San Antonio	Educational institution

Source: Economic Development Department of the Greater San Antonio Chamber of Commerce.

Finance, Insurance and Real Estate

Firm	Product/Service
Ellison, Ray, Industries	Developer
Frost National Bank	Banking
National Bank of Commerce	Banking
Owens, Deanie, Realty, Inc.	Real estate
United Services Automobile Association	Insurance

Contract Construction

Firm	Product/Service
H.B. Zachry Company	General contractor

Employment Statistics[1]

City of San Antonio Labor Force Statistics

The City of San Antonio labor force statistics as of June 1980 and June 1981 are as follows:

	June 1980	June 1981
Total Employed	309,500	318,700
Unemployed	29,050	33,400
Total Labor Force	338,550	352,100
Percent of Unemployment	8.6%	9.5%

Sa ı Antonio SMSA Labor Force Statistics[2]

The estimated average annual labor force in the San Antonio SMSA as of June 1980 and June 1981 is as follows:

	June 1980	June 1981
Total Employed	395,450	407,200
Unemployed	36,100	41,200
Total Labor Force	431,550	448,400
Percent of Unemployment	8.4%	9.2%
Nonagricultural Employment:		
Manufacturing	51,250	53,750
Mining	2,500	2,900
Construction	28,550	29,850
Transportation, Communication and Utilities	18,500	19,300
Retail and Wholesale Trade	98,750	99,000
Finance, Insurance and Real Estate	26,600	27,800
Service	78,700	81,550
Government	94,500	93,000
Total	399,350	407,150
Agriculture	4,750	4,650
Total[3]	394,600	402,500

[1] Preliminary — subject to revision.
[2] Includes Bexar, Comal, and Guadalupe Counties.
[3] Total job count.

Source: Texas Employment Commission.

Bank Deposits

Deposits in commercial San Antonio banks at December 31 for the past six years are shown below.

Year	Total Number of Banks	Total Deposits (000's)
1975	39	$2,581,205
1976	40	2,935,072
1977	42	3,190,248
1978	44	3,435,396
1979	44	3,812,173
1980	46	4,271,610
1981[1]	45	4,391,160

[1] As of June 30, 1981

Source: Greater San Antonio Chamber of Commerce.

MUNICIPAL GOVERNMENT, INDEBTEDNESS AND RELATED INFORMATION

CITY GOVERNMENT

The City has a Council-Manager form of government in which the Mayor and ten council members serve as the legislative body. These eleven officials are elected for two year terms. The present term of office for all elected officials expires in April, 1983. The City Manager is appointed by the City Council and serves as the chief administrative officer of the City.

SUMMARY FINANCIAL STATEMENT RELATING TO CITY GENERAL OBLIGATION BONDS

1980 Assessed Valuation (100%) of Actual)		$6,674,716,026
Less: Exemptions		363,057,956
1980 Net Assessed Valuation		$6,311,658,070
General Obligation Bond Debt (At June 30, 1981)		118,370,000
Less: Self-Supporting Debt	$17,128,011	
Applicable Interest & Sinking Fund	9,956,016	
Net General Obligation Debt (At June 30, 1981)		$ 91,285,973

Source: City Controller

PRINCIPAL TAXPAYERS

The ten largest City of San Antonio taxpayers as of January 1, 1981 as listed on the City's tax rolls are shown below:

	Assessed Value[1]
1. Southwestern Bell Telephone Company	$227,548,087
2. United Services Automobile Association	89,388,510
3. Frost National Bank	32,920,628
4. Sears Roebuck & Company	27,884,058
5. H.E. Butt and Company	25,960,445
6. National Bank of Commerce	25,395,400
7. H.B.Zachry	23,095,245
8. I.B.M.	16,012,380
9. Joske's of Texas	15,362,220
10. Alamo National Bank	14,847,041

[1] Assessed Valuation at 100% of Market Value.

CITY REVENUE BOND INDEBTEDNESS

Information concerning the City of San Antonio revenue bond indebtedness payable from electric and gas, water, sewer, and airport systems operations is shown below.

	As of June 30, 1981	
	Revenue Bonds Outstanding	Fund Balances[1]
Electric and Gas Systems Revenue Bonds	$1,061,505,000[2]	$ 94,381,000
Water Revenue Bonds	66,615,000	6,904,761
Sewer Revenue Bonds	37,305,000	5,140,656
Airport Revenue Bonds[3]	55,000,000	3,402,108

[1] Includes all required I&S and reserve fund balances of each system.
[2] Complete financial information on the City's Electric and Gas System is given in the main body of the Official Statement. Includes these $60,000,000 Electric and Gas Systems Revenues Improvement Bonds, New Series 1981-A.
[3] Includes $30,000,000 Airport System Revenue Bonds which were sold on June 25, 1981.

Summary statements of operations of the City's Water, Sewer and Airport Systems for the past two years, showing historical coverage of actual revenue bond debt service requirements are as follows:

City of San Antonio Waterworks System

	Fiscal Years Ended 12-31:	
	1980	1979
Gross Revenues	$25,426,090	$21,146,361
Current Expenses	15,418,572	12,521,059
Net Revenues	$10,007,518	$ 8,625,302
Maximum Principal and Interest Requirements		$7,184,835 in 1982[1]
COVERAGE	1.39x	1.20x

[1] Includes $15,000,000 Water Revenue Bonds which were sold on June 11, 1981.

City of San Antonio Sewer System

	Fiscal Years Ended 7-31:	
	1980	1979
Gross Revenues	$16,654,270	$15,120,218
Current Expenses	6,607,550	5,884,751
Net Revenues	$10,046,720	$ 9,235,467
Maximum Annual Principal and Interest Requirements		$3,919,425 in 1988
COVERAGE	2.56x	2.36x

City of San Antonio Airport System

	Fiscal Years Ended 7-31:	
	1980	1979
Gross Revenues	$ 8,107,885	$ 7,051,872
Current Expenses	3,831,910	3,112,267
Net Revenues	$ 4,275,975	$ 3,939,605
Maximum Principal and Interest Requirements		$2,589,000 in 2006[1]
COVERAGE	1.65x	1.52x

[1] Does not include principal and interest requirements on $30,000,000 Airport System Revenue Bonds which were sold on June 25, 1981.

COMPARATIVE ANNUAL STATISTICAL DATA

Growth Indices

Year Ending	Telephone Connections	Electric Customers	Gas Customers	Water Customers[1]
1969	401,573	232,952	199,749	146,089
1970	429,954	239,519	204,327	148,452
1971	458,785	248,739	210,632	151,200
1972	491,100	260,632	219,127	154,513
1973	515,313	267,443	224,084	159,012
1974	538,800	269,500	227,923	161,100
1975	558,203	272,586	230,042	162,627
1976	589,663	279,587	234,337	164,454
1977	622,732	290,904	240,566	167,633
1978	662,892	307,705	249,391	172,185
1979	698,601	321,130	255,042	178,707
1980	721,136	338,727	263,012	183,084

[1] City Water Board only.

Business Indices

Calendar Year	Bank Clearings	Building Permits	Postal[1] Receipts
1969	$10,884,022,753	$ 85,904,537	N/A
1970	10,014,836,330	103,210,207	N/A
1971	11,547,764,451	131,182,026	17,695,000
1972	13,312,759,105	223,749,000	18,681,000
1973	16,304,437,765	226,710,152	22,702,000
1974	17,475,520,274	183,520,814	23,914,000
1975	18,249,836,385	158,795,443	26,407,000
1976	20,323,429,838	163,864,525	29,818,000
1977	22,537,211,921	213,651,530	38,062,000
1978	25,745,461,776	238,435,225	43,000,000
1979	29,443,679,652	359,679,537	50,187,000
1980	33,863,636,207	443,970,044	54,906,088

[1] On fiscal year basis.

Municipal Sales Tax Collections

The following statistics show a comparative record of municipal sales tax collections for the ten largest Texas cities based upon the 1980 Census.

	Sales Taxes - Net				
	1976	1977	1978	1979	1980
Arlington	$ 3,982,501	$ 4,898,972	$ 5,957,294	$ 6,919,493	$ 8,173,206
Amarillo	5,019,925	6,072,153	6,474,596	6,692,895	7,544,298
Lubbock	5,614,266	7,201,597	7,894,896	7,940,443	9,169,520
Corpus Christi	6,347,307	7,781,217	9,000,730	9,650,148	11,663,873
Austin	9,184,380	13,009,879	14,916,835	15,372,680	18,218,584
El Paso	9,034,726	10,345,787	11,738,879	11,796,540	13,682,760
Fort Worth	12,351,647	15,875,359	18,841,540	18,501,565	21,615,400
SAN ANTONIO	18,966,511	22,877,320	25,503,388	25,893,182	31,180,618
Dallas	35,364,489	46,498,780	52,152,250	55,333,157	65,141,511
Houston	62,599,850	76,423,020	92,457,067	97,297,343	116,168,029

APPENDIX B

CITY PUBLIC SERVICE
FINANCIAL STATEMENTS FOR THE YEARS
ENDED JANUARY 31, 1981 and 1980
AND AUDITORS' REPORT

Deloitte
Haskins+Sells

711 Navarro, Suite 337
San Antonio, Texas 78205
(512) 224-1041
Cable DEHANDS

Board of Trustees
City Public Service
San Antonio, Texas:

We have examined the balance sheet of City Public Service as of January 31, 1981 and the related statements of earnings and applications of earnings, changes in equity, and changes in financial position for the year then ended. Our examination was 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. The financial statements of City Public Service for the year ended January 31, 1980 were examined by other auditors whose report, dated February 29, 1980, expressed an unqualified opinion on those statements.

In our opinion, the financial statements for 1981 present fairly the financial position of City Public Service at January 31, 1981 and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

March 19, 1981

CITY PUBLIC SERVICE

BALANCE SHEETS, JANUARY 31, 1981 AND 1980

ASSETS	NOTES	1981 (in thousands)	1980 (in thousands)
UTILITY PLANT - At cost:	1		
Electric		$ 871,919	$ 846,877
Gas		138,475	129,759
General		17,496	16,979
Construction work in progress	7	599,026	455,958
Total		1,626,916	1,449,573
Less accumulated depreciation		263,151	236,614
Utility plant - net		1,363,765	1,212,959
RESTRICTED CASH (Principally temporary cash investments and U. S. Government obligations) - at cost which approximates market):	3		
Bond Construction Fund		5,888	
Bond Reserve - Old Series Bonds		17,405	17,186
Bond Reserve - New Series Bonds		33,583	22,377
Improvements and Contingencies Fund		62,159	42,491
Total restricted cash		119,035	82,054
EQUITY IN LOVACA SETTLEMENT TRUST	6	29,540	30,540
CURRENT ASSETS:			
Cash, including temporary cash investments - at cost		11,597	35,105
Accounts receivable, less allowance for doubtful accounts of $300,000		32,327	31,504
Inventories - at average cost:			
Materials and supplies		18,765	16,374
Fuel stock		43,059	31,639
Prepayments		972	1,725
Total current assets		106,720	116,347
DEFERRED DEBITS:			
Unamortized debt expense		1,342	1,159
Other		1,582	2,192
Total deferred debits		2,924	3,351
TOTAL		$1,621,984	$1,445,251

LIABILITIES	NOTES	1981 (in thousands)	1980 (in thousands)
LONG-TERM DEBT - Revenue Improvement Bonds:	3 & 4		
Old Series		$ 156,390	$ 163,630
New Series		751,100	603,675
Total long-term debt		907,490	767,305
EQUITY:			
Appropriated retained earnings:	3		
Bond Reserve - Old Series Bonds		17,405	17,186
Bond Reserve - New Series Bonds		33,583	22,377
Improvements and Contingencies Fund		62,159	42,491
Total		113,147	82,054
Reinvested earnings		472,799	461,347
Total equity		585,946	543,401
CURRENT LIABILITIES:			
Current maturities of long-term debt	4	19,015	16,340
Accounts payable and accrued liabilities		44,412	48,881
LoVaca settlement benefits payable to customers	6	745	7,910
Customer service deposits		3,208	2,806
Total current liabilities		67,380	75,937
DEFERRED CREDITS:			
LoVaca settlement benefits	6	29,540	30,540
Customer advances for construction		4,483	3,412
Other		463	394
Total deferred credits		34,486	34,346
CONTRIBUTIONS IN AID OF CONSTRUCTION		26,682	24,262
COMMITMENTS AND CONTINGENCIES	7 & 8		
TOTAL		$1,621,984	$1,445,251

See notes to financial statements.

CITY PUBLIC SERVICE

STATEMENTS OF EARNINGS AND APPLICATION OF EARNINGS
FOR THE YEARS ENDED JANUARY 31, 1981 AND 1980

	NOTES	1981	1980
		(in thousands)	
REVENUE:	1		
Electric		$333,656	$274,601
Gas		91,275	79,080
Interest		19,099	13,669
Gross revenue		444,030	367,350
EXPENSES:	1		
Gas, electricity and fuel		238,760	197,505
Other operating and general		38,786	32,907
Maintenance		18,142	14,663
Depreciation		30,101	29,274
Interest and debt expense		55,892	44,297
Allowance for interest charged to construction		(32,766)	(18,784)
Payments to the City of San Antonio:	5		
In lieu of taxes		4,997	4,923
Refund of electric and gas services		9,713	8,384
Additional payments		37,860	30,003
Total expenses		401,485	343,172
EARNINGS BEFORE APPLICATION		42,545	24,178
Add:			
Depreciation		30,101	29,274
Interest requirements on New Series Bonds (payable from Improvements and Contingencies Fund)		46,161	34,281
AVAILABLE FOR APPLICATION		$118,807	$ 87,733
APPLICATION:			
To operating funds for working capital			$ 2,000
To pay long-term debt requirements - Old Series Bonds:			
Principal payments		$ 6,940	6,655
Bond reserve		219	79
To reinvested earnings - Net gain on sale of assets		124	97
To Improvements and Contingencies Fund:			
Minimum requirement (12-1/2% of gross revenue)		55,504	45,919
Balance of available revenue		56,020	32,983
APPLICATION		$118,807	$ 87,733

See notes to financial statements.

CITY PUBLIC SERVICE

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED JANUARY 31, 1981 AND 1980

	NOTES	1981	1980
		(in thousands)	
BOND RESERVE - OLD SERIES BONDS:			
Balance, beginning of year		$ 17,186	$ 17,107
Additions - from application of earnings		219	79
Balance, end of year		$ 17,405	$ 17,186
BOND RESERVE - NEW SERIES BONDS:			
Balance, beginning of year		$ 22,377	$ 14,095
Additions - from Improvements and Contingencies Fund:			
Interest earned on bond reserve investments		2,696	1,519
Reserve requirements		8,510	6,763
Total		11,206	8,282
Balance, end of year		$ 33,583	$ 22,377
IMPROVEMENTS AND CONTINGENCIES FUND:			
Balance, beginning of year		$ 42,491	$ 22,581
Additions - from application of earnings:			
Minimum requirement (12-1/2% of gross revenue)		55,504	45,919
Balance of available revenue		56,020	32,983
Total		111,524	78,902
Deductions:			
New Series Bonds:			
Interest earned and reserve requirements		11,206	8,282
Payment of bond interest		46,161	34,281
Payment of bond principal		10,200	7,675
Construction expenditures		24,289	8,754
Total		91,856	58,992
Balance, end of year		$ 62,159	$ 42,491
REINVESTED EARNINGS:			
Balance, beginning of year		$461,347	$465,440
Additions:			
From Improvements and Contingencies Fund - For construction		24,289	8,754
From applications of earnings:			
To operating funds for working capital			2,000
Old Series Bonds principal payments		6,940	6,655
From Improvements and Contingencies Fund - New Series Bonds principal payments		10,200	7,675
Net gain on sale of assets		124	97
Total		41,553	25,181
Deductions - Depreciation		30,101	29,274
Balance, end of year		$472,799	$461,347

See notes to financial statements.

CITY PUBLIC SERVICE

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JANUARY 31, 1981 AND 1980

	NOTES	1981	1980
		(in thousands)	
SOURCES OF FUNDS:			
Earnings before application		$ 42,545	$ 24,178
Add amount not affecting working capital-depreciation		30,101	29,274
Working capital provided from operations		72,646	53,452
Contributions in aid and advances for construction		4,401	4,193
Sale of revenue improvement bonds		160,000	175,000
LoVaca settlement benefits	6	1,017	38,450
Other		1,677	1,231
Total		239,741	272,326
APPLICATIONS OF FUNDS:			
Acquisition of utility plant		182,998	188,044
Retirement of bonds		17,140	14,330
Increase in current maturities of long-term debt		2,675	3,110
Increase in restricted cash		36,981	28,271
Equity in LoVaca settlement trust			30,540
LoVaca settlement benefits		1,017	7,910
Total		240,811	272,205
INCREASE (DECREASE) IN WORKING CAPITAL		$ (1,070)	$ 121
CHANGES IN WORKING CAPITAL COMPONENTS:			
Increase (decrease) in current assets:			
Cash		$(23,508)	$ 15,808
Accounts receivable		823	4,727
Inventories		13,811	(12,810)
Prepayments		(753)	1,068
Decrease (increase) in current liabilities:			
Current maturities of long-term debt		(2,675)	(3,110)
Accounts payable and accrued liabilities		4,469	2,451
LoVaca settlement benefits payable to customers		7,165	(7,910)
Customer service deposits		(402)	(103)
INCREASE (DECREASE) IN WORKING CAPITAL		$ (1,070)	$ 121
WORKING CAPITAL, BEGINNING OF YEAR		$ 40,410	$ 40,289
INCREASE (DECREASE) IN WORKING CAPITAL		(1,070)	121
WORKING CAPITAL, END OF YEAR		$ 39,340	$ 40,410

See notes to financial statements.

CITY PUBLIC SERVICE

NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 1981 AND 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - City Public Service (CPS) uses the accrual method of accounting based upon the Uniform System of Accounts for Gas and Electric Utilities issued by the National Association of Regulatory Utility Commissioners.

Revenues and Expenses - Revenue is recognized as billed on a cycle basis. Rate schedules include fuel adjustment clauses which permit recovery of fuel and gas costs in the month incurred. CPS charges to expense the cost of electric production fuel as it is consumed and the cost of resale gas at the time of purchase.

Utility Plant is stated at the cost of construction, including costs of contracted services, direct material and labor, indirect costs, including general engineering, labor and material overhead, and an allowance for interest used during construction (AIUDC). CPS computes AIUDC using rates representing the cost of borrowed funds on projects estimated to cost in excess of one million dollars and expected to require more than one year to complete. Retirements of utility plant, together with removal cost less salvage, are charged to accumulated depreciation. The maintenance of property, and replacement and renewals of items determined to be less than a unit of property, are charged to maintenance expense

CPS computes depreciation principally using the straight-line method over the estimated useful service lives of the assets as determined by periodic engineering studies. Depreciation as a percentage of average depreciable plant was 3.06% in 1981 and 3.07% in 1980.

Contributions in aid of construction are amortized over a period equal to the lives of the related assets.

2. PENSION PLAN

CPS has a contributory pension plan covering substantially all employees. Under the Plan insurance is purchased for each participating employee in an amount calculated to yield cash value at retirement sufficient to provide an annuity equal to prescribed benefits. To the extent benefits represent amounts attributable to wage increases received after an employee has reached age 55, CPS assumes all of the incremental cost. The incremental costs for wage increases after age 60-1/2 are paid directly to retirees by CPS.

In accordance with provisions of the Plan, funded pension costs were $3,588,000 in 1981 and $2,828,000 in 1980, which includes $532,000 in 1981 and $470,000 in 1980 paid directly to retired employees. To more systematically allocate total pension costs over the employees' years of active service, CPS accrued an additional $2,100,000 in 1981 to provide for payments that will be required in future years.

An actuarial study is currently being conducted to determine requirements necessary to bring CPS's plan into general agreement with the Employees' Retirement Income Security Act and to insure that it continues to be a qualified plan under the Internal Revenue Code.

In addition to pension benefits, CPS purchased certain life insurance and health benefits for retired employees. The costs of these benefits are recognized as paid and totaled $248,000 in 1981 and $206,000 in 1980.

3. REVENUE BOND INDENTURE REQUIREMENTS

The Trust Indenture executed by the City of San Antonio in conjunction with the issuance of the revenue bonds dated February 1, 1951, through August 1, 1974, "Old Series Bonds," contains, among others, the following provisions:

1) All of the assets of the gas and electric systems, together with the net revenues of the systems, as defined, are pledged with the Harris Trust and Savings Bank of Chicago, Illinois, as Corporate Trustee, to secure the payment of the "Old Series Bonds."
2) Gross revenues of the gas and electric systems shall be applied to: (a) expenses of operating and maintaining the systems; (b) debt service and reserve requirements on the "Old Series Bonds"; (c) payment of an "in lieu of tax" amount to the City of San Antonio; (d) an amount equal to 12-1/2% of gross revenues to the Improvements and Contingencies Fund; (e) additional benefits and payments to the City of San Antonio to bring total City benefits and payments to 14% of gross revenue; (f) additional payments to the Improvements and Contingencies Fund until such fund equals 20% of the value of fixed capital assets; and (g) balance to a surplus fund.

3) The following funds are established: (a) General Fund; (b) Improvements and Contingencies Fund; (c) Bond Construction Fund (containing the proceeds of revenue bonds); (d) Principal and Interest current requirements (containing the monthly payments of annual debt requirements); and (e) Bond Reserve Fund (containing an amount equal to the fiscal year's principal and interest requirements). These funds may be invested with authorized depository banks or in U.S. Government securities.

Beginning with the year ended January 31, 1976, New Series Electric and Gas Systems Revenue Improvement Bonds ("New Series Bonds") were issued. These bonds are junior and subordinate to the "Old Series Bonds." The bond ordinances authorizing these issues provide that no further bonds or obligations will be authorized or issued under the terms of the Trust Indenture for "Old Series Bonds" and, at such time as the Trust Indenture becomes inoperative, the Trust Estate will revert to the City. While any of the "Old Series Bonds" are outstanding, the "New Series Bonds" are payable solely from the net revenues of the systems (1) deposited and available for deposit in the Improvements and Contingencies Fund and (2) payable to the City of San Antonio. At such time as the Trust Indenture covering the "Old Series Bonds" becomes inoperative, revenues will be applied as follows: (a) for maintenance and operating expenses of the systems; (b) for payments of the "New Series Bonds; (c) for the payment of any bonds inferior in lien to the "New Series Bonds" which may be issued; (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in a Repair and Replacement Fund; (e) for cash payments and benefits to the City of San Antonio not to exceed 14% of the gross revenues of the systems; and (f) any remaining revenues to the Repair and Replacement Fund. The funds created by the "New Series Bonds" ordinance are similar to those set forth under the "Old Series Bonds" Trust Indenture.

4. LONG-TERM DEBT

A summary of long-term debt is as follows:

	Final Maturity	Weighted-Average Interest Rate On Outstanding Bonds	Unpaid ..Principal... 1981 (in thousands)	1980
Old Series, 1962-1974	1984-1997	6.053%	$163,630	$170,570
New Series, 1975-1980	1998-2005	6.666%	762,875	613,075
Total		6.592%	926,505	783,645
Less current maturities			19,015	16,340
Amounts due after one year			$907,490	$767,305

At January 31, 1981, "New Series Bonds" totaling $75,000,000 had been authorized by the Board of Trustees of CPS but had not been sold. These bonds were sold on March 5, 1981 at an effective interest rate of 9.956%.

5. PAYMENTS TO THE CITY

The Trust Indenture provides for benefits and services totaling 14% of CPS's gross revenues, as defined to be paid or provided to the City of San Antonio. Currently the total benefits and services to the City of San Antonio are less than 14% of gross revenue as a result of the voluntary action of the City in reducing such benefits due to increased gas costs. The reduction of City benefits has been passed on to gas consumers and, accordingly, there is no effect on financial operations.

6. LOVACA SETTLEMENT

On December 31, 1979, CPS settled claims against its natural gas supplier, LoVaca Gathering Company and its parent, Coastal Corporation. The settlement resulted in CPS owning about 17% of a trust established for the benefit of CPS and other settling parties consisting primarily of equity securities that are to be sold over a seven-year period and a note in the principal amount of $8,000,000. Based on the then current market values of the equity securities in the Trust, a 17% share of the Trust on or about December 31, 1979 had an approximate value of $30,540,000. The market value of CPS's share of the Trust as of January 31, 1981 was about $40,100,000.

All monies received from the Trust are to be distributed to CPS's electric and gas customers. During the fiscal year ended January 31, 1981, CPS received $1,017,000 as a result of the settlement. In 1981, distributions to electric and gas customers totaled $7,916,000 and $266,000, respectively, which included a $7,910,000 cancelation in 1980 of disputed excess fuel costs.

The settlement provided CPS with an option to obtain certain lignite properties. It also required Coastal Corporation to undertake a 15-year gas search program and to provide gas obtained from the program at discounted rates to a natural gas supplier, the benefit of which must be passed through to CPS and other settling parties. The value of these parts of the settlement has not been recorded in CPS's financial statements because of the inherent uncertainty thereof. Since CPS has determined that it will pass through the benefits of this settlement to its ratepayers, the settlement will have no substantial effect on the results of operations of CPS.

7. PURCHASE AND CONSTRUCTION COMMITMENTS

CPS has commitments under an agreement with Houston Lighting & Power Company, Central Power and Light Company, and the City of Austin for joint construction of a nuclear power plant. CPS's share of the remaining cost of the plant is estimated to be approximately $348,000,000 for construction over the next four-to-six years, exclusive of initial fuel requirements and interest during construction. Additional factors that may cause construction costs to vary from the estimated amount include continuing inflation, changes in equipment delivery and construction schedules, and legislative changes. In addition to the above, other purchase and construction commitments amounted to approximately $12,650,000 at January 31, 1981. As of January 31, 1981, CPS has no material lease commitments.

8. CONTINGENCIES

Coal Freight Rate Dispute - Since the mid 1970s, CPS and the railroads which transport coal from Wyoming to San Antonio have been engaged in continuous litigation regarding the proper rate or tariff, which has been, and is the subject of various Interstate Commerce Commission and court decisions. If the railroads prevail in the most recently initiated action, CPS may have to pay certain additional freight charges. CPS's counsel in this matter is of the opinion that CPS has paid and is paying the proper current lawful charges. CPS has made no provision in the financial statements for any additional costs that might result from an adverse outcome.

Other - CPS is involved in various legal proceedings related to alleged personal and property damages, condemnation appeals, and discrimination cases. In the opinion of management of CPS, such proceedings will not have a material effect on the financial position or results of operations of CPS.

9. SEGMENT INFORMATION

Segment information is as follows:

	1981 (in thousands)			1980 (in thousands)		
	Electric	Gas	Total	Electric	Gas	Total
REVENUE	$ 333,656	$ 91,275	$ 424,931	$ 274,601	$ 79,080	353,681
EXPENSES:						
Operating and maintenance expenses	207,407	88,281	295,688	169,500	75,575	245,075
Depreciation	26,962	3,139	30,101	26,328	2,946	29,274
Total	234,369	91,420	325,789	195,828	78,521	274,349
EARNINGS (LOSS) BEFORE INTEREST AND DEBT EXPENSE, ALLOWANCE FOR INTEREST CHARGED TO CONSTRUCTION, AND PAYMENTS TO THE CITY OF SAN ANTONIO	$ 99,287	$ (145)	$ 99,142	$ 78,773	$ 559	$ 79,332
CAPITAL EXPENDITURES	$ 173,261	$ 9,737	$ 182,998	$ 180,369	$ 7,675	$ 188,044
UTILITY ASSETS	$ 880,290	$142,668	$1,022,958	$ 857,206	$132,087	$ 989,293
CONSTRUCTION WORK IN PROGRESS	596,322	2,704	599,026	453,609	2,349	455,958
TOTAL ASSETS	$1,476,612	$145,372	$1,621,984	$1,310,815	$134,436	$1,445,251

APPENDIX C

CPSB INTERIM FINANCIAL STATEMENTS

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO
Statement of Revenue and Application of Revenue
(Unaudited)
(Thousands of Dollars)

	Period Ending 6-30-81	
	Five Months	Twelve Months
THE REVENUE FROM OPERATIONS WAS:		
Electric sales	$ 126,986	$343,433
Gas sales	42,745	96,787
Interest and other	9,006	20,513
TOTAL REVENUE	$ 178,737	$460,733
THE REVENUE WAS APPLIED AS FOLLOWS:		
FOR OPERATING AND MAINTAINING THE SYSTEM:		
Fuel and gas purchased	$ 97,766	$246,051
Other operating and general expenses	17,867	40,918
Maintenance	7,500	18,378
	123,13[illegible]	305,347
FOR OPERATIONS:	-0-	-0-
FOR DEBT REQUIREMENTS:		
Interest and debt expense	27,165	61,450
Retirement of bonds	8,338	18,429
Additions to Bond Reserve Fund	5,393	12,675
Allowance for funds used during construction	(13,731)	(33,074)
	27,165	59,480
FOR PAYMENTS AND SERVICES TO THE CITY OF SAN ANTONIO	14,708	48,471
FOR ADDITIONS TO UTILITY PLANT:		
Total expenditures	72,072	185,061
Additions to Improvements and Contingencies Fund	-0-	9,488
	72,072	194,549
Less Funds from other sources (including Bond Construction Fund, Customer contributions, etc.)	58,341	147,114
Total revenues for additions to plant	13,731	47,435
TOTAL REVENUE APPLIED	$ 178,737	$460,733

( ) Represents decrease

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO
Comparative Balance Sheets at June 30
(Unaudited)
(Thousands of Dollars)

Assets

	1981	1980
Utility Plant	$1,697,251	$1,517,836
Less Allowance for depreciation	274,537	248,089
	1,422,714	1,269,747
Restricted Cash and Securities:		
Bond Reserve Fund	56,380	43,706
Bond Fund Current Requirements	38,001	30,853
Construction funds	86,447	59,466
	180,828	134,025
Equity In LoVaca Settlement Trust	27,828	29,540
Current Assets:		
Cash, including temporary investments	2,904	10,689
Accounts receivable	34,437	30,393
Materials and supplies	17,131	17,343
Fuel oil	6,456	6,614
Coal	37,835	28,758
Prepayments and other	7,064	2,780
	105,827	96,577
Unamortized Debt Expense	1,440	1,251
	$1,738,637	$1,531,140

Liabilities

	1981	1980
Long-term Debt		
Old Series	$ 163,630	$ 170,570
New Series	837,875	688,075
	1,001,505	858,645
Less current maturities	20,400	17,140
	981,105	841,505
Earnings Reinvested in Plant	627,317	573,909
Current Liabilities:		
Current maturities of long-term debt	20,400	17,140
Accounts payable	39,911	28,836
LoVaca settlement payable to customers	3,411	6,332
Customers' service deposits	3,355	2,954
	67,077	55,262
Deferred LoVaca Settlement Benefits	27,828	29,540
Deferred Credits and Reserves	7,341	5,276
Contributions in Aid of Construction	27,969	25,648
	$1,738,637	$1,531,140

APPENDIX D

TEXT OF CERTAIN INDENTURE PROVISIONS

The provisions of the Old Series Bond Trust Indenture, except as pertain to the issuance of parity bonds, will continue to remain in full force and effect, and will also govern insofar as the New Series Bonds are concerned as long as any of the Old Series Bonds remain outstanding.

The Trust Indenture as amended includes among other Articles and Sections thereof the following:

ARTICLE II
SPECIAL COVENANTS

SECTION 1. The City is duly authorized under the laws of the State of Texas to create and issue the bonds and to execute and deliver this Indenture and to mortgage and pledge the property conveyed and mortgaged hereunder and to pledge the revenues pledged hereunder, and all necessary action on the part of the City and its Board of Commissioners for the creation and issue of the bonds and the execution and delivery of this Indenture has been duly and effectively taken, and the bonds in the hands of the holders thereof are and will be valid and enforceable obligations of the City in accordance with their terms.

* * *

SECTION 5. The City will not, except as specifically permitted by the provisions of this Indenture, create or voluntarily permit to be created any debt, lien or charge which would be on a parity with or prior to the lien of this Indenture on the trust estate or any part thereof or on the income to be derived from the trust estate and from the operation of the City's complete electric light and power system and gas distribution system or any part thereof; and will not do or omit to do or suffer to be done or omitted to be done any matter or thing whatsoever whereby the lien of this Indenture or the priority of such lien or the bonds at any time hereby secured might or could be lost or impaired; and that it will pay or cause to be paid or will make adequate provision for satisfaction and discharge of all lawful claims and demands for labor, materials, supplies or other objects which if unpaid might by law be given precedence to or an equality with this Indenture as a lien or charge upon the trust estate or any part thereof or the income and profits thereof; provided that nothing in this section shall require the City to pay, discharge or make provision for any such lien, charge, claim or demand so long as the validity thereof shall be by it in good faith contested, unless thereby, in the opinion of the Corporate Trustee, the trust estate or some material part thereof will be lost, forfeited or materially endangered.

The provisions of this section are subject to the exception that the Board of Trustees may borrow from time to time on a purely temporary basis, such sums as would ordinarily be borrowed by private companies engaged in similar business in connection with current operations, and expected to be paid and retired from current revenues received during the fiscal year in which such sums are borrowed.

* * *

SECTION 8. The City, acting through the Board of Trustees, will maintain, preserve and keep the trust estate in a state of good repair, working order and condition and will not dispose of the trust estate in whole or in part except in the manner and upon the terms provided in Article VII hereof.

SECTION 9. The City, acting through the Board of Trustees, will duly and punctually keep, observe and perform each and every term, covenant and condition on its part to be kept, observed and performed, contained in this Indenture, and will punctually perform all duties with reference to the trust estate required by the Constitution and laws of the State of Texas, including particularly the making and collecting of such reasonable and sufficient rates and charges for electricity, gas and services supplied by its electric light and power plants and system and gas distribution system, to the City and to all other consumers, adjusting such rates and charges from time to time in such manner as will render the same reasonable but at the same time fully sufficient to meet all the requirements of this Indenture, it being expressly hereby covenanted and agreed that such rates and charges will be so fixed that the revenues derived therefrom will be sufficient at all times to pay for all operating, maintenance, depreciation and replacement costs and interest charges and principal maturities, and to maintain the Bond Reserve Account and the various funds as provided in this Indenture, and to fully carry out all of the agreements contained in this Indenture and any supplemental Indenture hereto.

SECTION 10. To the extent the City may legally so covenant, the City agrees that it will not grant a franchise for the operation of any competing electric system or gas system in the City of San Antonio until all bonds issued hereunder shall have been retired.

ARTICLE III
ACCOUNTS AND RECORDS

SECTION 1. The City, acting through the Board of Trustees, shall keep full and proper books of record and account, in which full, true and proper entries will be made of all dealings, business and affairs of the City which in any way affect or pertain to the operation of the trust estate and the City's electric light and power plants and system and gas distribution system, and will furnish to the Corporate Trustee and to such bondholders as may request such statement, at least once every six months and at such other times as the Trustee may reasonably request, statements in reasonable detail showing the earnings and expenses of the City's electric light and power plants and system and gas distribution system, including the trust estate and the application of funds in the General Account hereinafter established, for the preceding six months' period. Said Board will also furnish to the Trustee from time to time such other data as to the plants, properties and equipment comprising a part of the trust estate as the Corporate Trustee shall reasonable request.

SECTION 2. As soon after the close of each fiscal year as may reasonably be done, said Board of Trustees will furnish to the Corporate Trustee and to all bondholders who may so request full audits and reports covering the operations of the Systems for the preceding fiscal year, and showing the earnings and expenses of the properties and the disposition made of all revenues for said fiscal year, the amounts available for the purposes set forth in Article V hereof, and, in such detail as the Corporate Trustee may request, the assets, liabilities and financial condition of the Systems at the close of such operating year. The Board of Trustees at the same time shall furnish to said Trustee an estimate of earnings and expenses for the ensuing year in sufficient detail to indicate the probable total net income from operations and amounts available for the several funds and accounts established herein. If any such audit discloses any discrepancies or misapplication of funds, the Board of Trustees shall be charged with the duty of rectifying such misapplications as far as possible and of remedying any deficiencies in payments hereunder from the first funds available for such purpose.

SECTION 3. The Board of Trustees will, out of revenues of the trust estate, upon written request of the governing body of the City or either of the Indenture Trustees, permit the governing body of the City and the Indenture Trustees, or either of them, at all reasonable times, by their agents, engineers, accountants and attorneys, to examine and inspect the plants, property, books of account, records, reports and other data relating to the trust estate and to take copies and extracts therefrom, and will afford a reasonable opportunity to make any such examination and inspection and will furnish the Indenture Trustees and the governing body of the City any and all such other information as they may reasonably request. The Indenture Trustees shall be under no duty to make any such examination unless requested so to do by the holders of twenty-five per cent in principal amount of the bonds at the time outstanding and unless such holders shall have offered the said Trustees security and indemnity satisfactory to it against any costs, expenses and liabilities which might be incurred thereby.

SECTION 4. The Board of Trustees shall, so far as practicable and to the extent consistent with the provisions of this Trust Indenture, keep its books and records in the manner prescribed in the Uniform System of Accounts for Electric Utilities adopted by the National Association of Railroad and Utilities commissioners on November 10, 1936, and in the Uniform System of Accounts for Gas Utilities adopted by said Association on November 10, 1936.

ARTICLE IV
INSURANCE

SECTION 1. The City covenants and agrees that at all times it will insure and keep insured through the Board of Trustees all properties subject to the lien hereof which are of a character usually insured by private corporations and cities operating like properties, such insurance to be written in good and responsible insurance companies, against risks customarily insured against by private corporations and cities engaged in similar business activities, and in the same manner and to the same extent, all loss therefrom (except any single loss which does not exceed $25,000) being payable to the Corporate Trustee by the customary mortgagee or trustee clauses to be attached to or inserted in the policies. The Board of Trustees shall furnish to the Corporate Trustee a list of such policies, showing the character of the insurance, the property and risk covered, the name of the insurance company, and other pertinent details, and shall keep said Trustee fully informed of any change in or addition to such list. Upon the written request of said Trustee such policies will be deposited with it. Said Trustee, subject to the provisions of Article IX hereof, shall be under no obligation or duty to obtain any such schedule and shall have no duty or responsibility with respect to the sufficiency or effect of any of such policies of insurance, the renewal thereof, or the responsibility of the insurers, or with respect to any such schedule or the matters shown therein, except to display any such schedule to any holder of bonds desiring to inspect the same.

In case of loss or damage to any of the insured property, the proceeds of any such insurance on any one loss amounting to not more than $25,000 shall either be promptly applied by the Board of Trustees to the repair or replacement of the property destroyed or damaged, or otherwise to the improvement of the mortgaged property, or if not so applied within two years of the date of receipt thereof by the Board of Trustees, such proceeds shall be deposited and used for the redemption of bonds as an addition to redemption funds provided for in Section 6 of Article V hereof. In any case where the proceeds of any such insurance shall amount to a sum in excess of $25,000 on account of any one loss, all such moneys shall be promptly deposited with the Corporate Trustee and shall be paid out from time to time to the Board of Trustees upon written request of the Board, signed by its Chairman or Vice Chairman and its Secretary, and accompanied by a certified copy of the resolution of the Board directing such request, and specifying that certain expenditures have been made or incurred in repairing or replacing the property so impaired or destroyed, and the amount thereof, and requesting the payment by said Trustee to the Board of Trustees of an amount not in excess of the amount of such expenditures. If in the judgment of the Board of Trustees and of a licensed engineer selected by the Board of Trustees and approved by the Corporate Trustee, the interests of the City and the bondholders will be best served through the application of all or part of such insurance proceeds to improvements to the mortgaged property which do not constitute the repair or replacement of the property for the destruction or impairment of which the insurance proceeds are so paid, the amount of such proceeds, to the extent permitted by law, may be applied by the Board of Trustees to the making of such improvements, and payment thereof shall be made to the Board of Trustees by the Corporate Trustee and expended in the manner provided in the last preceding sentence hereof. The Corporate Trustee may in its discretion require such additional proof of the matters certified in such resolution as it may consider necessary or desirable. Any insurance proceeds not so paid out by said Trustee within a period of two years from the date of the receipt thereof shall be added to the redemption fund provided for in Section 6 of Article V hereof and used for the redemption of bonds as therein provided.

Any adjustment of any loss under any policy of insurance made by the Board of Trustees may be consented to by the Corporate Trustee without investigation as to the fairness thereof.

ARTICLE V
APPLICATION OF REVENUES

SECTION 1. During the time any bonds issued under this Indenture remain outstanding, the properties constituting the City's electric generating, transmission and distribution system and gas distribution system (including all of the properties and facilities of every kind constituting the "Trust Estate") shall be operated on the basis of a fiscal year commencing on February 1 of each year and ending on the following January 31st.

SECTION 2. All revenues of every nature received through the operation of the systems shall be deposited as received in a general fund or account to be known as the "City of San Antonio Electric and Gas System General Account," hereinafter referred to as the "General Account". Revenues received for the General Account shall be deposited from time to time as received in such bank or banks as may be selected by the Board of Trustees as the depository or depositories of funds received and administered by the Board of Trustees, such bank or banks being hereinafter collectively referred to as the "Depository". The bank or banks in which such funds are kept on deposit shall at all times be a bank or banks located in the City of San Antonio unless there is no bank in the City of San Antonio qualified and willing to serve as depository, in which case the Depository may be any bank or banks in the State of Texas selected by the Board of Trustees. The Board of Trustees shall advise the Corporate Trustee of the names of the bank or banks selected as Depository from time to time. If for any reason, in its sole discretion, the Corporate Trustee shall disapprove the appointment of any bank or banks for such purpose and shall so advise the Board of Trustees, the Board of Trustees shall promptly appoint some other bank or banks which meet with the approval of the Corporate Trustee.

SECTION 3. Funds in the General Account shall be used from day to day and month to month to pay the current expenses of operating, maintaining and repairing the systems, including the cost of insurance, the purchase and carrying of stores, material and supplies, the purchase, manufacture and production of gas and electricity for distribution and resale, the payment of salaries and the payment of all other expenses properly incurred in operating and maintaining the systems and keeping them in good repair and operating condition. The system of accounts referred to in Section 4 of Article III hereof shall govern in determining whether any particular expenditure represents an operating and maintenance expense or a capital expenditure for extensions and additions to the systems. In the event that at any time hereafter taxes of any nature shall be lawfully imposed on the systems, or any part thereof, or any income or revenues thereof, by the United States of America or any governmental body or taxing subdivision other than the City of San Antonio, and such taxes are paid under the provisions of Section 7, Article II hereof, all such payments shall be made from the General Account as an expense of operation under the provisions of this section. All funds used prior to the date of this Indenture for the carrying of stores, materials and supplies shall be permanently retained in the General Account for such purpose and additional funds shall be added thereto out of revenues from time to time to the extent necessary for carrying such stores, materials and supplies, and there shall be retained in the General Account at the end of each fiscal year funds in such an amount as may be required to meet unpaid accounts and obligations which have accrued or are payable during the year, as necessary operating funds to insure the continued operation of the systems.

SECTION 4. After providing for the cost of operations, maintenance and repairs and extensions provided for by Article 1113 Revised Civil Statutes of Texas as amended, and the retention of necessary operating funds and funds for carrying stores, materials and supplies in accordance with the provisions of Section 3 of this Article V, the next available funds in the General Account shall be used for and the same are hereby pledged to the payment of the principal and interest on bonds issued hereunder and the maintaining of a reserve for such purpose, and the Board of Trustees shall cause to be paid to the Corporate Trustee in due time in each year such amounts as will be fully sufficient to promptly pay all principal of and interest on bonds issued hereunder which will become due on August 1 of such year, and February 1 of the next succeeding fiscal year. The funds in the "San Antonio Electric and Gas Revenue Bonds Reserve Account" held by the Corporate Trustee under the Indenture dated August 1, 1942 shall become and constitute upon the effective date of the Trust Indenture the "San Antonio Electric and Gas Systems Bond Reserve Account" hereinafter referred to as the "Reserve Account") under this Trust Indenture to be used by the Corporate Trustee solely for the payment of principal and interest on bonds secured hereby falling due at any time when there would be a default if funds in the Reserve Account were not used for such purpose. During any period of time when the total amount of funds in said Reserve Account is less than the amount which would be sufficient to pay all principal and interest on bonds theretofore issued hereunder which will become due during the fiscal year immediately succeeding the close of the current year, the Board of Trustees shall pay to the Corporate Trustee an additional amount for addition to said Reserve Account equal to twenty per cent of the total payments otherwise to be made to the Corporate Trustee to meet interest and principal accruing and payable during the fiscal year on all bonds then outstanding and unpaid. Such added payments for said Reserve Account shall cease when said fund has reached the said one fiscal year's requirements as above provided.

The payments required to be made to the Corporate Trustee in this section shall be made as nearly as possible in equal monthly installments in each fiscal year on or before the tenth day of each month, provided that if the tenth day shall fall on a Sunday or holiday the payment may be made on the next succeeding secular day. The "Reserve Account" and the monthly payments to meet next maturing interest coupons and bond maturities shall be kept as separate accounts. The funds necessary to meet maturing interest coupons and bonds shall be forwarded by the Corporate Trustee to the paying agent just prior to each maturity.

SECTION 5. From the next available funds in the General Account after the payments, provisions for payments and additions to funds and accounts to the full extent required in Sections 3 and 4 of this Article V have been made, there shall be paid into the General Fund of the City of San Antonio, for general City use, the sum of $531,000, as a reimbursement for the loss of taxes which the City would receive were the Systems privately owned, for the fiscal year ending January 31, 1952, and a like payment shall be made in each fiscal year thereafter as hereinafter provided. Said payment of $531,000 for the first fiscal year is based upon the value of fixed capital assets of the Systems located within the city limits of the City of San Antonio as of January 31, 1951 being $35,000,000 and the payment to be made in each fiscal year after the first fiscal year shall be in said sum of $531,000 increased or decreased by the ratio by which the value of fixed capital assets within the city limits of the City of San Antonio is increased or decreased above or below the said $35,000,000 as at the end of the preceding fiscal year. The term "value of fixed capital assets" as used in this Section 5 and in Section 6 of this Article V shall mean the original cost of physical plant, including real estate and equipment, constituting the electric and gas systems (but excluding all cash funds and accounts) after deducting, at original cost, all actual retirements of property and all accrued depreciation at rates established in conformity with the accounting provisions contained in Article III of this Trust Indenture, and all questions of cost, property retirements and depreciation shall be determined by the accounts and records kept by the Board of Trustees in accordance with said Article III of this Indenture.

To the extent such remaining funds as provided above are sufficient, such payments in lieu of taxes shall be made in equal monthly installments. The obligation to pay such annual sums into the General Fund of the City shall be cumulative and if in any fiscal year the money in the General Account after meeting all requirements of Sections 3 and 4 of this Article V shall be insufficient to pay in full the sums so due for such year, so much thereof as may be available shall be paid and the deficiency shall be paid from the first available funds in the succeeding fiscal year or years after meeting all prior requirements of Sections 3 and 4 of this Article V.

SECTION 6. That from the next available funds in the General Account after the payments, provisions for payments and additions to funds in full accordance with the provisions of Section 3, 4, 5 of this Article V shall be made there shall be paid into a fund to be known as the "Electric and Gas System Improvements and Contingencies Fund" (hereinafter called the "Improvements and Contingencies Fund") an annual sum equal to not less than twelve and one-half (12-1/2%) per cent of the gross revenues of the systems to be used, as permitted by Article 1113 Revised Civil Statutes of Texas, as amended, for the purposes: (a) extensions, additions and improvements to the Systems (b) to meet contingencies of any kind in connection with the operation, maintenance, improvement, replacement or restoration of property, and (c) the payment of bonds or other obligations for which other funds are not available. To the extent money in the General Account is sufficient for meeting the provisions of Paragraphs 3 to 5, inclusive, of Article V of the Indenture, the transfers or payments into said Fund shall be made in monthly installments. After setting aside and providing for said minimum amount of twelve and one-half (12-1/2%) per cent of gross revenues of the systems to be placed in said Fund as above specified, there shall be paid into the General Fund of City, to the extent available from remaining revenues in the General Account as of the end of each fiscal year: (a) a sum sufficient to reimburse the City for all amounts paid to the Board during the year for gas and electric services of the Systems used by the City for municipal purposes during such fiscal year and to the extent such remaining funds are ofund to be sufficient, such reimbursements may be made currently in monthly installments; and (b) commencing February 1, 1960, and during the three fiscal years ending January 31, 1961, 1962, and 1963, a sum in cash which, when added to (1) the payment in lieu of taxes for the year as provided in Section 5 of Article V of this Indenture, (2) the amount of said reimbursements for electric and gas services during the year, and (3) the amount expended during the year for additions to the street and traffic lighting system will amount to $6,508,000 for the year, and commencing with the fiscal year beginning February 1, 1963, and for each fiscal year thereafter, a sum in cash which, when added to the payments, reimbursements and expenditures for the year mentioned in (1) to (3), inclusive, in the next preceding sentence hereof, will total an amount equal to 14% of the gross revenues of the Systems for the current fiscal year. Such fixed total payments for the first three fiscal years and such additional payments to be made thereafter based on gross revenues shall be paid in monthly installments in accordance with estimates made by the Board and shall be adjusted on or before March 15 after the close of each fiscal year.

All funds remaining the the General Account of the Board of Trustees after making such payments and reimbursements, including all allowances for depreciation, shall be placed in the said "Electric and Gas System Improvements and Contingencies Fund" until such fund, after all disbursements and charges for the purposes above specified have been made, amounts to twenty (20%) per cent of the value of fixed capital assets as shown by the audited statement of the Systems. If at the close of any fiscal year any funds falling into said Improvements and Contingencies Fund result in increasing it above twenty (20%) per cent of the value of fixed capital assets as shown by the audited statement as of the end of the fiscal year, such excess shall be retained in a fund to be known as the "Electric and Gas Systems Surplus Fund". The monies in the Surplus Fund shall be used by the Board of Trustees either (a) as an offset to permit the reduction of either electric rates or gas rates or both commencing in the next fiscal year and extending for such time as the funds will permit, or (b) for the redemption of so many of the last maturing bonds then eligible for redemption prior to maturity, as the available funds are sufficient to retire, such bond retirements to be made out of such fund only when funds available for such purpose reach the amount of $1,000,000 or more. In the event monies in the Surplus Fund are used by the Board of Trustees as an offset to permit the reduction of rates, the Board of Trustees shall in each year transfer all or so much of the Surplus Fund to the General Account of the Board as it may deem necessary, based on the advice of rate engineers for the Board, to offset or aid in offsetting the loss of revenues during the succeeding fiscal year or years due to such rate reductions.

If at the beginning of each fiscal year the total of the funds in the Improvements and Contingencies Fund and in the Bond Construction Fund available for extensions and improvements to the systems, plus the amounts estimated by the Board of Trustees to be available from revenues for such purposes during such fiscal year, is less than the amount budgeted for extensions and improvements during such fiscal year, it shall be the duty of the Board of Trustees to request the City Council to authorize and provide for the sale of additional improvement bonds in the amount necessary with other funds, to meet the cost of budgeted improvements, and it shall be the duty of the City Council to provide for the issuance and sale of such bonds in order that the budgeted extensions and improvements may be made.

SECTION 7. All interest received by the Board of Trustees and the Corporate Trustee upon funds of the system or upon bonds or other securities in which such funds may be invested in accordance with the provisions of this Trust Indenture, except interest received on the Bond Reserve Account, shall be paid annually into the General Account and deal with as a part of the revenues of the system. Interest received on the Bond Reserve Account may, at the discretion of the Board of Trustees, be used for payment of bond interest and principal from time to time. All funds in the possession of the Board of Trustees under the Trust Indenture dated August 1, 1942 and not specifically dealt with and allocated by the provisions of this Trust Indenture shall, upon the effective date of this Trust Indenture, become funds to be administered by the Board of Trustees hereunder for the same purposes and uses to which the same have been dedicated under said prior Trust Indenture. All moneys and funds held in any of the accounts and special funds provided for in this Indenture shall be held as trust funds and accounts for the benefit of the holders of the bonds issued hereunder and moneys and funds in all of said accounts and funds shall at all times, to the extent practicable, be adequately secured by or, as to money in the Reserve Account, invested in United States government bonds or other marketable securities eligible as security for the deposit of trust funds under regulations of the Board of Governors of the Federal Reserve System, or by indemnity bonds of surety companies qualified as surety for United States government deposits. All securities and indemnity bonds taken or standing as security for such money or funds shall be subject to the approval of the Board of Trustees. The Board of Trustees shall make a monthly report to the Corporate Trustee specifying the amounts held in each of the funds on deposit in the Depository and listing the securities and indemnity bonds standing as security for such deposits, and the Corporate Trustee may, but need not, require such additions and substitutions to be made in such securities and indemnity bonds as in its opinion is necessary to protect the interest of the holders of the bonds. Moneys and funds at any time held in the Improvements and Contingencies Fund may, at the discretion of the Board of Trustees, be invested in securities which are either direct obligations of the United States of America or direct obligations of any State or municipality in the United States of America which are eligible for the investment of trust funds under the laws of either the State of Texas or the State of New York then in force, or which are direct obligations of Bexar County, Texas, the City of San Antonio, Texas, or the San Antonio Independent School District.

SECTION 8. At the close of each fiscal year all accounts and funds of the Systems shall be balanced and adjusted and such transfers, distribution and adjustments made as will cause all revenues and income for the year to be applied and held in accordance with the provisions of this Article V, and the Board of Trustees shall at the close of each operating year cause an audit of the Board's accounts and operations to be made by or under the supervision of independent certified public accountants selected by the Board of Trustees.

ARTICLE VI
MANAGEMENT

SECTION 1. Pursuant to the authority contained in Article 1115, Revised Civil Statutes of Texas, 1925, as amended, the complete management and control of the systems during such time as any bonds issued hereunder are outstanding and unpaid shall be vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, to be known as the "City Public Service Board, of San Antonio". Said Board is referred to in this Trust Indenture as the "Board" and the "Board of Trustees". The Mayor of the City of San Antonio shall ex officio be one of the members of the Board of Trustees, and the remaining members of the Board of Trustees shall consist of Walter P. Napier, to serve for a term ending January 31, 1953; Willard E. Simpson, to serve for a term ending January 31, 1955; James H. Calvert, to serve for a term ending January 31, 1957; and John M. Bennett, Jr., to serve for a term ending January 31, 1959; each term of office to commence with the date of this Trust Indenture. All vacancies in membership on the Board, whether occasioned by failure or refusal of any person above named to accept appointment or by expiration of term of office or otherwise, shall be filled by the majority vote of the remaining members of the Board of Trustees. No person who is related within the second degree of consanguinity or affinity to any member of the Board of Trustees or any person who shall have been a member of the Board of Trustees within a period of five years prior to the election shall be eligible for election as a member of the Board. The term of office of each member elected to the Board, after the initial terms of the members named above, shall be five years. A person who has served as a member of the Board either for an initial term as above specified or a single five-year term by virtue of election by the Board of Trustees, shall be eligible to be re-elected for one additional five-year term, and one only. A member who is elected to the Board to serve out an unexpired portion of a retired member's term shall not be considered to have served a "term" unless the unexpired portion of the term so served is three years or more. Permanent removal of residence from Bexar County by any member of the Board shall vacate his office as a member of the Board, and any member of the Board, other than the Mayor of the City, who shall be continuously absent from all meetings held by the Board for a period of four consecutive months shall, unless he shall have been granted leave of absence by the unanimous vote of the remaining members of the Board, be considered to have vacated his office as a member of the Board. Any member of the Board other than the Mayor of the City may, by unanimous vote of the remaining members of the Board, be removed from office, but only for adequate cause.

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

The Board of Trustees shall elect one of its members as Chairman and one as Vice Chairman of the Board and shall appoint a Secretary and a Treasurer, or a Secretary-Treasurer, who may, but need not be, a member or members of the Board. If a member of the Board of Trustees is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the Board whose duties in the operation of the systems require performance of similar duties may be appointed as Secretary or Treasurer, or Secretary-Treasurer. The Board of Trustees may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the systems with the same freedom and in the same manner ordinarily employed by the Board of Directors of private corporations operating properties of a similar nature.

The Board of Trustees shall appoint and employ all officers and employees which it may deem desirable, including a General Manager of the system and an attorney or attorneys. No officer or employee of the Board of Trustees may be employed who shall be related within the second degree of consanguinity or affinity to any member of the Board of Trustees.

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

The members of the Board of Trustees, other than the Mayor of the City, shall receive annual compensation in the amount of Two Thousand ($2,000.00) Dollars, except that the Chairman of the Board shall receive annual compensation in the amount of Two Thousand Five Hundred ($2,500.00) Dollars.

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

ARTICLE VII
POSSESSION AND RELEASE OF PROPERTY

SECTION 1. While not in default in the payment of principal of or interest on any of the bonds secured hereby, or in respect of any of the covenants, agreements or conditions in this Indenture contained, the City, through the Board of Trustees, shall be permitted and suffered to possess, use and enjoy the trust estate and all property and appurtenances, franchises and rights conveyed by this Indenture (except money or property, if any, expressly required to be deposited with the Corporate Trustee) and to receive and use the revenues, rents, issues, income, produce and profits thereof with power in the ordinary course of business freely and without let or hindrance on the part of the Indenture Trustees or of the holders of the bonds, to use and consume supplies; to alter, repair, dismantle and change the position of any of its buildings and structures, plants, mains, pipe lines, poles, wires, conduits or other property whatsoever (provided that no such change shall impair the lien of this Indenture upon any such building, structure, plant, main, pipe line, pole, wire, conduit, or other property); to replace and renew any of its equipment, machinery or other property; and to acquire any and all rights, easements and contracts in connection therewith and release any rights, easements and contracts which are abandoned.

SECTION 2. The City from time to time, through the Board of Trustees, while in possession of the trust estate shall be suffered and permitted without any release from or action by the Indenture Trustees or either of them, to sell, exchange or otherwise dispose of, free from lien of this Indenture, (1) any of its equipment, machinery, fixtures, apparatus, appliances, tools, implements, or other chattels at any time subject to the lien hereof which may have become worn out or unserviceable, disused, undesirable or unnecessary for use in the conduct of its business, replacing the same by, or substituting for the same, other property of equal value to the City, which shall forthwith become, without further action, subject to the lien of this Indenture, and (2) any materials, merchandise equipment and supplies in the ordinary course and conduct of its business; provided, however, that upon the sale or other disposition of such property to the value of $10,000 or more in any one calendar month, the Board of Trustees shall cause to be filed with the Corporate Trustee a certificate describing such property, stating that such property has become worn out, unserviceable, undesirable or unnecessary for use in the conduct of its properties and that such disposition thereof will not impair the operating integrity of the properties, and stating also the consideration received from such sale or other disposition thereof and the use made or to be made of such consideration.

SECTION 3. So long as the City is not in default hereunder the City may sell or otherwise dispose of any real property and improvements thereon mortgaged or covered by this Trust Indenture and the Corporate Trustee shall release the lien and encumbrance of this Trust Indenture upon such property, but only upon the receipt by the Corporate Trustee of a certificate signed by a majority of the members of the Board of Trustees and by an independent licensed engineer stating in substance: (1) that the proposed sale price of the property to be released represents the then fair value of the property to be sold; (2) that the City is not, to the knowledge of the signers of the certificate, in default in the performance of any of the terms or covenants of this Trust Indenture, or any indenture supplemental thereto, or any of the bonds secured thereby; and (3) that the release of the property will not, in the opinion of the signers, be prejudicial to the interest of the bondholders and that the property to be released is not, or will not at the date of delivery or surrender of possession thereof be necessary or useful in the proper and economical operation of the systems.

The money received from the sale of such released property shall be held and used by the Board to the extent permitted by law for the purchase of additional property deemed by the Board necessary or advantageous to the system, and unless such money is used in such purchase of property within two years of the time received, the same shall be used for the redemption prior to maturity of as many of the bonds as may be redeemed with such money in the manner and as a part of the redemption fund provided for in Section 6, Article V of this Trust Indenture. All additional property purchased or acquired under the provisions of this section shall immediately upon such purchase or acquisition become subjett to the lien of this Indenture.

ARTICLE VIII
ISSUE OF ADDITIONAL BONDS

(This section has not been reproduced since it is no longer applicable)

ARTICLE IX
DEFAULTS AND REMEDIES

SECTION 1. For the purpose of this Indenture and any indenture supplemental hereto the following events are hereby defined as and are declared to be "events of default":

(a) Default in the due and punctual payment of any interest on any bond or bonds and the continuance thereof for a period of ninety (90) days after written notice thereof by the Corporate Trustee to each member of the governing body of the City of San Antonio and to each member of the Board of Trustees, stating that payment has been demanded and default made.

(b) Default in the due and punctual payment of the principal of any of the bonds at maturity thereof and the continuance thereof for a period of ninety (90) days after written notice thereof by the Corporate Trustee to each member of the governing body of the City of San Antonio and to each member of the Board of Trustees, stating that payment has been demanded and default made.

(c) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the City to be kept, observed and performed contained in this Indenture or any indenture supplemental hereto, or in the bonds, and continuation of such default for a period of ninety (90) days after written notice thereof by the Corporate Trustee to each member of the governing body of the City of San Antonio and to each member of the Board of Trustees.

(d) The institution of bankruptcy proceedings, either voluntary or involuntary, under any State or Federal statute, whereby the City's duty to carry out all of the covenants and agreements in this Indenture or any supplemental indenture might be in anywise affected.

Any notice hereinprovided to be given to a member of the governing body or the City Clerk, or to a member of or the Secretary of the Board of Trustees shall be deemed sufficiently given if sent by registered mail with postage prepaid to the person to be notified, addressed to him at the post office in the City of San Antonio. The Corporate Trustee may give any such notice in its discretion and shall give such notice if requested so to do by the holders of not less than twenty per cent (20%) in principal amount of the bonds at the time outstanding.

Wherever the term "bonds" is used in this article and elsewhere in this Trust Indenture, unless the context clearly indicates otherwise, the same shall be taken to refer to any bonds issued under this Indenture or a indenture supplemental thereto.

SECTION 2. Upon the happening of any event of default as defined in Section 1 of this article, the Corporate Trustee shall, but only upon the written request of the holders of not less than sixty per cent (60%) in principal amount of the bonds then outstanding hereunder, and upon being indemnified to its satisfaction, by notice in writing to the Secretary of the Board of Trustees and to the City Clerk, to be sent as provided in Section 1 hereof, declare the principal of all bonds then outstanding hereunder to be due and payable immediately, and upon any such declaration the said principal shall become and be due and payable immediately, anything in this Indenture or in the said bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if at any time after the principal of said bonds shall have been declared due and payable and before any sale of the trust estate shall have been made, all arrears of interest upon all such bonds, with interest upon all past due installments of interest at the rate borne by the bonds, and all past due principal of the bonds, together with the reasonable charges and expenses of the Indenture Trustees, their agents, attorneys and counsel, shall be paid by the City, and after all other defaults which may have occurred shall have been remedied or cured to the satisfaction of the Trustee, then and in every such case, the holders of sixty per cent (60%) in principal amount of the bonds then outstanding may, by notice in writing given to the Corporate Trustee, and to the City Clerk and the Secretary of the Board of Trustees in the manner provided in Section 1 of this article, waive such default and its consequences, and rescind such declaration, but no such waiver or rescission shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

SECTION 3. Upon the happening of any event of default as defined in Section 1 of this article, the Indenture Trustees or either of them, personally or by their attorneys or agents, may to the extent permitted by law enter into and upon and take possession of all the trust estate and each and every part thereof and exclude the City and the Board of Trustees, or its agents, servants and employees, wholly therefrom, and have, hold, use, operate, manage and control the same, and each and every part thereof, and in the name of the City or otherwise, as they shall deem best, conduct the business thereof and exercise the franchises pertaining thereto and all the rights and powers of the City, and use all of the then existing property, materials, current supplies, stores, and other assets for that purpose, and at the expense of the trust estate from time to time maintain, restore, insure and keep insured the properties, plants, equipment and apparatus provided or required for use in connection with such business, and likewise from time to time, at the expense of the trust estate, make all such necessary or proper repairs, renewals and replacements and all such useful alterations, additions, betterments and improvements as to them may seem judicious, and collect and receive all rates, earnings, income rents, issues, profits and revenues of the same and of every part therof, and after deducting therefrom the expenses of operation and all expenses incurred hereunder and all other proper outlays herein authorized, and all payments which may be made as just and reasonable compensation for their own services, and for the services of their attorneys, agents, and assistants, and the rest and residue of the moneys received by the Trustees, or either of them, shall be applied as follows:

(a) In case the principal of none of the bonds shall have become due, to the payment of the interest in default, in order of the maturity of the Installments of such interest, with interest on the overdue installments thereof at the same rates, respectively, as were borne by the bonds on which such interest shall be in default, such payments to be made ratably to the parties entitled thereto without discrimination or preference.

(b) In case the principal of any of the bonds shall have become due by declaration or otherwise, first to the payment of the interest in default, in the order of the maturity of the installment thereof at the same rates, respectively, as were borne by the bonds on which such interest shall be in default, and next to the payment of the principal of all bonds then due, such payments to be made ratably to the parties entitled thereto without discrimination or preference.

In case all of such payments, and payment of whatever may be payable for any other purpose required by any provision of this Indenture, shall have been made in full and no suit to foreclose or enforce this Indenture shall have been begun or sale made as hereinafter provided, and upon compliance with all other provisions of this Indenture as to which the City shall be in default, the Indenture Trustees, after making such provision as to them may seem advisable for the payment of the next maturing installment of interest to fall due upon the bonds, shall restore the possession of the trust estate (other than any cash at the time required to be held by the Corporate Trustee hereunder) to the Board of Trustees.

SECTION 4. Upon the happening of any event of default as defined in Section 1 of this Article, if the principal of all of the bonds outstanding hereunder shall have been properly declared due and payable as provided in Section 2 of this Article, and whether or not the remedies authorized by Section 3 of this Article shall have been pursued in whole or in part, the Indenture Trustees, or either of them, may cause this Indenture to be foreclosed and the trust estate to be sold, and may proceed to protect and enforce the rights of the Indenture Trustees and the bondholders hereunder in such manner as counsel for said Trustees shall advise, whether for the specific performance of any covenant, condition, agreement or undertaking herein contained, or in aid of the execution of any power herein granted, or for the enforcement of such other appropriate legal or equitable remedies as may in the opinion of such counsel be more effectual to protect and enforce the rights aforesaid. The Indenture Trustees shall take any such action or actions if requested so to do by the holders of at least sixty per cent (60%) in principal amount of the bonds then outstanding hereunder.

SECTION 5. Upon the happening of any event of default as defined in Section 1 of this Article, and if the principal of all of the outstanding bonds shall have been declared due and payable as provided in Section 2 of this Article, then and in every such case, and whether or not the remedies authorized by Section 3 of this Article shall have been pursued in whole or in part, the Indenture Trustees, or either of them, shall, but only upon the written request of the holders of not less than sixty per cent (60%) in principal amount of the bonds then outstanding hereunder, with or without entry, sell to the highest bidder the trust estate and all right, title, interest, claim and demand thereto and the right of redemption thereof, at any such place or places, and at such time or times and upon such notice and terms as the Trustee acting may fix and specify and as may be required by law. In case of such sale of any of the property subject to this Indenture, notice of such sale shall first be given by publication in at least one daily newspaper published in the city in which the sale is to be made at least once a week for four successive weeks next preceding such sale, and by like publication in at least one daily newspaper published in the City of New York, New York, and by the giving of any other notices which may be required by law, and upon such sale the Trustees may make and deliver to the purchaser or purchasers a good and sufficient deed or deeds for the same, which sale shall be a perpetual bar both at law and in equity against the City and all persons and corporations lawfully claiming or to claim by, through or under it. No purchaser at any such sale shall be bound to see to the application of the purchase money or to inquire as to the authorization, necessity, expediency or regularity of any such sale. Nevertheless, the City, if so requested by the acting Trustee, shall ratify and confirm any sale or sales by executing and delivering to the acting Trustee or to such purchaser or purchasers all such instruments as may be necessary or in the judgment of the acting Trustee proper for the purposes which may be designated in such request.

Such notice of sale shall state that the City has granted to the purchaser of the mortgaged property a franchise for the operation thereof for a period of twenty years dating from such purchase.

SECTION 6. In the event of any sale, whether made under the power of sale hereby granted and conferred or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, the whole of the trust estate shall be sold in one lot and as an entirety, unless such sale as an entirety is impossible or impracticable by reason of some statute or otherwise.

SECTION 7. The acting Trustees may from time to time adjourn any sale to be made by them hereunder by announcement at the time and place of such adjourned sale, and without further notice or publication except as otherwise required by law may make such sale at the time and place to which the same may be so adjourned.

SECTION 8. In case an event of default as defined in Section 1 of this Article occurs, and if all of the bonds outstanding hereunder shall have been declared due and payable as provided in Section 2 hereof, and in case a bill in equity shall be filed or any other judicial proceeding commenced to enforce any right of the Indenture Trustees or of the bondholders under this Indenture or otherwise, then as a matter of right, the acting Trustee shall be entitled to the appointment of a receiver of the trust estate and of the earnings, income or revenues, rents, issues and profits thereof with such powers as the court making such appointment may confer.

SECTION 9. In case the Indenture Trustees, or either of them, shall have proceeded to enforce any rights under this Indenture by foreclosure, sale, or otherwise, and such proceedings shall have been discontinued or superseded, or shall have been determined adversely to said Trustee or Trustees, then and in every such case the City and the Indenture Trustees shall be restored to their former respective positions and rights hereunder in respect of the trust estate, and all rights, remedies and powers of the Indenture Trustees and the bondholders shall continue as though no such proceedings had been taken.

SECTION 10. In case of any such sale of the trust estate, any bondholder or bondholders or committee or bondholders or either Trustee, may bid for and purchase such property and upon compliance with the terms of sale may hold, retain possession and dispose of such property as the absolute right of the purchaser or purchasers without further accountability and shall be entitled, for the purposes of making settlement or payment for the property purchased, to use and apply any bonds hereby secured and any interest thereon due and unpaid, whether or not such interest be evidenced by coupons, by presenting such bonds and coupons in order that there may be credited thereon the sum apportionable and applicable thereto out of the net proceeds of such sale, and thereupon such purchaser or purchasers shall be credited on account of such purchase price payable by him or them with the sum apportionable and applicable out of such net proceeds to the payment of or as credit on the bonds and coupons so presented.

SECTION 11. The proceeds of any judicial or other sale of the trust estate, together with any funds at the time held by the Corporate Trustee and not otherwise appropriated, shall be applied as follows:

First: To the payment of the costs, expenses, fees and other charges of such sale and a reasonable compensation to the Indenture Trustees, their agents and attorneys, and to the discharge of all expenses and liabilities incurred and advances or disbursements made by said Trustees hereunder.

Second: Any surplus then remaining to the payment of the whole amount then due or unpaid upon the bonds issued hereunder and then outstanding for principal and interest, with interest on overdue principal and overdue installments or interest at the same rates, respectively, as were borne by the bonds whereof the principal or installments of interest may be overdue, and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid, then to the payment of such principal and interest ratably according to the aggregate amount due on all bonds then outstanding without preference or priority of principal over interest or of interest over principal.

Third: Any surplus then remaining to the City or whomsoever shall be lawfully entitled thereto.

SECTION 12. In case of a sale under any of the foregoing provisions of this Article, whether made under the power of sale herein granted or under or by virtue of judicial proceedings, the principal of all bonds issued hereunder and then outstanding, if not previously due, shall immediately thereupon become due and payable, anything in said bonds or in this Indenture, or any supplemental indenture, to the contrary notwithstanding.

SECTION 13. The remedies herein conferred upon or reserved to the Indenture Trustees or to the holders of bonds hereby secured are not intended to be exclusive of any other remedy, but each remedy herein provided shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, and every power and remedy hereby given to said Trustees or to the holders of bonds issued hereunder may be exercised from time to time as often as may be deemed expedient. No delay or omission of said Trustees or of any holder of bonds issued hereunder to exercise any power or right arising from any default hereunder shall impair any such right or power (unless the exercise of such right or power shall become barred by law) or shall be construed to be a waiver of any such default or to be acquiescence therein.

SECTION 14. Anything in this Indenture contained notwithstanding, the holders of sixty per cent (60%) in principal amount of bonds hereby secured and then outstanding shall have the right by an instrument or instruments in writing delivered to the Indenture Trustees to direct and control said Trustees as to the method of taking any and all proceedings for any sale of any or all of the trust estate, or for the foreclosure of this Indenture, or any supplemental indenture, or for the appointment of a receiver, and may at any time cause any proceedings authorized by the terms hereof to be so taken or to be discontinued or delayed; provided, however, that such holders shall not be entitled to cause said Trustees to take any proceedings which in their opinion, or the opinion of the one acting, would be unjustly prejudicial to non-assenting bondholders.

SECTION 15. No holder of any bond or coupon issued hereunder shall have any right as such holder to institute any suit, action or proceeding for the foreclosure of this Indenture or for the execution of any Trust hereunder, or for the appointment of a receiver, or for any other remedy hereunder, all right of action hereunder being vested exclusively in the Indenture Trustees, unless and until such holder shall have previously given to said Trustees written notice of a default hereunder and of the continuance thereof, and also unless the holders of the requisite principal amount of the bonds then outstanding shall have made written request upon said Trustees and shall have afforded a reasonable opportunity to institute such action, suit or proceeding in the name of one or both of them, and unless said Trustees shall have been offered reasonable indemnity satisfactory to them against the costs, expenses and liabilities to be incurred therein or thereby, and said Trustee for thirty (30) days after receipt of such notification, request or offer of indemnity shall have failed to institute any such action, suit or proceeding, it being understood and intended that no one or more holders of the bonds shall have the right in any manner whatever by his or their action to affect, disturb or prejudice the lien of this Indenture, or any supplement hereto, or to enforce any right thereunder except in the manner herein provided and for the equal benefit of all holders of such outstanding bonds.

SECTION 16. In any suit or action by or against the Indenture Trustees, or either of them, arising under this Indenture or on all or any of the bonds or coupons issued hereunder, said Trustee or Trustees shall not be required to produce such bonds or coupons, but shall be entitled in all things to maintain or defend any such suit or action without their production.

SECTION 17. If any covenant, agreement, waiver or part thereof in this Article or elsewhere in this Indenture, or in any supplemental indenture, contained be forbidden by any pertinent law, or under any pertinent law be effective to render this Indenture invalid or unenforceable, or to impair the lien thereof, then each such covenant, agreement, waiver or part thereof shall itself be and is hereby declared to be wholly ineffective and this Indenture and supplements thereto shall be construed as if the same were not included herein.

ARTICLE XI
FRANCHISE

In the event that any sale of the trust estate shall be made under any of the provisions of this Indenture for the enforcement of the lien of this Indenture, and any supplements thereto, the City hereby grants to the purchaser or purchasers at such sale a franchise to operate the property so purchased for a term of twenty years dating from such purchase, subject to all laws regulating same then in force. The properties so purchased, in the event they are operated by the purchaser pursuant to such franchise, shall be operated, conducted and maintained in such manner as to be a benefit to the City of San Antonio and its inhabitants, and such purchaser shall be pledged to render efficient public service.

ARTICLE XII
MODIFICATION OF THIS INDENTURE

SECTION 1. The holders of seventy-five per cent (75%) in principal amount of bonds at any time outstanding (not including in any case any bonds which may then be held or owned by or for the account of the City) shall have the right from time to time to consent to and approve the execution by the City and the Indenture Trustees of such Indenture or Indentures supplemental hereto as shall be deemed necessary or desirable by the City for the purpose of modifying or amending any of the terms or provisions contained in this Indenture or in any Indenture or Indentures supplemental thereto or contained in the ordinance authorizing bonds secured by this Indenture; provided, however, that nothing herein contained shall permit or be construed as permitting the modification or amendment of the terms and conditions contained in this Indenture or any supplemental Indenture or any ordinance or bonds so as to:

(a) Make any change in the maturity of the bonds issued hereunder.

(b) Reduce the rate of interest borne by any bonds.

(c) Reduce the amount of the principal or premium, if any, payable on bonds.

(d) Modify the terms of payment of principal or of interest or premium upon bonds or any of them or impose any conditions with respect to such payment.

(e) Affect the rights of the holders of less than all bonds then outstanding.

If at any time the City shall request the Indenture Trustees to enter into such Supplemental Indenture, said Trustee, unless they shall deem that such proposed supplemental Indenture shall contain provisions which affect their rights or obligations and to which they are unwilling to assent, shall at the expense of the Board of Trustees, cause notice of the proposed execution of such supplemental Indenture to be published in a financial newspaper or journal published in the City of New York, New York, and in a newspaper of general circulation published in the City of San Antonio, once during each calendar week for at least four successive calendar weeks, and on or before the date of the first publication of such notice, the Corporate Trustee shall also mail a copy thereof to each registered owner of bonds at his address appearing on said Trustee's registry books, but failure to mail any such notice or any defect therein shall not affect the validity of the proceedings for obtaining consents to the execution and delivery of such supplemental Indenture. Such notice shall briefly set forth the nature of such proposed supplemental Indenture and shall state that a copy thereof is on file at the principal office of said Trustee for inspection by all holders of bonds.

Whenever at any time within one year from the date of the first publication of said notice the City shall deliver to the Corporate Trustee an instrument or instruments executed by the holders of at least seventy-five per cent (75%) in aggregate principal amount of the bonds then outstanding as in this section defined, which instrument or instruments shall refer to the proposed supplemental Indenture described in said notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof on file with the Corporate Trustee, thereupon, but not otherwise, the Indenture Trustees shall execute the said supplemental Indenture in substantially the said form without liability or responsibility to any holder of any bond, whether or not such holder shall have consented thereto.

If the holders of at least seventy-five per cent (75%) in aggregate principal amount of the bonds outstanding as in this section defined at the time of execution of any such supplemental Indenture, or the predecessors in title of such holders shall have consented to and approved the execution thereof as herein provided, no holder of any bond, whether or not such holder shall have consented to or shall have revoked any consent as in this section provided, shall have any right or interest to object to the execution of such supplemental Indenture or to object to any of the terms or provisions therein contained, or to the operation thereof, or to enjoin or restrain the Indenture Trustees or the City from executing the same or from taking any action pursuant to the provisions thereof.

SECTION 2. Upon the execution of any supplemental Indenture pursuant to the provisions of this section, this Indenture and any supplements thereto and the ordinances authorizing the bonds then outstanding shall be and be deemed to be modified and amended in accordance with such supplemental Indenture, and the respective rights, duties and obligations of the City, the Trustees and all the holders of outstanding bonds shall thereafter be determined, exercised and enforced, subject in all respects to such modifications and amendments.

Any consent given by the holder of a bond pursuant to the provisions of this section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Article, and shall be conclusive and binding upon all future holders of the same bond during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing notice with the Trustees in form satisfactory to them of such revocation of consent, but such revocation shall not be effective if the holders of seventy-five per cent (75%) aggregate principal amount of the bonds outstanding as in this section defined have, prior to the attempted revocation, consented to and approved the supplemental Indenture referred to in such revocation. For the purposes of this Article, ownership of bonds shall be established in the manner provided in Section 1 of Article XIII of this Indenture.

Any supplemental Indenture executed in accordance with the provisions of this Article shall thereafter form a part of this Indenture and all the terms and conditions in any such supplemental Indenture as to any provision authorized to be contained therein shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

APPENDIX E

CPSB RESOLUTION APPROVING NEW SERIES BONDS ORDINANCE

A RESOLUTION OF THE CITY PUBLIC SERVICE BOARD
OF SAN ANTONIO, TEXAS, RELATING TO THE ISSUANCE
AND SALE OF $60,000,000 CITY OF SAN ANTONIO
TEXAS, ELECTRIC AND GAS SYSTEMS REVENUE
IMPROVEMENT BONDS, NEW SERIES 1981-A

WHEREAS, pursuant to the authority contained in Article 1115, V.A.T.C.S., a Trust Indenture, dated February 1, 1951, and various Supplemental Indentures thereto (collectively called the "Indenture") providing security for the payment of outstanding revenue bonds known as "Old Series Bonds" and ordinances passed by the City Council of the City of San Antonio, Texas, on October 9, 1975, February 2, 1976, June 24, 1976, January 6, 1977, July 15, 1977, February 23, 1978, August 3, 1978, January 11, 1979, July 12, 1979, February 7, 1980 and August 21, 1980 and March 5, 1981 (collectively called the "Ordinances"), authorizing the issuance of outstanding revenue bonds known as "New Series Bonds", the complete management and control of the electric and gas systems (the "Systems") of the City of San Antonio, Texas, is vested in a Board of Trustees known as the City Public Service Board of San Antonio, Texas (the "Board"), during the period of time any of the aforementioned "Old Series Bonds" and "New Series Bonds" are outstanding and unpaid; and

WHEREAS, in the performance of its duties and responsibilities pertaining to the management and operation of the Systems, the Board has determined that $60,000,000 in revenue bonds should now be issued by the City to provide funds to meet the costs of improvements and extensions to the Systems currently under construction and estimated costs of planned improvements and extensions to said Systems, such amount of bonds being based upon (i) the difference between the estimated costs of such extensions and improvements and the total amount of funds available and estimated to be available to meet said estimated costs, and (ii) the current rate of expenditure of funds for such capital improvement project costs; and

WHEREAS, by virtue of the authority and power vested in the Board with reference to the expenditure and application of the revenues of the Systems and to comply with the terms and conditions prescribed in the Ordinances for the issuance of additional bonds on a parity with the heretofore issued "New Series Bonds," it is proper for the Board to formally request the City Council of San Antonio to authorize and sell such bonds, consent to the issuance of the same, approve the ordinance authorizing such bonds and agree to comply with all the terms and provisions of such ordinance with relation to the operation of the Systems, and the handling of the proceeds of such bonds.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO, TEXAS:

1. That the City Council of the City of San Antonio, Texas, is hereby formally requested to authorize and sell $60,000,000 in principal amount of revenue bonds payable from the same source, secured in the same manner and on a parity with the heretofore issued "New Series Bonds", and the Board by the adoption of this resolution does hereby evidence its consent to the issuance and sale of such bonds and the payment thereof from the net revenues of the Systems and its approval of the ordinance authorizing the issuance of the $60,000,000 "City of San Antonio, Texas, Electric and Gas Systems Revenue Improvement Bonds, New Series 1981-A," dated October 1, 1981, a copy of which ordinance is attached to this resolution; and the Board hereby agrees to comply with all of the terms and provisions of said ordinance with relation to the administration and operation of the Systems and the disposition of the revenues therefrom.

2. That the Board recognizes that the ordinance authorizing the New Series 1981-A Bonds contains a covenant of the City of San Antonio to the effect that the City will make no use of the proceeds of the New Series 1981-A Bonds directly or indirectly that would cause such bonds to be arbitrage bonds within the meaning of Section 103 (c) of the Internal Revenue Code of 1954, as amended, and realizing that in accordance with the terms of the ordinance the proceeds of such bonds will be entirely within the control and disposition of the Board, the Board therefore specifically adopts the covenants made by the City Council in the ordinance authorizing such bonds concerning the use of the proceeds of such bonds to the effect that such bonds will not become arbitrage bonds, and hereby covenants with the purchasers of the New Series 1981-A Bonds that it will make no use of the proceeds of such bonds at any time throughout the term of such issue of bonds which, if such use had been reasonably expected on the date of delivery of the bonds to and payment for the Bonds by the purchasers, would have caused the Bonds to be arbitrage bonds within the meaning of Section 103 (c) of the Internal Revenue Code of 1954, as amended, or any regulations or rulings pertaining thereto; and by this covenant the Board is obligated to comply with the requirements of the aforesaid Section 103 (c) and all applicable and pertinent Department of Treasury regulations relating to arbitrage bonds.

PASSED AND APPROVED by an affirmative vote of the Board of Trustees of the City Public Service Board of San Antonio, Texas, this the 27th day of July, 1981.

ATTEST:

/s/ GLENN BIGGS
Chairman, City Public Service Board

/s/ HOWARD L. FREEMAN
Secretary, City Public Service Board

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. 1-3187H-1

HOUSTON LIGHTING & POWER COMPANY

(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	74-0694415 (I.R.S. Employer Identification No.)
611 Walker Avenue Houston, Texas (Address of principal executive offices)	77002 (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
5½% Convertible Debentures due 1985	New York Stock Exchange

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

Preferred Stock, cumulative, no par:

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

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 fc- the past 90 days. Yes √ No .

As of March 16, 1981, 45,974,649 shares of the registrant's Common Stock, without par value, were issued and outstanding and privately held, beneficially and of record, by Houston Industries Incorporated.

The definitive proxy statement relating to the 1981 Annual Meeting of Shareholders of Houston Industries Incorporated, the registrant's parent, is incorporated by reference in Item 9 and Item 10 of Part III of this form.

HOUSTON LIGHTING & POWER COMPANY

Form 10-K for the Year Ended December 31, 1980

Table of Contents

PART I

Item 1. *Business.*

The Company

Houston Lighting & Power Company (HL&P) is engaged in the generation, transmission, distribution and sale of electric energy, serving an area of the Texas Gulf Coast Region, estimated at 5,000 square miles, in which are located Houston (the largest city in Texas) and 157 smaller cities, villages and communities. The address of the Company's principal executive offices is 611 Walker Avenue, Houston, Texas 77002 (telephone number 713-228-9211).

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

Certain Factors Affecting Electric Utilities

HL&P, in common with electric utilities in general, has experienced problems in a number of areas, including difficulty in securing timely rate increases in sufficient amounts to finance its construction program and provide an adequate return on common equity, increased cost of fuel, substantial increases in construction and operating costs, greater reliance on fuels other than natural gas, increased expenditures due to pollution control and environmental considerations, uncertainties and delays respecting the licensing and construction of nuclear and fossil fueled generating units resulting in the need to purchase power from other electric utility systems, high costs in raising large amounts of capital in competition with other major users of capital, and an unpredictable rate of growth of energy sales due to weather, uncertain economic conditions and energy conservation measures by customers. As discussed herein, certain of these problems have had and are expected to have an impact on HL&P's operations. See "Construction Program", "Peak Loads and Capability" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

In November 1978, federal energy legislation was enacted which was designed to achieve, through various regulatory provisions, the conservation of energy and the development and use of more plentiful domestic fuels. As discussed herein (see "Fuel – General"), the portion of such National Energy Act known as the Power Plant and Industrial Fuel Use Act of 1978 imposes restrictions on the use of natural gas or oil as fuel in certain industrial and utility facilities and, if strictly enforced, will adversely affect HL&P and its service area. Other provisions of the National Energy Act provide for the establishment of federal electric rate design standards and federal authority to order interconnections and wheeling of power under specified circumstances. Because of their complexity and uncertainties in their interpretation and implementation, the effect on HL&P of these other provisions cannot be predicted.

During 1977, federal legislation was enacted which provided for regulation of, among other things, construction which results in new sources of emission in clean air attainment areas, control technologies for the limitation and removal of plant emissions, and the imposition of penalties for not complying with air quality control standards commensurate with the economic value of noncompliance. The implementation of this legislation has significantly increased HL&P's construction costs, will increase its future operating costs and may reduce the rate of industrial expansion in HL&P's service area. See "Construction Program" and "Regulatory Matters – Environmental Quality".

Service Area and Franchises

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

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

HL&P operates in the City of Houston under a franchise which expires in October 2007. Franchises granted by other incorporated municipalities expire in 2007 or in later years.

Construction Program

HL&P has a continuing program of major construction to provide facilities to meet increased customer demands and utilize more plentiful domestic fuels. As described below, HL&P recently completed a reassessment of its construction program as a result of substantial increases in cost estimates and the related difficulties it and its parent, Houston Industries, could expect to encounter in raising large amounts of capital to finance its construction activities. Based on such reassessment, the program for the three-year period 1981-1983 is currently estimated to cost $2.4 billion, with $691 million to be spent in 1981, $759 million to be spent in 1982 and $947 million to be spent in 1983. The new three-year program (exclusive of allowance for funds used during construction and payments for nuclear fuel) consists of the following principal items:

	Amount	%
Fossil-fueled generating facilities	$ 886,000,000	37
Nuclear-fueled generating facilities	609,000,000	25
Transmission facilities	281,000,000	12
Distribution facilities	457,000,000	19
General plant facilities	164,000,000	7
Total	$2,397,000,000	100

At December 31, 1980 HL&P owned and operated generating facilities with an aggregate name-plate capacity of 11,607,502 kilowatts. The 1981-1983 construction program includes expenditures in connection with the following major generating projects aggregating 5,450,000 kilowatts of capacity.

				Millions of Dollars		
Plant and Location (County)	Estimated Unit Capacity (KW)	Fuel	Scheduled In-Service Date(a)	Expenditures Through December 31, 1980	Estimated Completed Cost	Estimated Cost per KW
W. A. Parish No. 8 (Fort Bend)	600,000	Coal	1983	$147	$ 408	$ 680
South Texas No. 1 (Matagorda)(b)	385,000	Nuclear	See Note (b) below			
South Texas No. 2 (Matagorda)(b)	385,000	Nuclear				
Limestone No. 1 (Limestone)	750,000	Lignite	1987	56	1,600	1,067
Limestone No. 2 (Limestone)	750,000	Lignite	1988			
To be determined No. 1(c)	690,000	Lignite	1989	1	1,870	1,355
To be determined No. 2(c)	690,000	Lignite	1990			
Allens Creek (Austin)	1,200,000	Nuclear	1991	249	2,090	1,742

(See notes on following page)

(a) The scheduled in-service date indicates the year the unit is expected to be available to meet peak demand.

(b) The capacity for each of the South Texas nuclear units represents HL&P's 30.8% share of a 2.5 million kilowatt project which is jointly owned with the Cities of Austin and San Antonio and Central Power and Light Company. As approved by all participants in the project in late 1979, the scheduled in-service dates for the two units are 1984 and 1986, respectively, with HL&P's share of the total estimated completed cost for both units being $832 million or $1,080 per kilowatt. These figures do not give effect to significant developments during 1980 described below under "Matters Affecting Nuclear Construction" which are expected to adversely affect the scheduled in-service dates and completed cost for the project. Through December 31, 1980, HL&P had spent approximately $450 million on its share of the project.

(c) Selection of a site for these units is dependent upon HL&P's ability to obtain a long-term fuel supply.

The foregoing amounts do not include estimates of the allowance for funds used during construction or nuclear fuel expenditures. Through December 31, 1980, HL&P had spent $98 million for uranium concentrate and nuclear fuel processing services, including $39 million for its share of the fuel for the South Texas units. It expects to spend $60 million for such purposes during the 1981-1983 period. Additional nuclear fuel expenditures, which could include substantial sums for long-term storage of spent nuclear fuel, will be required after 1983. During the 1981-1983 period, Utility Fuels, a subsidiary of Houston Industries which provides coal and lignite supply services to HL&P, expects to acquire additional railroad cars and coal handling facilities costing $79 million (a portion of which is expected to be financed through leveraged lease arrangements) in order to be able to meet the increased coal delivery requirements of HL&P's W. A. Parish Plant. Utility Fuels expects to spend an additional $11 million during the same period for transportation equipment and lignite mining and handling facilities for the Limestone plant.

Actual construction expenditures will vary from the above estimates as a result of numerous factors, including continuing inflation at an annual rate in excess of 10%, changes in equipment delivery schedules, construction delays, availability of fuel, environmental protection expenditures, licensing delays, additional changes in the construction program, legislative changes and changes in customer demand and business conditions. A significant portion of HL&P's generating facilities in the early 1990's is scheduled to be natural gas and oil-fired, but enforcement of the federal Fuel Use Act could require HL&P to supplement, convert or replace such generating capacity earlier than presently planned.

Federal and state action to protect the environment may also materially affect the current esimates of future construction expenditures. Expenditures for environmental protection facilities for the five years ended December 31, 1980 aggregated $104 million, including expenditures of $27 million in 1980. Environmental protection expenditures for 1981-1983 are estimated to be $212 million, of which $60 million is expected to be expended during 1981, $54 million during 1982 and $98 million in 1983. Because of uncertainties surrounding the disposal or long-term storage of spent nuclear fuel, fuel costs associated with the continuing operation of nuclear units could be substantial.

Total gross additions to the plant of HL&P during the five years ended December 31, 1980 amounted to $2.3 billion and during the same period retirements amounted to $86 million. Gross additions during the period amounted to approximately 55% of total utility plant at December 31, 1980.

HL&P's construction program for the 1981-1983 period previously contemplated expenditures totaling $3.3 billion, with $761 million to be spent in 1981, $1.044 billion to be spent in 1982 and $1.494 billion to be spent in 1983. The revised program provides for a two-year delay in the completion of each of the four lignite units and the Allens Creek nuclear unit with the result that estimated construction expenditures have been reduced by $70 million in 1981, $285 million in 1982 and $547 million in 1983. Utility Fuels' estimated expenditures in connection with the Limestone units were reduced by $99 million from the previous estimate of $110 million for the same three-year period. The delayed in-service dates have also resulted, however, in increases in estimated completed costs of $159 million for the two Limestone lignite units, $382 million for the two lignite units at the site which has yet to be determined and $230 million for the Allens Creek nuclear plant. In addition, as discussed below under "Peak Loads and Capability", the planned delays for bringing these five units into service will require HL&P to contract for additional quantities of purchased power and to implement additional load management and conservation measures in order to be able to maintain adequate reserve margins in the mid and late 1980's.

In the reassessment of the construction program as previously scheduled, particular attention was given to the need to alleviate the anticipated difficulties of financing the program during periods when other major users of capital would also be seeking substantial external funds. Even assuming that HL&P could continue to obtain rate relief on a timely basis at a level comparable to that most recently granted to it by the Texas Public Utility Commission, approximately 70% to 75% of the previous 1981-1983 construction budget would have had to be financed from external sources. Principally because of these capital requirements, Moody's Investors Service, Inc. lowered its rating of HL&P's First Mortgage Bonds and Preferred Stock in November 1980 from "Aa" to "A" and from "aa" to "a", respectively. Such securities continue to be rated "double A" or equivalent by Standard & Poor's Corporation and Fitch Investor's Service, Inc. Under the revised program, it is expected that approximately 65% to 70% of the 1981-1983 budget will still have to be financed from external sources, assuming HL&P can obtain adequate and timely rate relief.

Matters Affecting Nuclear Construction. Throughout most of 1980, certain major construction activities on the South Texas project, principally complex concrete pouring and safety-related welding, were voluntarily suspended pending an evaluation by HL&P (which is the project manager) and the principal contractor of irregularities in some of the work previously performed. During such suspension, the Nuclear Regulatory Commission (NRC) found various procedural deficiencies in the project's quality assurance and quality control programs, fined HL&P $100,000 (the maximum permitted under applicable law) and ordered HL&P to show cause why safety-related construction activities on the project should not be stopped until specified steps have been taken to assure the NRC that the programs for quality assurance and quality control meet NRC standards and that the procedural deficiencies identified by the NRC have been corrected. In July 1980, HL&P submitted to the NRC detailed plans for improving the quality assurance program and for correcting such deficiencies. In November 1980 and January 1981, respectively, the NRC authorized full resumption of structural welding and limited resumption of complex concrete pouring and safety-related pipe welding. HL&P is unable to predict when all major construction activities on the project can be fully resumed; however, if such activities continue to be limited or curtailed for a protracted period of time, HL&P's earning power, reliability of service and ability to finance its other construction projects will be adversely affected. In connection with the application to the NRC for operating licenses for each of the generating units in the project, it is anticipated that hearings will be conducted during 1981 to consider, among other things, whether the findings by the NRC as to the adequacy of the project's previous quality assurance and quality control programs affect HL&P's qualifications to become a licensee.

In February 1980, an independent engineering firm recommended that the commercial operation date of each unit in the South Texas project be extended by six months, that the total size of the work force on the project be expanded, that multi-shift overtime work programs be utilized, and that $136 million ($42 million for the account of HL&P) be added to the allowances for contingencies. Such report was based on the status of the project prior to the suspensions described above.

The scheduled in-service dates and estimated completed costs set forth in Note (b) to the construction table do not reflect the delays expected to be experienced or substantial additional cost expected to be incurred on the basis of the matters discussed in the two preceding paragraphs. The extent to which such dates and costs have been affected by these developments must be determined jointly by all participants in the project following a comprehensive engineering and financial review which is expected to be completed in mid-1981. The existing construction permits for the two units in the South Texas project are scheduled to expire in May 1982 and October 1983, respectively. In order to complete construction of the project, it will be necessary to obtain authorization of the NRC for extension of such permits.

Completion of construction of the Allens Creek nuclear unit as shown in the table is dependent upon the issuance of a construction permit by the NRC by mid 1982. Based on current concerns relating to safety and siting of nuclear power plants and the activities of citizens and environmental groups that have intervened in opposition to the project, there can be no assurance that such permit can be obtained.

Financing of Construction Program. HL&P proposes to finance its construction program through the use of internally generated funds and the proceeds received from the issuance of securities including, on an interim basis, short-term debt. Except for $125 million of 13⅞% First Mortgage Bonds due February 1, 1991 which were sold by HL&P in February 1981 and 3,000,000 shares of Common Stock sold by Houston Industries in March 1981 (resulting in total net proceeds of approximately $196 million), the types, amounts and time of issuance of such securities have not yet been determined. HL&P's ability to provide internally generated funds for, and thereby continue with, its presently proposed construction program will be dependent upon its ability to obtain adequate and timely rate relief. See "Regulatory Matters – Rates and Services".

Peak Loads and Capability

The following table sets forth information with respect to the installed net capability of HL&P at the time of peak demand, the net maximum hourly demand on the system (excluding demand which is interruptible), and the reserve margin at the time of its system net maximum hourly demand:

		Net Maximum Hourly Demand			
Year	Installed Net Capability (Megawatts)	Date	Megawatts	% Increase Over Prior Year	Reserve Margin (%)
1976	9,810	August 9	8,019	10.6	22.3
1977	10,170	July 25	8,445	5.3	20.4
1978	10,828	July 18	9,114	7.9	18.8
1979	11,193	August 2	9,336	2.4	19.9
1980	11,763	August 22	10,266	10.0	14.6

The net capability and reserve margins presented above do not reflect additional firm capability available through interconnections with other utility systems. Although historically such interconnections were maintained principally for the purpose of meeting emergency conditions, they are now also used for HL&P's supplemental power needs discussed below. The substantial increase in peak demand in 1980 over 1979 reflects the record high temperatures experienced in the HL&P service area in 1980 as compared to the relatively mild summer of 1979.

In conjunction with its decision to extend the scheduled in-service dates for the four lignite units and the Allens Creek nuclear plant (see "Construction Program" above), HL&P is actively pursuing comprehensive load management measures. A program to reduce system voltage during periods of emergencies is under development and rate studies designed to encourage industrial customers to reduce their demands during periods of peak system loads are being conducted.

It is presently estimated that HL&P's compound growth rate in peak demand for the five-year period 1981-1985 will be approximately 3% to 4%. The current estimate is derived from a continuing survey of industrial customers which reflects expectations for power consumption, assessment of the effect of additional residential customers on peak demands, the prospect of more intensive energy conservation measures by all classes of customers, and assumptions as to the effectiveness of the load management program discussed above. HL&P has contracted with the City of Austin, Texas to purchase up to 800 megawatts of Austin's generating capacity through 1987. HL&P has also contracted with the City Public Service Board of San Antonio to purchase varying amounts of capacity during the years 1982 through 1987, ranging from 200 to 500 megawatts. Performance of these contracts is subject to, among other things, fuel limitations that may be imposed on Austin, San Antonio or their fuel suppliers. In the event of fuel limitations, HL&P will be entitled to arrange for delivery of natural gas from its own suppliers to Austin or San Antonio for use in providing such capacity. The terms of the contracts include fixed capacity charges for each year and variable charges for fuel and operation and maintenance expenses. HL&P expects to recover all fuel charges and a substantial portion of the operation and maintenance expenses through its fuel adjustment clauses. Capacity charges associated with 500 megawatts of the Austin contract are presently recoverable through base rates. Recovery of additional capacity charges will be requested in future rate proceedings.

Assuming it is able to purchase the supplemental capacity it has contracted for from Austin and San Antonio, HL&P expects to maintain a minimum reserve margin of at least 15% in excess of its current estimate of peak-load requirements through 1985. Up to 300 megawatts of additional supplemental capacity in 1986 and up to 500 megawatts in 1988 and 1989 will be required in order to maintain a reserve margin at or above 15% subsequent to 1985. No assurances can be given that additional power purchase contracts can be obtained or that, if obtained, they will be upon terms favorable to HL&P.

Fuel

General. Approximately 82% of HL&P's generating fuel requirements during 1980 was met with natural gas, 17% was met with coal and the balance was met with oil. Prior to 1979 substantially all of such requirements were met with natural gas. HL&P currently expects its future use of gas, oil, coal and lignite, and nuclear fuel in its own generating units to be in the following relative proportions:

	% of Generating Requirements				
	1981	1982	1983	1985	1990
Gas	83%	75%	76%	72%	55%
Oil	1	8	1	1	1
Coal and lignite	16	17	23	24	38
Nuclear	—	—	—	3	6
Total	100%	100%	100%	100%	100%

HL&P's actual fuel mix in future years could vary substantially from the percentages shown in the table. Such percentages are based upon numerous estimates and assumptions relating to, among other things, environmental protection requirements, load growth, the cost and availability of fuels, and scheduled in-service dates of its planned generating facilities. The percentages for 1990 are further based upon the assumption that the Power Plant and Industrial Fuel Use Act of 1978, which generally prohibits the use of oil or gas as a fuel for electric generation beginning in 1990, will be amended to allow the use of natural gas in existing generating units throughout their useful lives. If such Act is not so amended, it will have a material adverse effect upon HL&P and its service area.

Natural Gas Supply. HL&P purchases natural gas from Exxon Company, U.S.A. (Exxon) and United Texas Transmission Company (United) under three separate long-term contracts. The Exxon contract expires after delivery of a specified quantity of gas, but in no event later than December 31, 1996. The two contracts with United provide for delivery of a specified quantity of gas through 1989. Approximately 80% of the natural gas requirements presently contemplated through 1989 and 25% for 1990 are expected to be met through these two suppliers. HL&P is currently negotiating for additional natural gas supplies to meet its remaining natural gas requirements. Should HL&P be unable to contract for additional natural gas supplies through 1989, it has sufficient quantities of oil under contract to meet its remaining fuel requirements with respect to units which are normally gas-fired.

Gas deliveries by Exxon are being made from its reserves which have been dedicated to meet the requirements of HL&P during the term of the Exxon contract, while deliveries by United consist principally of gas purchased from unaffiliated suppliers. Under the priorities contained in a gas curtailment program approved by the Railroad Commission, deliveries by jurisdictional suppliers to customers such as HL&P must be curtailed before any curtailment of deliveries to other contract customers, exclusive of those served on an interruptible basis.

All of the natural gas being delivered to HL&P is intrastate gas. The Natural Gas Policy Act of 1978 has not adversely affected HL&P's supply of natural gas. HL&P cannot accurately predict the effect such Act may have on its future supply of natural gas. It appears that the phased price decontrol provisions of such Act have increased and will continue to increase the cost of natural gas to HL&P.

Oil Supply. As indicated above, HL&P expects to rely on oil in meeting a portion of its future generating fuel requirements. HL&P has storage facilities for 6,700,000 barrels of oil and has installed a pipeline system linking most of its major power plants to provide for distribution of oil to those units capable of using oil. There is sufficient oil presently on hand to permit the exclusive use of oil for 17 days in those units that are capable of burning oil on a continuous basis. HL&P has a contract with Exxon under which it is entitled to purchase sufficient quantities of oil to satisfy substantially all of its presently anticipated oil requirements through 1989. However, the contract may be re-opened once at any time at the election of either party and if agreement on new terms cannot be reached after such a re-opening, the contract may be cancelled at the election of either party. The contract is also subject to re-negotiation and cancellation in the event of material changes in existing laws and regulations affecting fuel oil. The contract provides for deliveries of oil having a maximum sulphur content which is less than that permitted under current air quality standards for oil-burning generating units. Deliveries are made through an Exxon pipeline from its Baytown, Texas refinery directly to HL&P's oil pipeline facilities.

If oil instead of gas were to be burned in all of HL&P's units capable of continuous use of either fuel, such equipment's generating capacity would be reduced by 3%. In addition, it is anticipated that increased costs will be incurred for repair and maintenance, as well as for operation in a manner that insures compliance with applicable air quality control requirements, when oil instead of gas is used as boiler fuel. See "Regulatory Matters – Environmental Quality" below.

Coal and Lignite Supply. It is estimated that the three coal-fired generating units now in operation at HL&P's W. A. Parish plant and the additional coal-fired unit being constructed at that location (see "Construction Program") will require an aggregate of 200 million tons of low-sulphur Western coal for the first 25 years of operation of each unit. The actual amount of coal used will depend on, among other things, its heat content. Coal supply services for the W. A. Parish plant are being provided by Utility Fuels, another subsidiary of Houston Industries. Utility Fuels is presently purchasing Wyoming coal from Kerr-McGee Coal Corporation (Kerr-McGee) and Montana coal from Spring Creek Coal Company (Spring Creek), under long-term coal supply contracts. Substantially all of the coal requirements of HL&P's W. A. Parish coal units are expected to be met under such contracts, which provide for deliveries of coal having a relatively low sulphur content. See "Regulatory Matters – Environmental Quality". The cost of the coal under both agreements is governed by formulas containing various escalation provisions relating to changes in specified costs and cost indices. A major component of the delivered cost is the railroad charge for transporting the coal from surface mines in Wyoming and Montana operated by Kerr-McGee and Spring Creek. Such mines are 1,700 railroad miles from Houston. The Interstate Commerce Commission (ICC) currently authorizes a railroad charge for the Wyoming coal of $21.70 per ton and Montana coal of $22.73 per ton in contrast to the cost per ton of coal which is approximately half the cost of such rail charges.

In August 1979, HL&P acquired lignite leases located in the Texas counties of Limestone, Leon and Freestone, and Utility Fuels contracted with Northwestern Resources Co. (NWR) for an additional supply of lignite located in the same counties. The estimated recoverable lignite represented by HL&P's leases and those dedicated under the NWR contract are expected to meet 65% to 75% of the total fuel requirements of the Limestone Electric Generating Station. Total fuel requirements for the first 30 years of operation are 240 million tons of lignite. NWR and Utility Fuels are currently negotiating for additional lignite reserves needed to meet the remaining fuel requirements of the plant.

Additional long-term commitments for coal and for lignite are being sought. Federal legislation enacted in 1977 relating to surface mining and mine safety could adversely affect the availability of coal and lignite under any future contracts. The legislation has not affected, and is not expected to affect, the availability of coal presently under contract, but has resulted in increases in cost. The operating and maintenance expenses for coal and lignite-fired units are substantially higher than those for HL&P's gas-fired units.

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

Westinghouse Electric Corporation has contracted to provide the South Texas nuclear units with up to 9,377,000 pounds of uranium concentrate which, together with a minimum of 5,600,000 pounds to be provided by another supplier, is expected to satisfy the fuel requirements for the first 14 years of operation of each unit. Westinghouse has also contracted to furnish fuel fabrication services for the initial core and 16 years of reloads for each unit, certain additional services and equipment, and additional concentrate subject to the development of additional uranium reserves. Contracts with Westinghouse and others provide for conversion services for the South Texas units through 1988 and for enrichment services for a period of up to 30 years.

Contracts have been concluded for HL&P's proposed Allens Creek nuclear plant which provide for uranium concentrate in sufficient quantities to supply the initial core, for conversion services for the initial core, for enrichment services for a period of up to 30 years, and for fabrication of the nuclear fuel assemblies to be used in the initial core and one year of fuel reloads. HL&P is currently seeking other long-term arrangements for uranium concentrate and for additional nuclear fuel components and services that will be required for the Allens Creek facility.

As part of current federal energy policy, reprocessing of spent nuclear fuel has been indefinitely deferred. If the fuel discharged from the South Texas and Allens Creek units cannot be reprocessed, it must eventually be placed into long-term off-site storage. The South Texas and Allens Creek plants will have on-site storage facilities with the capacity to store approximately ten years of spent fuel discharged from each unit. HL&P cannot predict the extent to which the indefinite deferral of reprocessing will increase the cost of and demand for uranium concentrate.

Cost of Fuel. The cost of fuel to HL&P has increased substantially over the past three years. See "Operating Statistics" and Item 8, "Financial Statements and Supplementary Data". The unit cost of coal includes the actual cost of the coal delivered to the boiler as well as a carrying charge for inventory and the use of related facilities. HL&P is unable to accurately estimate its future cost of fuel, but expects that it will continue to increase. Substantially all of the increases in costs for fuel are presently covered by fuel adjustment clauses contained in HL&P's rate tariffs. However, recent rate orders have limited the recovery of a portion of the carrying charge referred to above with respect to coal.

Regulatory Matters

Rates and Services. Prior to 1976, HL&P's general rate levels were based on ordinances of the City of Houston and the other incorporated municipalities in HL&P's service area. In September 1976, pursuant to the Texas Public Utility Regulatory Act passed in June 1975, the Public Utility Commission of Texas (Utility Commission) assumed original jurisdiction over electric rates and services in unincorporated areas of the State (which accounted for 46% of HL&P's operating revenues and 53% of KWH sales for the twelve months ended December 31, 1980) and appellate jurisdiction over electric rates and services within incorporated municipalities.

In November 1978, following HL&P's request for a rate increase of 12.6% for an adjusted test year ended March 31, 1978, the Utility Commission granted an increase of 7%. In January 1980, following HL&P's request in July 1979 for a rate increase of $179 million or 10.5% for an adjusted test year ended March 31, 1979, the Utility Commission issued an order granting HL&P an increase of $82 million or 4.9%. In the January 1980 order, the Utility Commission included $454 million or 60% of construction work in progress and nuclear fuel in process in HL&P's rate base, while only $179 million or 40% of such items was included in the rate base in the Utility Commission's 1978 order. HL&P requested inclusion of 100% of these items for both test years.

On September 15, 1980, the Utility Commission granted an increase of $135 million or 6.3% for an adjusted test year ended March 31, 1980. HL&P had requested $214 million which represented a 10% increase. The final order issued by the Utility Commission was based upon a settlement agreement entered into by HL&P, the Utility Commission and the major intervenors in the case. The final order provided for the inclusion of $677 million or 72% of construction work in progress and nuclear fuel in process in rate base and granted a 15.8% return on common equity. The Company had requested 85% of construction work in progress and nuclear fuel in process in the rate base.

HL&P's actual returns on common equity have been somewhat lower than those granted in the Utility Commission's rate orders. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The City of Houston and certain other incorporated municipalities within HL&P's service area attempted to grant rate increases which were lower than the increases authorized by the Utility Commission. Following appeals from the municipal rate orders, the Utility Commission permitted HL&P, pending final disposition of such appeals, to set rates in the incorporated areas on an interim basis at the same level permitted for unincorporated areas. HL&P expects to seek another general rate increase prior to the end of 1981 and may be required to seek general rate relief in the future on a more frequent basis.

Environmental Quality. HL&P is subject to regulation with respect to air and water quality, solid waste disposal and other environmental matters by various federal, state and local authorities. Environmental regulations continue to evolve as a result of regulatory response to new legislation, administrative actions, and judicial review and interpretation. As a result, the precise effect of existing and potential regulations upon existing and proposed facilities and operations cannot presently be determined. However, developments in these and other areas of regulation have in the past required HL&P to modify, supplement or replace equipment and facilities and may in the future delay or impede construction and operation of new facilities at costs which could be substantial.

The Texas Air Control Board (Air Board) has jurisdiction and enforcement power to determine the level of air contaminants emitted in the State of Texas. HL&P is of the opinion that its generating facilities currently in operation are in compliance with the Texas Clean Air Act and with the current rules and regulations adopted thereunder by the Air Board. HL&P is also of the opinion that units under construction will, when operational, comply with the current requirements of the Texas Clean Air Act and the Federal Clean Air Act as amended. The standards established by the Texas Clean Air Act and the rules of the Air Board are subject to modification by standards promulgated by the federal Environmental Protection Agency (EPA). Although HL&P believes that its existing facilities and the facilities under construction will comply or can be modified to comply with such standards, there can be no assurance that such will be the case without substantial expense. A substantial portion of the cost to be incurred in constructing the W. A. Parish No. 8 unit and the four planned lignite-fired generating units (see "Construction Program") is the cost of scrubbers to control emissions of sulphur dioxide and other pollutants. As a result of EPA new-source performance standards and restrictions on deterioration of air quality applicable to HL&P's service area, the rate of future growth in kilowatt-hour sales to industrial customers may be lower than in the past. See "Operating Statistics."

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

HL&P is also subject to regulation by the TDWR and the EPA with respect to the handling and disposal of solid waste generated on-site. In 1980 the EPA promulgated a number of regulations under the Resource Conservation and Recovery Act to protect human health and the environment from the improper management of hazardous waste. Applications for hazardous waste permits have been submitted by HL&P for each generating station and other facilities.

Nuclear Licensing. HL&P is subject to licensing and regulation by the Nuclear Regulatory Commission (NRC) with respect to environmental, public health and safety aspects of the construction and operation of nuclear power plants. In its capacity as manager of the South Texas nuclear project, HL&P is constructing two nuclear generating units pursuant to construction permits issued by the NRC in December 1975. HL&P has submitted an application for an operating license for both South Texas units. In connection with such application, hearings are expected to be conducted in 1981 to consider, among other things, whether the findings by the NRC as to the adequacy of the project's quality assurance and quality control programs affect HL&P's qualifications to become a licensee. An operating license is not issuable by the NRC until construction is substantially complete.

An application for a construction permit for the Allen Creek unit is pending before the NRC. Hearings in connection with the environmental aspects of such construction permit commenced in January 1981 and are expected to be completed by mid-1981. See "Construction Program".

Executive Officers

Name	Age	Officer Since(1)	Business Experience 1976-1980 Position(s)	Terms
D. D. Jordan	48	1971	President and Chief Executive Officer and Director(2)(3)	1977-
			President and Director	1976-1977
G. W. Opera, Jr.	54	1971	Executive Vice President and Director(3)	1976-
J. D. Cowart	55	1975	Group Vice President — Administrative	1978-
			Vice President — Administrative	1976-1978
H. R. Dean	54	1966	Group Vice President — Accounting and Finance and Director(3)	1978-
			Group Vice President and Comptroller and Director	1977-1978
			Group Vice President and Comptroller	1976-1977
K. R. Hinckley	59	1972	Group Vice President — Corporate Planning and Development	1980-
			Group Vice President — External Relations	1977-1980
			Group Vice President	1976-1977

(Continued on following page)

Name	Age	Officer Since(1)	Business Experience 1976-1980 Position(s)	Terms
A. R. Beavers	57	1978	Vice President — Purchasing and Services	1978-
			General Manager — Purchasing and Stores	1976-1978
R. L. Evans, Jr.	65	1971	Vice President — Energy Supply	1980-
			Vice President — Operations	1976-1980
J. H. Goldberg	49	1980(4)	Vice President — Nuclear Engineering and Construction	1980-
			Vice President & Deputy Director of Construction — Stone & Webster Engineering Corp.	1977-1980
			Chief Engineer for Engineering Mechanics — Stone & Webster Engineering Corp.	1976
R. M. McCuistion	64	1971	Vice President — Power System Development	1980-
			Vice President — Engineering	1976-1980
C. L. McNeese	67	1975	Vice President and Assistant to the President	1980-
			Vice President — Federal Relations	1978-1980
			Vice President — Public Affairs	1976-1978
D. E Simmons	55	1972	Vice President — Engineering and Transmission and Distribution	1980-
			Vice President — Corporate Planning	1976-1980
D. D. Sykora	50	1977	Vice President — Customer and Public Relations	1980-
			Vice President — Customer Relations	1978-1980
			Vice President — Commercial	1977-1978
			General Manager — Marketing	1976-1977
E. A. Turner	53	1978	Vice President — Power Plant Engineering and Construction — Fossil Projects	1980-
			Vice President — Power Plant Construction and Technical Services	1978-1980
			General Manager — Transmission and Distribution	1976-1978
			General Manager — Power Plant Engineering and Construction	1976
J. R. Johnston	57	1979	Secretary and Treasurer	1979-
			Assistant Secretary and Assistant Treasurer	1976-1979
R. S. Letbetter	32	1978	Comptroller	1978-
			Assistant Comptroller	1977-1978
			Assistant Secretary and Assistant Treasurer	1976-1977

(1) Executive officers were elected April 23, 1980 to serve for one year and until their successors are duly elected and qualified.

(2) Member of the Executive Committee.

(3) Member of the Finan e Committee.

(4) Elected September 22, 1980.

Operating Statistics

	Year Ended December 31,		
	1978	1979	1980
Electric Energy Generated and Purchased (Mkwh):			
Generated – Net Station Output	53,101,474	54,678,417	57,228,126
Purchased	222,670	377,387	720,293
Total	53,324,144	55,055,804	57,948,419
Company Use, Lost and Unaccounted for	2,857,928	2,512,650	2,951,893
Other	190,449	182,651	192,907
Energy Sold	50,275,767	52,360,503	54,803,619
Electric Sales (Mkwh):			
Residential	10,956,914	11,078,887	12,566,097
Commercial	8,568,636	8,813,791	9,324,496
Industrial	27,808,895	29,309,384	29,672,733
Street Lighting – Government and Municipal	103,049	106,848	91,307
Total	47,437,494	49,308,910	51,654,633
Other Electric Utilities	2,838,273	3,051,593	3,148,986
Total	50,275,767	52,360,503	54,803,619
Number of Customers (End of Period):			
Residential	778,850	849,319	909,016
Commercial	111,050	117,324	124,298
Industrial	1,522	1,572	1,633
Street Lighting – Government and Municipal	81	70	70
Total	891,503	968,285	1,035,017
Other Electric Utilities	6	6	6
Total	891,509	968,291	1,035,023
Operating Revenue (Thousands of Dollars):			
Residential	$ 367,730	$ 453,354	$ 628,599
Commercial	274,081	350,000	436,360
Industrial	593,251	790,715	951,546
Street Lighting – Government and Municipal	3,608	6,634	9,257
Other Electric Utilities	57,359	78,898	98,353
Total	1,296,029	1,679,601	2,124,115
Miscellaneous Electric Revenues	7,575	27,971	(158)
Total	$1,303,604	$1,707,572	$2,123,957
Installed Generating Capacity (Kw) (End of Period)	11,056,353	11,056,353	11,607,502
Costs of Fuel (Cents per Million Btu):			
Gas	124.3	166.3	205.5
Oil	196.9	187.0	270.1
Coal	208.7	218.1	204.5
Average	126.2	171.0	205.9

Item 2. ***Properties.***

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

Electric Generating Stations. HL&P has eleven electric generating stations (79 generating units) with an installed capacity of 11,607,502 Kw.

Substations. As of December 31, 1980, HL&P owned 186 major substations having a total installed rated transformer capacity of 45,219,234 Kva (exclusive of spare transformers).

Electric Lines. As of December 31, 1980, HL&P operated 23,566 miles of transmission and distribution lines, including 1,440 miles operated at 138,000 volts and 392 miles operated at 345,000 volts.

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

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

The major properties of HL&P are subject to liens securing their long-term debt and titles to some of their properties are subject to minor encumbrances and defects, none of which impair the use of the property in the operation of its business.

See Item 1, "Business".

Item 3. ***Legal Proceedings.***

Controversy With Central and South West Corporation

In January 1976, the Securities and Exchange Commission (SEC) initiated proceedings under the Public Utility Holding Company Act for purposes of considering whether Central and South West Corporation (CSW), a registered holding company, is or can become a single integrated and coordinated system as required by that Act. CSW's principal operating subsidiaries are Central Power and Light Company (CPL), West Texas Utilities Company (WTU), Public Service Company of Oklahoma and Southwestern Electric Power Company. CPL is a participant with HL&P in the South Texas nuclear project. See Item 1, "Business-Construction Program". CPL and WTU, as members of the Electric Reliability Council of Texas (ERCOT), have historically conducted their respective utility operations in a manner so that, whenever interconnected directly or indirectly with HL&P and other ERCOT members, they would not transmit electric energy across any state lines. In the proceedings before the SEC, CSW submitted various proposals regarding the future operations of its system, including proposals that would require HL&P and other members of ERCOT to become interconnected directly or indirectly, with CSW's non-Texas subsidiaries. HL&P opposed CSW's synchronous interconnection proposals, because, in its judgment, their implementation would have a substantial detrimental effect on HL&P's cost of operation and reliability of service. In addition, participation by HL&P in a synchronous interstate interconnection could subject it to regulation under the Federal Power Act. As a result of such opposition, CSW has attempted to compel HL&P and other ERCOT members to become interconnected with its non-Texas subsidiaries by initiating proceedings in the federal courts, the Federal Energy Regulatory Commission and the NRC. Proceedings have also been conducted by the Texas Utility Commission which ruled in May 1977 that, pending the outcome of the federal regulatory and judicial proceedings on this matter, the Texas interconnected system (in which HL&P, CPL, WTU and others are participants) must continue to operate on an intrastate basis.

In June 1980, HL&P reached an agreement with CSW which calls for the settlement of all outstanding controversies concerning the question of whether ERCOT should be interconnected with CSW's non-Texas subsidiaries. The agreement provides for the construction of two direct current non-synchronous interconnections between utilities in Texas and in neighboring states through construction of a 200-megawatt interconnection in north Texas and a 500-megawatt interconnection in south Texas. HL&P would construct and own 200 megawatts of the south Texas interconnection and the CSW subsidiaries would construct and own all of the north Texas interconnection and 300 megawatts of the south Texas interconnection. Although HL&P would be required to wheel, transmit, sell, coordinate, comingle and exchange electric power to, from or within the State of Texas over such interconnections, the system is not expected to materially affect the cost of HL&P's construction program or its service reliability because of the non-synchronous, direct current mode of operation. Implementation of the settlement agreement is subject to numerous conditions, including the condition that it be approved by the Federal Energy Regulatory Commission (FERC) pursuant to those provisions of the Federal Power Act (as amended in 1978 by the Public Utility Regulatory Policies Act) which would not require HL&P to become regulated as a "public utility". Implementation is also subject to the approval of other federal and state agencies. No prediction can be made as to whether such approvals can be obtained. In December 1980, the FERC granted a motion of the U.S. Department of Justice to intervene in the settlement proceedings. Such motion generally opposes the proposed settlement. Whether or not the requisite approvals of the settlement proposal are obtained, HL&P intends to continue to oppose any attempts to force it to participate on a synchronous basis in an interconnected system that includes CSW's non-Texas subsidiaries.

Item 4. ***Security Ownership of Certain Beneficial Owners and Management.***

All of HL&P's Common Stock is owned by Houston Industries Incorporated. As of March 16, 1981, no person or group (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934) owned more than five percent of HL&P's or its parent's equity securities. Officers and Directors of HL&P as a group beneficially owned less than ½ of 1% of Preferred Stock of HL&P as of such date.

The following table sets forth as of March 16, 1981, the number of shares of Common Stock of Houston Industries beneficially owned by (i) each director and (ii) all directors and officers as a group and the percent of the class of Common Stock so owned.

	Shares of Common Stock Beneficially Owned	Percent of Class(1)
Searcy Bracewell	1,000	*
Wm. R. Brown	1,743	*
H. R. Dean	4,328	.01%
John C. Echols	1,000	*
Howard W. Horne	459	*
D. D. Jordan	6,647	.01%
Thomas B. McDade	2,000	*
G. W. Oprea, Jr.	5,126	.01%
Stewart Orton	100	*
Willard E. Walbridge	250	*
Joe C. Wessendorff	9,454	.02%
Directors and officers as a group	54,174	.12%

(1) Percentages are rounded to the nearest one-hundredth of one percent. Asterisk indicates that the percentage is less than \$.01%.

PART II

Item 5. ***Market for the Registrant's Common Stock and Related Security Holder Matters.***

All of HL&P's Common Stock is privately held, beneficially and of record, by its parent, Houston Industries Incorporated.

Item 6. ***Selected Financial Data.***

The following table sets forth selected financial data with respect to HL&P's financial condition and results of operations and should be read in conjunction with the Financial Statements and the related notes included elsewhere herein.

	(thousands of dollars, except per share amounts)				
	Year Ended December 31,				
	1976	1977	1978	1979	1980
Revenues	$ 841,616	$1,069,786	$1,303,604	$1,707,572	$2,123,957
Income after Preferred Dividends	$ 102,794	$ 120,413	$ 122,049	$ 145,950	$ 177,314
AFUDC as a % of Income after Preferred Dividends	16%	20%	24%	29%	24%
Return on average common equity	14.7%	14.4%	12.7%	13.1%	13.4%
At year-end:					
Total Assets	$2,264,064	$2,668,263	$3,140,829	$3,596,982	$4,151,309
Long-term debt	$ 988,000	$1,113,000	$1,354,926	$1,482,200	$1,567,200
Capitalization:					
Common stock equity	40%	40%	39%	41%	45%
Cumulative preferred stock	9	10	8	8	7
Long-term debt	51	50	53	51	48
Total Capitalization	100%	100%	100%	100%	100%
Construction expenditures (excl. AFUDC)	$ 309,775	$ 441,566	$ 462,439	$ 508,372	$ 636,656
Percent of construction expenditures financed internally from operations	49%	40%	39%	39%	37%
Ratio of earnings to fixed charges	3.97	4.08	3.61	3.62	3.54

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

General

HL&P's operating results have been mixed over the last three years because of the negative pressures of increasing construction expenditures during the periods of high inflation and erratic electric sales due to uncertain economic conditions, weather and energy conservation. Rate increases, which have been approved and implemented approximately once each year, have allowed HL&P to keep pace with its service area's immediate needs for power, but its overall financial conditior has deteriorated since the mid 1970's.

The portion of HL&P's construction program that was financed from internally generated funds from operations and interest coverage declined during 1980 reflecting the 25% increase in construction spending and the substantial increase in interest rates. HL&P's return on average common equity has improved somewhat during the past two years principally as a result of $89 million of rate relief realized in 1979 and $106 million in 1980. Nevertheless, as discussed under "Supplementary Information to Disclose the Effects of Changing Prices", electric rates have not kept pace with inflation. As a result, HL&P has been unable to earn the returns on common equity granted by the Utility Commission in its rate orders. HL&P's authorized returns on common equity for 1979 and 1980 were 13.8% and 15% but the actual earned returns were 13.1% and 13.4%, respectively.

Another indication of HL&P's general financial condition is the portion of net income attributable to the allowance for funds used during construction (AFUDC). Although AFUDC, a non-cash item, rose steadily in 1978 and 1979 because of increases in construction activity and increased AFUDC accrual rates due to higher costs of capital, the amount of AFUDC in relation to net income declined in 1980 due to the allowance of larger portions of construction work in progress in rate base by regulatory authorities and the placing in service of the W. A. Parish No. 7 coal-fired unit.

Results of Operation

Earnings for HL&P increased in each of the last three years as a result of sales growth and rate increases, but were adversely affected by rapid escalation in operation and maintenance costs and rising interest rates. Although fuel expense has nearly doubled since 1978, earnings were generally unaffected due to adjustment clauses in the electric service rate schedules.

Revenues. As shown below, the majority of the increase in electric operating revenues has been due to the recovery of increased fuel costs through fuel adjustment clauses.

	% of Revenue Increase Attributable to		
Comparative Periods	Recovery of Increased Fuel Costs	Rate Increases	Increased KWH Sales
1978 v. 1977	73%	5%	22%
1979 v. 1978	63%	22%	15%
1980 v. 1979	63%	25%	12%

Increasing construction expenditures to meet load growth and comply with federal requirements for the conversion to alternate fuel sources, coupled with inflationary pressures, has required HL&P to seek rate increases more frequently. As a result, new rates have been placed in effect in each of the past three years. KWH sales increases have averaged 6% over the last three years, contributing to the growth in revenue. This growth rate is lower than experienced historically due to some conservation by customers and, in 1980, economic conditions affecting the large industrial customers. Because of the widespread use of air conditioning, weather also significantly affects KWH sales in the HL&P service area, primarily in the residential class. An unseasonably mild summer negatively influenced 1979 electric usage. However, an extended heat wave in 1980 caused residential KWH usage to attain record levels and average usage per residential customer increased from 13,522 KWH in 1979 to 14,219 KWH in 1980.

Fuel Expense. These costs have nearly doubled since 1978. The increase in the price of fuel and, to a lesser extent, increased KWH generation are the contributing factors. The rapid increase in fuel costs has contributed to the increase in HL&P's average residential revenue per KWH from 3.4¢ in 1978 to 5.0¢ in 1980. The increases in cost of coal sold for each year are due to larger coal requirements by HL&P for its W. A. Parish Station. HL&P brought new coal-fired units into service in each of the years 1978-1980.

Purchased Power Expense. The increase in these costs reflects economy purchases of energy from other utilities in Texas.

Operating and Maintenance Expenses. Operation and maintenance costs have increased 58% over the last three years because of general inflationary pressures, the use of larger, more complicated generating and pollution control equipment and substantial increases in labor costs. Increased reliance on coal-fired power plants has added significantly to the costs of operation and maintenance. The employee work force has increased by about 21% over the last three years as a result of increasingly complex construction and business activities, additional government regulations and the growth in the number of customers being served.

Non-Operating Items. AFUDC is an amount representing the cost of funds used to finance construction projects and is capitalized as part of the cost of the asset. AFUDC is a non-cash item of net income and represents a cost recoverable from customers through provisions for depreciation in future periods. Increases in amounts for AFUDC not only correspond to increases in construction expenditures, but also to increases in the AFUDC accrual rate and the level of investment in construction that is not earning a cash return. Since January 1979, AFUDC has been computed on a net of tax rate closely following the rising cost of capital. The AFUDC accrual rates for 1978 through 1980 were 6.5%, 7.5% and 8.5%, respectively. Effective January 1, 1981 HL&P began accruing AFUDC at a rate of 9.25%.

In the Utility Commission's final order relating to HL&P's 1979 rate case, the recovery of its investment in a uranium exploration project was disallowed. As a result, $8,964,000 was charged against other income in December 1979.

Liquidity and Capital Resources

Construction and nuclear fuel expenditures (excluding AFUDC) for 1980 and as estimated for the years 1981, 1982 and 1983 are $637 million, $709 million, $783 million and $964 million, respectively. Maturities of long-term debt for this same period include a single maturity of $20 million in 1981.

HL&P expects to finance a portion of its construction program through funds generated internally from operations. Factors affecting the ability of HL&P to fund a portion of its capital requirements from internal funds include regulatory practices allowing a substantial portion of construction work in progress in rate base, adequate depreciation rates, full recovery of the cost of fuel used in the generation of electricity and the opportunity to earn competitive rates of return. It is presently estimated that during the next three years 30% to 35% of HL&P's construction program can be financed through the use of internally generated funds from operations assuming HL&P can obtain rate relief on a timely basis at a level comparable to that most recently granted by the Utility Commission.

The remainder of HL&P's construction program will be financed through proceeds received from the sale of common stock by Houston Industries and the sales of preferred stocks and long-term debt by HL&P. HL&P's capitalization ratios at December 31, 1980 consisted of 48% long-term debt, 7% preferred stock and 45% common stock and retained earnings with similar ratios expected to be maintained in the future. Principally because of HL&P's large capital requirements, Moody's Investors Service, Inc. lowered its rating of HL&P's First Mortgage Bonds and Preferred Stock in 1980 from double A to single A; however, two other rating agencies continue to rate HL&P's securities double A. As a result of such downgrading, HL&P expects relatively higher capital costs in connection with its future sales of long-term debt and preferred stock.

For information regarding bank lines of credit and short-term borrowings see Note 4 to the Financial Statements.

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Item 8. *Financial Statements and Supplementary Data.*

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF INCOME

(Thousands of Dollars)

	Year Ended December 31, 1978	1979	1980
Operating Revenues	$,303,604	$1,707,572	$2,123,957
Operating Expenses:			
Fuel	682,261	958,112	1,206,872
Operation	134,756	167,665	203,467
Purchased power	4,753	8,440	29,995
Maintenance	55,354	77,703	97,598
Depreciation and amortization	73,280	93,746	103,771
Federal income taxes:			
Current	10,229	10,911	26,233
Deferred:			
Liberalized depreciation	33,064	29,576	37,038
Investment tax credit – current	49,544	61,289	49,891
Amortization of investment tax credit	(2,889)	(4,563)	(5,477)
Other – net	4,767	14,939	22,773
Other taxes	62,251	72,853	80,856
Total	1,107,370	1,490,671	1,853,017
Operating Income	196,234	216,901	270,940
Other Income:			
Allowance for other funds used during construction	17,029	31,928	32,735
Other – net	3,992	383	3,722
Total	21,021	32,311	36,457
Income Before Interest Charges	217,255	249,212	307,397
Interest Charges:			
Interest on long-term debt	84,307	101,566	122,695
Other interest	5,208	2,136	5,159
Allowance for borrowed funds used during construction	(11,639)	(10,911)	(9,619)
Taxes applicable to allowance for borrowed funds used during construction		(9,294)	(8,194)
Total	77,876	83,497	110,041
Net Income	139,379	165,715	197,356
Dividends on Preferred Stock	17,330	19,765	20,042
Income After Preferred Dividends	$ 122,049	$ 145,950	$ 177,314
Ratio of Earnings to Fixed Charges	3.61	3.62	3.54
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	2.72	2.76	2.81

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
BALANCE SHEETS
(Thousands of Dollars)

ASSETS

	December 31, 1979	December 31, 1980
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant, at original cost –		
Production	$1,578,928	$1,881,347
Transmission	299,483	333,698
Distribution	779,741	879,551
General	183,144	214,849
Construction work in progress	972,526	1,143,102
Nuclear fuel in process	83,947	104,947
Electric plant acquisition adjustments, at cost	3,166	3,166
Total	3,900,935	4,560,660
Less accumulated depreciation and amortization	591,465	678,717
Property, plant and equipment – net	3,309,470	3,881,943
CURRENT ASSETS:		
Cash in banks	11,614	11,840
Temporary cash investments, at cost	52,129	
Working funds and special deposits	5,266	5,377
Accounts receivable:		
Customers	63,853	84,247
Affiliated companies	127	336
Others	18,227	18,302
Inventory, at average cost:		
Fuel oil	47,843	66,364
Materials and supplies	31,296	31,180
Other	14,046	2,934
Total	244,401	220,580
DEFERRED DEBITS	43,111	48,786
Total	$3,596,982	$4,151,309

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

BALANCE SHEETS

(Thousands of Dollars)

LIABILITIES

	December 31, 1979	December 31, 1980
CAPITALIZATION (statement on following page):		
Common stock equity	$1,208,310	$1,452,230
Cumulative preferred stock	243,518	243,518
Long-term debt	1,482,200	1,567,200
Total	2,934,028	3,262,948
CURRENT LIABILITIES:		
Notes payable	1,084	50,870
Accounts payable	114,763	133,305
Accounts payable to affiliated companies	11,883	9,546
Taxes accrued	27,278	44,245
Interest accrued	28,086	29,324
Accrued liabilities to municipalities	36,008	45,557
Dividends declared	5,010	5,010
Current portion of long-term debt		20,000
Other	16,217	22,695
Total	240,329	360,552
DEFERRED CREDITS:		
Accumulated deferred federal income taxes	206,569	267,249
Unamortized investment tax credit	192,606	235,791
Other	15,081	16,384
Total	414,256	519,424
PROPERTY INSURANCE RESERVE	8,369	8,385
COMMITMENTS AND CONTINGENCIES		
Total	$3,596,982	$4,151,309

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF CAPITALIZATION
(Thousands of Dollars)

	December 31, 1979	December 31, 1980
COMMON STOCK EQUITY:		
Common stock, no par; authorized, 50,000,000 shares; outstanding 36,217,276 shares at December 31, 1979 and 42,964,777 shares at December 31, 1980	$ 588,276	$ 760,741
Retained earnings	620,034	691,489
Total common stock equity	1,208,310	1,452,230
CUMULATIVE PREFERRED STOCK -- no par; authorized, 10,000,000 shares; outstanding (entitled upon involuntary liquidation to $100 a share):		
$4 series, 97,397 shares	9,740	9,740
$6.72 series, 250,000 shares	25,115	25,115
$7.52 series, 500,000 shares	50,225	50 225
$9.52 series, 400,000 shares	39,372	39,372
$9.08 series, 400,000 shares	39,395	39,395
$8.12 series, 500,000 shares	50,098	50,098
$9.04 series, 300,000 shares	29,573	29,573
Total Cumulative Preferred Stock	243,518	243,518
LONG-TERM DEBT:		
First mortgage bonds:		
3¼% Series, due 1981	20,000	20,000
2¾% Series, due 1985	30,000	30,000
3¼% Series, due 1986	30,000	30,000
4¾% Series, due 1987	40,000	40,000
3 % Series, due 1989	30,000	30,000
4⅞% Series, due 1989	25,000	25,000
4½% Series, due 1992	25,000	25,000
5¼% Series, due 1996	40,000	40,000
5¼% Series, due 1997	40,000	40,000
6¾% Series, due 1997	35,000	35,000
6¾% Series, due 1998	35,000	35,000
7½% Series, due 1999	30,000	30,000
7¼% Series, due 2001	50,000	50,000
7½% Series, due 2001	50,000	50,000
8⅛% Series, due 2004	100,000	100,000
10⅛% Series, due 2004	100,000	100,000
8¾% Series, due 2005	125,000	125,000
8⅜% Series, due 2006	125,000	125,000
8⅜% Series, due 2007	125,000	125,000
8⅞% Series, due 2008	125,000	125,000
9¼% Series, due 2008	100,000	100,000
11¼% Series, due 2009	125,000	125,000
12 % Series, due 2010		100,000
Total first mortgage bonds	1,405,000	1,505,000
5½ debenture, due 1985	40,000	40,000
Pollution control revenue bonds:		
7⅜% Series, due 2004	18,000	18,000
9.5% Series, due 1998	19,200	19,200
9.9% Series, due 1998		5,000
Subtotal	1,482,200	1,587,200
Less: Current maturity of first mortgage bond, due 1981		20,000
Total long-term debt	1,482,200	1,567,200
Total Capitalization	$2,934,028	$3,262,948

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY
STATEMENTS OF RETAINED EARNINGS
(Thousands of Dollars)

	Year Ended December 31		
	1978	1979	1980
BALANCE AT BEGINNING OF PERIOD	$497,079	$553,213	$620,034
ADD – NET INCOME	139,379	165,715	197,356
Total	636,458	718,928	817,390
DEDUCT – CASH DIVIDENDS:			
Preferred:			
$4 Series	390	390	390
$6.72 Series	1,680	1,680	1,680
$7.52 Series	3,760	3,760	3,760
$9.52 Series	3,808	3,808	3,808
$9.08 Series	3,632	3,632	3,632
$8.12 Series	4,060	4,060	4,060
$9.04 Series (annual rate of $9.04 a share from February 6, 1979)		2,435	2,712
Common:			
1978, $2.12; 1979, $2.36; 1980, $2.68 (a share)	65,915	79,129	105,859
Total	83,245	98,894	125,901
BALANCE AT END OF PERIOD	$553,213	$620,034	$691,489

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Thousands of Dollars)

	Year Ended December 31, 1978	1979	1980
Sources of funds:			
Operations:			
Net income	$139,379	$165,715	$197,356
Items not requiring an outlay of working capital:			
Depreciation and amortization	74,361	94,764	108,298
Deferred federal income taxes – net	37,831	30,922	51,617
Investment tax credit deferred – net	40,782	48,832	44,414
Allowance for funds used during construction	(28,668)	(42,839)	(42,354)
Total	263,685	297,394	359,331
Dividends declared	(83,245)	(98,894)	(125,901)
Reinvested funds from operations	180,440	198,500	233,430
Financing:			
Sale of common stock	65,224	131,518	172,465
Sale of preferred stock		29,573	
Sale of first mortgage bonds	225,000	125,000	100,000
Pollution control revenue bonds	16,926	2,274	5,000
Sale of coal handling facilities to affiliate	35,424		
Change in notes payable and temporary cash investments	(91,296)	15,422	101,915
Reclassification to current maturity of long-term debt			(20,000)
	251,278	303,787	359,380
Other:			
Decrease (increase) in working capital (exclusive of notes payable and temporary cash investments)	36,277	(3,555)	42,129
Other – net	(5,556)	9,640	1,717
	30,721	6,085	43,846
Total	$462,439	$508,372	$636,656
Application of funds:			
Construction and nuclear fuel expenditures and lignite advance (net of allowance for funds used during construction)	$462,439	$508,372	$636,656
Increase (decrease) in working capital (exclusive of notes payable and temporary cash investments):			
Current assets:			
Cash in banks	$ (1,512)	$ 1,563	$ 226
Customer accounts receivable	16,675	5,614	20,394
Accounts receivable from affiliated companies	(83)	(163)	209
Inventory	1,506	8,194	18,405
Other	6,765	3,420	(10,926)
Total	23,351	18,628	28,308
Current liabilities:			
Accounts payable	29,467	6,424	18,542
Accounts payable to affiliated companies	6,112	4,833	(2,337)
Taxes and interest accrued	13,676	(5,051)	18,205
Other	10,373	8,867	36,027
Total	59,628	15,073	70,437
Increase (decrease) in working capital (exclusive of notes payable and temporary cash investments)	$(36,277)	$ 3,555	$(42,129)

See Notes to Financial Statements.

HOUSTON LIGHTING & POWER COMPANY

NOTES TO FINANCIAL STATEMENTS
For the Three Years Ended December 31, 1980

(1) Summary of Significant Accounting Policies

System of Accounts

The accounting records of HL&P are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts which have been adopted by the Public Utility Commission of Texas (Utility Commission).

Electric Plant

Additions to electric plant, reduced by contributions in aid of construction, betterments to existing property, and replacements of units of property are capitalized at cost. Cost includes the original cost of contracted services, direct labor and material, indirect charges for engineering supervision and similar overhead items, and an allowance for funds used during construction (AFUDC).

Maintenance of property and replacements and renewals of items determined to be less than units of property are charged to expense. The actual or average book cost of units of property replaced or renewed are removed from plant and such costs plus removal cost, less salvage, are charged to accumulated depreciation.

HL&P computes depreciation using the straight-line method. The depreciation provision as a percentage of the depreciable cost of plant was 3.2% for 1978, 3.5% for 1979 and 3.6% for 1980.

Allowance for Funds Used During Construction

Prior to 1979, HL&P accrued AFUDC at a rate of 6½% on projects estimated to cost in excess of $50,000 and estimated to require more than 90 days to construct. During 1979, HL&P accrued AFUDC at a 7½% rate, net of federal income taxes, on construction projects and nuclear fuel payments except for amounts included in the rate base by regulatory authorities. Effective January 1, 1980, the accrual rate was increased to 8½%, net of federal income taxes.

Operating Revenues

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

Federal Income Taxes

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

Since January 1979, HL&P has followed a policy of comprehensive interperiod income tax allocation. Prior to January 1979, deferred income taxes were not recognized on the borrowed funds component of AFUDC which is deducted currently for federal income tax purposes.

Investment tax credits are deferred and amortized over the estimated lives of the related property.

Property Insurance Reserves

The cost of replacing uninsured plant losses, less related tax effects, are charged against the reserve when incurred. Effective January 1980, additional accruals to the reserve have been denied by regulatory authorities.

NOTES TO FINANCIAL STATEMENTS (Continued)

(2) Preferred Stock

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

$4 Series – $105.00. $6.72 Series: through July 31, 1983 – $103.51; thereafter – $102.51. $7.52 Series: through October 31, 1982 – $105.35; thereafter – $103.35 to $102.35. $9.52 Series: through September 30, 1985 – $109.52; thereafter – $105.00 to $101.00. $9.08 Series: through March 31, 1981 – $109.08; thereafter – $105.00 to $101.00. $8.12 Series: through November 30, 1982 – $109.37; thereafter – $106.25 to $102.25. $9.04 Series: through January 31, 1984 – $109.04; thereafter – $105.00 to $101.00.

(3) Long-Term Debt

At December 31, 1980, sinking or improvement fund requirements of HL&P's first mortgage bonds outstanding will be $27,850,000 for the year 1981, $28,700,000 in 1982 and $29,700,000 for each of the years 1983 through 1985. Of such requirements, $15,050,000 for the year 1981 and $14,850,000 for each of the years 1982 through 1985 may be satisfied by certification of property additions at 100% of the requirements and the remainder through certification of such property additions at 166⅔% of the requirements. Sinking or improvement fund requirements for 1980 and prior years have been satisfied by certification of property additions.

Annual maturities of long-term debt are $20,000,000 in 1981 and $70,000,000 in 1985.

The issuable amount of first mortgage bonds is unlimited as to authorization, but limited by property, earnings, and other provisions of the mortgage and deed of trust and the supplemental indentures thereto. Substantially all properties are subject to liens securing its long-term debt.

(4) Short-Term Financing

The interim financing requirements are met through short-term bank loans and the issuance of commercial paper. HL&P has bank lines of credit aggregating $250 million (as compared with $200 million during 1979) which limit its total short-term borrowings and provide for interest at the prime rate. Bank loans and commercial paper outstanding were $20,000,000 and $30,000,000 at December 31, 1980, respectively. There was no short-term indebtedness at December 31, 1979. Compensating balances are not required under the lines of credit.

(5) Retirement Plan

HL&P has a noncontributory retirement plan covering substantially all employees. The policy of HL&P is to fund pension costs accrued, which includes amortization of prior service costs, over a period of thirty to forty years.

The total cost of the retirement plan for each of the years 1978 through 1980 was $4,773,000, $6,223,000 and $7,563,000, respectively. In 1979, the assumed return on plan investments was increased to 7% and the plan was amended to provide substantially increased benefits for all plan participants. The net effect of the change and amendment was to increase prior service costs by $14,210,000 and pension cost accrued by $1,400,000 for 1979. As of January 1, 1980, actuarially computed prior service costs were $34,047,000. A comparison of accumulated plan benefits and plan net assets for the retirement plan is presented below:

	January 1, 1979	January 1, 1980
Actuarial present value of accumulated plan benefits:		
Vested	$49,139,000	$49,280,000
Nonvested	2,341,000	4,179,000
	$51,480,000	$53,459,000
Market value of net assets available for plan benefits	$50,680,000	$67,272,000

(6) Commitments and Contingencies

Significant commitments have been incurred in connection with HL&P's construction program and for nuclear fuel purchases. The construction program is presently estimated to cost $691 million in 1981, $759 million in 1982 and $947 million in 1983. These amounts do not include estimated expenditures of $60 million for uranium concentrate and nuclear fuel processing services for the South Texas and Allens Creek nuclear plants. Commitments in connection with the construction program, principally for generating plants and related facilities, are generally revocable by HL&P subject to reimbursement of manufacturers for expenditures incurred or other cancellation penalties. These amounts do not include estimates of the allowance for funds used during construction. HL&P has no material lease commitments.

(7) Jointly Owned Electric Plant

HL&P is project manager and one of four participants in the South Texas Nuclear project which consists of two 1250 megawatt nuclear generating units. Each participant finances its own share of construction expenditures with HL&P's participating interest in the project being 30.8%. As of December 31, 1980, HL&P's share of expenditures included in construction work in progress and nuclear fuel in process were $450 million and $39 million, respectively.

(8) Regulatory Proceedings

As part of the Utility Commission's final rate order in January 1980, the Utility Commission disallowed HL&P's request to amortize its investment in a uranium exploration project terminated in October 1978. As a result $4,661,000 (net of federal income taxes) was charged against income in the month of December 1979. A number of accounting changes were implemented in January 1980 as a result of the Utility Commission's January 1980 order. Such changes include (1) the capitalization of ad valorem taxes related to construction work in progress (2) the capitalization of employee benefits and depreciation of transportation equipment related to construction and (3) the discontinuance of accruals to the reserves for property insurance and injuries and damages.

(9) Federal Income Taxes

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

	Year Ended December 31,		
	1978	1979	1980
	Thousands of Dollars		
Federal income taxes at statutory corporate rate	$112,365	$125,839	$150,884
Reduction in taxes resulting from:			
Allowance for other funds used during construction	13,761	14,687	15,058
Other — net	3,889	3,303	5,173
Total	17,650	17,990	20,231
Federal income taxes	$ 94,715	$107,849	$130,653
Effective rate	40.5%	39.4%	39.8%

At December 31, 1980, HL&P had an investment tax credit carryover of approximately $7,484,000.

(10) Supplementary Expense Information

	Year Ended December 31,		
	1978	1979	1980
	(Thousands of Dollars)		
Taxes, other than income taxes, were charged to expenses as follows:			
Ad valorem	$ 38,131	$ 42,666	$ 42,686
State gross receipts	12,686	16,044	20,717
Payroll	4,897	6,189	7,467
PUC assessment	2,079	2,885	3,671
Miscellaneous	4,458	5,069	6,315
Total taxes other than income taxes	$ 62,251	$ 72,853	$ 80,856
Research and development costs charged to expenses	$ 8,775	$ 10,152	$ 12,146

(11) Principal Transactions Between HL&P, its Parent and Other Related Companies

Pursuant to the corporate restructuring in 1977, Houston Industries assumed joint and several liability with HL&P for payment of principal and interest on the $40,000,000 of 5½% Convertible Debentures due 1985 issued by HL&P. In consideration thereof, HL&P issued Houston Industries a $40,000,000, 5½% debenture. Included in "Interest on long-term debt" in the accompanying Statements of Income for each of the years ended December 31, 1978, 1979 and 1980 is $2,200,000 related to this debenture.

HL&P issued 2,310,354, 4,902,280 and 6,747,501 shares in 1978, 1979 and 1980, respectively, of common stock to Houston Industries for a total consideration of $65,224,000, $131,518,000 and $172,465,000 in 1978, 1979 and 1980, respectively. Common stock dividends paid to Houston Industries by HL&P amounted to $65,915,000, $79,129,000 and $105,859,000 in 1978, 1979 and 1980, respectively.

In May 1978, HL&P sold at cost its coal handling facilities to Utility Fuels, Inc., another wholly-owned subsidiary of Houston Industries. "Operating Expenses – Fuel" in the accompanying Statements of Income for the years ended December 31, 1978, 1979 and 1980 includes $20,823,000, $105,686,000 and $202,953,000, respectively, of coal purchased from Utility Fuels.

(12) Unaudited Quarterly Information

The following unaudited quarterly financial information for 1979 and 1980 includes, in the Company's opinion, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation.

	Revenues	Net Operating Income	Income After Preferred Dividends
	(Thousands of Dollars)		
March 31, 1979	$357,148	$ 44,122	$27,308
June 30, 1979	413,386	49,769	32,223
September 30, 1979	513,157	74,184	57,296
December 31, 1979	423,881	48,826	29,123(a)
March 31, 1980	416,378	46,138	26,031
June 30, 1980	521,515	59,583	37,100
September 30, 1980	676,673	99,072	75,226
December 31, 1980	509,391	66,147	38,957

(a) See Note 8, "Regulatory Proceedings" regarding the December 1979 charge against HL&P's income.

(13) Reclassification

Certain amounts from previous years have been reclassified to conform to the 1980 presentation of the financial statements. Such reclassifications are immaterial and do not affect earnings.

(14) Other

On February 10, 1981, HL&P issued $125,000,000 of 13⅞% First Mortgage Bonds due February 1, 1991.

In March 1981 (subsequent to the date of the Auditors' Opinion), HL&P issued approximately 3,000,000 shares of common stock to Houston Industries. The proceeds were used by HL&P to defray the cost of its construction program including the repayment of short-term debt incurred in connection with such program. To the extent that such proceeds were not immediately so used, they were temporarily invested in short-term interest bearing obligations.

AUDITORS' OPINION

Houston Lighting & Power Company:

We have examined the balance sheets and the statements of capitalization of Houston Lighting & Power Company as of December 31, 1979 and 1980 and the related statements of income, retained earnings and changes in financial position 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 above-mentioned financial statements present fairly the financial position of the Company at December 31, 1979 and 1980 and the results of its operations and the changes in its financial position 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 V, VI, VIII and IX for each of the three years in the period ended December 31, 1980. 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

Houston, Texas
February 16, 1981

SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED)

Financial statements of business enterprises, in accordance with generally accepted accounting principles, reflect historical costs and dollars of varying purchasing power and accordingly do not measure the effects of inflation. The following unaudited supplementary information is supplied in accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information regarding the effects of both general inflation (constant dollars) and changes in specific prices (current cost), which are not reflected in traditional financial statements. Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of property from the date the property was acquired to the present, and may differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general. This information should be viewed only as an estimate of the approximate effect of inflation rather than as a precise measurement.

HL&P, in common with other electric utility companies in general, continues to be adversely impacted by the effects of an inflationary economy. Certain effects of inflation such as higher interest costs associated with long-term bonds and increased operating and maintenance costs are reflected in traditional financial statements. Increased revenues to recover such expenses, however, tend to lag behind the actual incurrence of such increased costs. Electric rates are established based on costs as of a specific point in time and are designed to allow the electric utility to recover its operating costs and earn a fair rate of return on its investment in property, plant and equipment. However, in a highly inflationary environment, expenses have increased at a much greater rate than the increase in electric sales which has resulted in an erosion of return on invested capital. It is unlikely that rates based on historical costs can keep pace with increased costs during inflationary periods. This has resulted, in part, in the need for larger and more frequent rate increases.

There are a number of other effects of inflation which are not reflected in traditional financial statements and to which the accompanying supplementary information is intended to give effect. One major expense so affected is depreciation. The cost of constructing and replacing property, plant and equipment has been escalating dramatically. Historical financial statements reflect depreciation based on the historical costs of assets and do not reflect the true economic cost of the asset "used up" and which must be replaced at substantially higher future values. However, a substantial amount of such assets are financed with long-term bonds and preferred stock which effectively acts as a hedge against the impact of inflation. Utility plant financed from investment by common shareholders and retained earnings are not afforded such a hedge. While a certain amount of the impact on such depreciation is reduced through higher returns allowed on the common equity investment in property when electric rates are established, the end result of continuing inflation is an erosion of the common equity investment when viewed in terms of real purchasing power.

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES

For the Year Ended December 31, 1980

(In thousands of dollars)

	Conventional Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
Operating Revenues	$2,123,957	$2,123,957	$2,123,957
Operating Expenses:			
Fuel	1,206,872	1,206,872	1,206,872
Depreciation	103,771	196,174	207,555
Operation and maintenance	301,065	301,065	301,065
Purchased power	29,995	29,995	29,995
Income and other taxes	211,314	211,314	211,314
Interest expense	110,041	110,041	110,041
Other income and deductions – net	(36,457)	(36,457)	(36,457)
Net Income (excluding reduction to net recoverable cost)	$ 197,356	$ 104,953*	$ 93,572
Increase in specific prices (current cost) of property, plant, and equipment held during the year**			$ 601,245
Less increase in cost of property, plant, and equipment adjusted for changes in general price level			715,069
Excess of increase in general price level over increase in specific prices			(113,824)
Reduction of utility property to net recoverable costs		(329,671)	(204,466)
Gain from decline in purchasing power of net amounts owed		271,330	271,330
Net		$ (58,341)	$ (46,960)

* Including the reduction to net recoverable cost, loss on a constant dollar basis would have been $224,718 for 1980.

** At December 31, 1980, current cost of property, plant and equipment, net of accumulated depreciation was $6,706,421, while historical cost was $3,881,943.

FIVE YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In thousands of average 1980 dollars, except per share amounts)

	1976	1977	1978	1979	1980
Revenues					
Historical	$ 841,616	$1,069,786	$1,303,604	$1,707,572	$2,123,957
Constant dollar	1,218,245	1,454,673	1,646,517	1,938,495	2,123,957
Net Income					
Historical				$ 165,715	$ 197,356
Constant dollar				110,620	104,953
Current cost				94,767	93,572
Common Stock Equity at year-end (including electric utility property only to the extent recoverable)					
Historical				$1,208,310	$1,452,230
Constant dollar				1,297,133	1,387,036
Current cost				1,297,133	1,387,036
Gain from decline in purchasing power of net amounts owed				$ 283,284	$ 271,330
Excess of increase in general price level over increase in specific prices				$ 294,734	$ 113,824
Average consumer price index	170.5	181.5	195.4	217.4	246.8

Property, plant and equipment as referred to in the accompanying data includes utility plant in service, land, land rights and property held for future use, nuclear fuel in process and construction work in progress. The constant dollar information was determined by adjusting historical amounts by the ratio of the average level of the CPI-U during the year the assets were acquired or constructed to the average CPI-U index for 1980. Current cost of properties was determined primarily by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. Current cost information does not represent the replacement cost of HL&P's productive capacity since plant would not be replaced precisely in kind, but rather is an approximation of the current cost of existing assets. The constant dollar and current cost provisions for depreciation were determined by applying the Company's historical depreciation rates to the restated property amounts.

As allowed by FASB No. 33, items in the income statement, other than depreciation expenses, were not adjusted. The cost of fuel used in electric generation and operating and maintenance expenses are essentially stated in terms of average current year prices and therefore do not require restatement.

In accordance with FASB No. 33, federal income tax expense has not been adjusted. Current federal income tax policy recognizes to a certain extent the effects of inflation. Liberalized depreciation allowances and the investment tax credit accelerate capital recovery. However, as the statutory federal income tax rate has remained stable the effective rate has increased significantly as a result of the declining purchasing power of the related taxable income. HL&P's effective federal income tax rate in 1980, when adjusted for inflation, is 55 percent under constant dollar and 58 percent under current cost, each of which exceeds its reported effective tax rate of 40 percent and the statutory rate of 46 percent.

Under the rate making prescribed by the regulatory authorities to which HL&P is subject, only the historical cost of plant is recoverable through depreciation. Therefore, the excess of the cost of utility plant stated in terms of constant dollars and current cost that occurred as a result of inflation in the current year over the historical cost of utility plant is not presently recoverable in rates as depreciation and is reflected as a reduction to net recoverable cost.

To properly reflect the economics of rate regulation in the Statement of Income Adjusted for Changing Prices, the reduction of net property, plant, and equipment should be offset by the gain from the decline in purchasing power of net amounts owned. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt and preferred stock which has been used to finance property, plant and equipment. However, since the depreciation on this utility plant is limited to the recovery of historical costs, HL&P does not have the opportunity to realize a holding gain, and is limited to recovery only of the embedded cost of such capital. Thus, to the extent that utility plant is financed with debt and preferred stock the reduction to net recoverable cost and the holding gain essentially offset each other.

As indicated above, the rates charged by HL&P are regulated. As a result it is not as free as a non-regulated enterprise to raise its prices in response to inflation. Further, except in the case of fuel costs, the regulatory process introduces a substantial time lag between the incurrence of operating and capital costs and the recovery of such costs. This is commonly referred to in the industry as "regulatory lag" and is one of the most significant factors contributing to the erosion of investor capital. Compounding the problem is the fact that HL&P must compete in the same marketplace as a non-regulated enterprise for capital necessary to finance its construction program.

PART III

Item 9. ***Directors and Executive Officers of the Registrant.*** (*)

Item 10. ***Management Remuneration and Transactions.*** (*)

* The information called for by Items 9 and 10, to the extent not set forth under Item 1, "Business – Executive Officers", is set forth in the definitive proxy statement relating to the 1981 Annual Meeting of Shareholders of Houston Industries Incorporated (parent of the registrant), pursuant to the Commission's Regulation 14A (File No. 1-7629). Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and is incorporated herein by reference pursuant to Instruction G to Form 10-K. The Board of Directors of the registrant is composed of the same individuals as the Board of Directors of Houston Industries Incorporated. The principal executive officers of Houston Industries Incorporated serve in substantially identical capacities with the registrant. For the fiscal year ended December 31, 1980, the aggregate remuneration paid by HL&P to all of its directors and officers as a group (24 persons) amounted to $1,790,980.

PART IV

Item 11. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K.***

(a)(1) **Financial Statements.**

(a)(2) **Financial Statement Schedules.**

Schedules for the three years ended December 31, 1980:

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

I, II, III, IV, VII, X, XI, XII and XIII.

(a)(3) **Exhibits.**

See Exhibit Index on Page 41.

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

HL&P filed reports on Form 8-K during the fourth quarter of 1980 as follows:

November 21, 1980 (date of earliest event reported) Item 5. OTHER MATERIALLY IMPORTANT EVENTS:

(1) On November 21, 1980, HL&P was advised by Moody's Investors Service that its First Mortgage Bonds and Preferred Stock had been downgraded from Double-A (Aa) to Single-A (A) or equivalent.

(2) On December 3, 1980, HL&P elected to cancel its plans to offer on December 10, 1980, $35 million of a new series of Preferred Stock and deferred its planned offering of $125 million principal amount of First Mortgage Bonds.

SCHEDULE V – PROPERTY, PLANT AND EQUIPMENT

For the Three Years Ended December 31, 1980

(Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance Beginning of Year	Additions at Cost	Retirements	Other Changes — Add (Deduct)	Balance End of Year
For the Year Ended December 31, 1980:					
Production Plant	$1,578,928	$304,475	$ 2,056		$1,881,347
Transmission Plant	299,483	34,925	710		333,698
Distribution Plant	779,741	112,105	12,295		879,551
General Plant	183,144	35,564	3,859		214,849
Plant Acquisition Adjustments	3,166				3,166
Total Plant	2,844,462	487,069	18,920		3,312,611
Construction Work in Progress (A)	972,526	170,576			1,143,102
Nuclear Fuel in Process	83,947	21,000			104,947
Total	$3,900,935	$678,645	$18,920		$4,560,660
For the Year Ended December 31, 1979:					
Production Plant	$1,551,962	$ 27,236	$ 270	$	$1,578,928
Transmission Plant	290,951	9,055	523		299,483
Distribution Plant	683,425	107,052	10,736		779,741
General Plant	165,789	20,014	2,659		183,144
Plant Acquisition Adjustments	3,166				3,166
Total Plant	2,695,293	163,357	14,188		2,844,462
Construction Work in Progress (A)	621,175	351,351			972,526
Nuclear Fuel in Process	69,995	17,912		(3,960)	83,947
Total	$3,386,463	$532,620	$14,188	$(3,960)	$3,900,935
For the Year Ended December 31, 1978:					
Production Plant	$1,296,211	$257,147	$ 1,396		$1,551,962
Transmission Plant	273,381	19,321	1,751		290,951
Distribution Plant	616,936	80,133	13,644		683,425
General Plant	160,127	7,311	1,649		165,789
Plant Acquisition Adjustments	3,166				3,166
Total Plant	2,349,821	363,912	18,440		2,695,293
Construction Work in Progress (A)	538,109	83,066			621,175
Nuclear Fuel in Process	61,291	8,704			69,995
Total	$2,949,221	$455,682	$18,440		$3,386,463

NOTES:

(A) Substantially all additions are originally charged to CWIP and transferred to electric utility plant accounts upon completion. Additions at cost give effect to such transfers.

(B) Additions at cost include non-cash charges for an allowance for other funds used during construction.

(C) HL&P computes depreciation using the straight-line method. The depreciation provisions as a percentage of the depreciable cost of plant was 3.2% in 1978, 3.5% in 1979 and 3.6% in 1980.

SCHEDULE VI – ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

For the Three Years Ended December 31, 1980

(Thousands of Dollars)

Col. A	Col. B	Col. C		Col. D		Col. E
		Additions		Deductions from Reserve		
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Retirements, Renewals and Replacements	Other	Balance at Close of Period
Year Ended December 31, 1980 –						
Depreciation and amortization of property, plant and equipment	$591,465	$103,771	$4,527	$21,046		$678,717
Year Ended December 31, 1979 –						
Depreciation and amortization of property, plant and equipment	$512,604	$ 93,746	$1,018	$15,903		$591,465
Year Ended December 31, 1978 –						
Depreciation and amortization of property, plant and equipment	$450,946	$ 73,280	$1,081	$12,703		$512,604

SCHEDULE VIII – RESERVES

For the Three Years Ended December 31, 1980

(Thousands of Dollars)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions from Reserves (A)	Balance at Close of Period
Year Ended December 31, 1980:					
Accumulated provisions, deducted from related assets on balance sheet:					
Uncollectible accounts	$3,691	$7,876		$7,858	$3,709
Inventory adjustments (B)	1,028	78	$ 393	90	1,409
Reserves other than those deducted from assets on balance sheet:					
Property insurance	8,369			(16)	8,385
Injuries and damages	450			450	–0–
Year Ended December 31, 1979:					
Accumulated provisions, deducted from related assets on balance sheet:					
Uncollectible accounts	$ 250	$8,956		$5,515	$3,691
Inventory adjustments (B)	785	77	$ 278	112	1,028
Reserves other than those deducted from assets on balance sheet:					
Property insurance	8,500	100		231	8,369
Injuries and damages	408	142		100	450
Year Ended December 31, 1978:					
Accumulated provisions, deducted from related assets on balance sheet:					
Uncollectible accounts	$ 453	$3,653		$3,856	$ 250
Inventory adjustments (B)	689	4[illegible]	$ 294	247	785
Reserves other than those deducted from assets on balance sheet:					
Property insurance	8,000	500			8,500
Injuries and damages	353	450		395	408

NOTES:

(A) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.

(B) Reserve provided by charges to various accounts on basis of materials issued.

SCHEDULE IX – SHORT-TERM BORROWINGS

For the Three Years Ended December 31, 1980
(Thousands of Dollars)

	Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Description	Category of Aggregate Short-term Borrowings	Balance at End of Period (A)	Weighted Average Interest Rate at End of Period	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period	Weighted Average Interest Rate During the Period
Year Ended:						
December 31, 1980	Bank Loans	$ 20,000	21.00%	$ 75,000	$ 18,962	16.38%
	Commercial Paper	30,000	18.39	38,100	10,242	11.98
Year Ended:						
December 31, 1979	Bank Loans			62,000	10,112	13.69
	Commercial Paper			12,925	1,660	12.10
Year Ended:						
December 31, 1978	Bank Loans	1,000	11.75	96,000	41,570	8.50
	Commercial Paper			27,109	10,037	7.38

NOTES:

(A) The Balance at End of Period excludes land notes of $1,197, $1,084 and $870 as of December 31, 1978, 1979 and 1980, respectively.

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, in the City of Houston and State of Texas, on the 25th day of March, 1981.

HOUSTON LIGHTING & POWER COMPANY
(Registrant)

D. D. JORDAN
(D. D. Jordan, 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 date indicated.

Signature	Title	Date
D. D. JORDAN (D. D. Jordan, President)	Principal Executive Officer and Director	March 25, 1981
H. R. DEAN (H. R. Dean, Group Vice President)	Principal Financial and Accounting Officer and Director	
SEARCY BRACEWELL (Searcy Bracewell)	Director	
WM. R. BROWN (Wm. R. Brown)	Director	
JOHN C. ECHOLS (John C. Echols)	Director	
HOWARD W. HORNE (Howard W. Horne)	Director	
THOMAS B. McDADE (Thomas B. McDade)	Director	
G. W. OPREA, JR. (G. W. Oprea, Jr.)	Director	
STEWART ORTON (Stewart Orton)	Director	
WILLARD E. WALBRIDGE (Willard E. Walbridge)	Director	
JOE C. WESSENDORFF (Joe C. Wessendorff)	Director	

HOUSTON LIGHTING & POWER COMPANY

Exhibits to the Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 1980

INDEX OF EXHIBITS

	– Exhibits not incorporated by reference to a prior filing are designated by an asterisk; all exhibits not so designated are incorporated herein by reference to a prior filing as indicated.
3(a)	– Articles of Incorporation of the Company, as amended February 1979. (Exhibit 2(a), File No. 2-63401).
*3(b)	– Copy of By-Laws of the Company, as amended October 1978.
4(b)(1)	– Mortgage and Deed of Trust, dated as of November 1, 1944, between the Company and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, successor trustee), Trustee (Exhibit B-4, File No. 2-5515).
4(b)(2)	– First Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to 1948, Form 10-K).
4(b)(3)	– Second Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 7D to April, 1950, Form 8-K).
4(b)(4)	– Third Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 7E to October, 1951, Form 8-K).
4(b)(5)	– Fourth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-12263).
4(b)(6)	– Fifth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2 to 1955, Form 10-K).
4(b)(7)	– Sixth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-15384).
4(b)(8)	– Seventh Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to August, 1959, Form 8-K).
4(b)(9)	– Eighth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to 1962, Form 10-K).
4(b)(10)	– Ninth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-25829).
4(b)(11)	– Tenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-27512).
4(b)(12)	– Eleventh Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-28341).
4(b)(13)	– Twelfth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-32751).
4(b)(14)	– Thirteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-39257).
4(b)(15)	– Fourteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 3(f) to 1970, Form 10-K).
4(b)(16)	– Fifteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 3(f) to 1971, Form 10-K).

4(b)(17)	– Sixteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-50004).
4(b)(18)	– Seventeenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-51731).
4(b)(19)	– Eighteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-52709).
4(b)(20)	– Nineteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(b)(1), File No. 2-57123).
4(b)(21)	– Twentieth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 3(a)(1) to 1976, Form 10-K of Houston Industries Incorporated).
4(b)(22)	– Twenty-First Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2 to 1977, Form 10-K).
4(b)(23)	– Twenty-Second Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(d), File No. 2-62879).
4(b)(24)	– Twenty-Third Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to 1978, Form 10-K).
4(b)(25)	– Twenty-Fourth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to 1979, Form 10-K).
*4(b)(26)	– Twenty-Fifth Supplemental Indenture to Exhibit 4(b)(1).
*4(b)(27)	– Twenty-Sixth Supplemental Indenture to Exhibit 4(b)(1).
10(b)(1)	– Gas sales contract, dated September 6, 1963, between the Company and Humble Oil and Refining Company (Exhibit 4(a), File No. 2-24599).
10(b)(2)	– Amendment to Gas Purchase Contract, dated May 29, 1974, between Exxon Company, U.S.A. and the Company, amending gas sales contract, dated September 6, 1963, between the Company and Humble Oil & Refining Company (Exhibit 1 to June 1974, Form 8-K).
10(b)(3)	– Gas sales contract, dated January 14, 1964, between the Company and United Gas Pipeline Company (Exhibit 4(b), File No. 2-24599).
10(b)(4)	– Amendment, dated September 6, 1972 to gas sales contract, dated January 14, 1964, between the Company and United Gas Pipeline Company (Exhibit 5(b), File No. 2-45327).
10(b)(5)	– Franchise granted by City of Houston, Ordinance No. 57-929, effective October 1, 1957, and acceptance by the Company of the same dated September 19, 1957 (Exhibit 5(c), File No. 2-59748).
10(b)(6)	– Letter agreement dated January 21, 1977 amending certain provisions contained in Exhibits 10(b)(3) and 10(b)(4) (Exhibit 5(d)(1), File No. 2-58113).
10(b)(7)	– Coal Supply Agreement, dated June 2, 1978, between Utility Fuels, Inc. and Spring Creek Coal Company (Exhibit 5(f), File No. 2-62291).
10(b)(8)	– Lignite Supply Agreement, dated August, 1979, between Utility Fuels, Inc. and Northwestern Resources Company (Exhibit 1 to August, 1979, Form 8-K of Houston Industries Incorporated).
10(b)(9)	– Coal Supply Agreement dated April 18, 1980, between Utility Fuels, Inc. and Kerr-McGee Coal Corporation (Exhibit 1 to January-March 1980, Form 10-Q of Houston Industries Incorporated).
10(b)(10)	– Gas sales contract, dated January 19, 1981, between the Company and United Texas Transmission Company (Exhibit 1 to January, 1981, Form 8-K of Houston Industries Incorporated).

11 – None.

*12 – Computation of Ratios of Earnings to Fxed Charges and Earnings to Fixed Charges and Preferred Dividends.

13 – None.

19 – None.

20 – None.

22 – None.

Undertaking.

The undersigned, Houston Lighting & Power Company, hereby undertakes pursuant to Regulation S-K, Item [illegible] paragraph (b)(4)(c), to furnish to the Securities and Exchange Commission upon request all constituent instruments defining the rights of holders of long-term debt of Houston Lighting & Power Company not filed herewith for the reason that the total amount of securities authorized under any such instruments does not exceed 10% of the total assets of Houston Lighting & Power Company.

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. 1-7629.

HOUSTON INDUSTRIES INCORPORATED

(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	**74-1885573** (I.R.S. Employer Identification No.)
611 Walker Avenue **Houston, Texas** (Address of principal executive offices)	**77002** (Zip Code)

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

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 and Midwest Stock Exchange

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 .

The aggregate market value of the voting stock held by non-affiliates of Houston Industries Incorporated was $1,206,366,943 as of March 16, 1981.

As of March 16, 1981, Houston Industries Incorporated had 45,739,031 shares of common stock outstanding.

The definitive proxy statement relating to the 1981 Annual Meeting of Shareholders of Houston Industries Incorporated is incorporated by reference in Item 9 and Item 10 of Part III of this form.

HOUSTON INDUSTRIES INCORPORATED

Form 10-K for the Year Ended December 31, 1980

TABLE OF CONTENTS

PART I

Item 1. *Business.*

THE COMPANY AND ITS SUBSIDIARIES

Houston Industries Incorporated (Company) is a Texas corporation which was organized in October 1976 by Houston Lighting & Power Company (HL&P) pursuant to a merger and corporate restructuring plan whereunder the Company acquired all of HL&P's outstanding common stock and all of the outstanding stock of HL&P's two former subsidiaries, Primary Fuels, Inc. and Utility Fuels, Inc. The Company is a holding company and, at the present time, it conducts no business and owns no properties other than the common stocks of its three subsidiary companies. The Company is exempt from regulation as a "registered" holding company under the Public Utility Holding Company Act of 1935 except with respect to the acquisition of securities of other public utility companies. The Company is the successor to HL&P for purposes of the selected financial data for periods prior to January 1, 1977 included herein.

HL&P is engaged in the generation, transmission, distribution and sale of electric energy, serving an area of the Texas Gulf Coast Region, estimated at 5,000 square miles, in which are located Houston (the largest city in Texas) and 157 smaller cities, villages and communities. As of December 31, 1980, the total assets and common stock equity of HL&P represented 94% and 97%, respectively, of the Company's consolidated assets and consolidated common stock equity. For the twelve months then ended, the operations of HL&P accounted for 96% of the Company's consolidated net income. Primary Fuels participates in joint ventures that engage in oil and gas exploration, development and production activities located offshore Texas and Louisiana and onshore within the continental United States. Such ventures are not presently regarded as potential sources of fuels for HL&P's utility operations. Utility Fuels provides coal and lignite supply services to HL&P. See "Fuel — Coal and Lignite Supply" and "Businesses of Other Subsidiaries".

BUSINESS OF HL&P

Certain Factors Affecting Electric Utilities

HL&P, in common with electric utilities in general, has experienced problems in a number of areas, including difficulty in securing timely rate increases in sufficient amounts to finance its construction program and provide an adequate return on common equity, increased cost of fuel, substantial increases in construction and operating costs, greater reliance on fuels other than natural gas, increased expenditures due to pollution control and environmental considerations, uncertainties and delays respecting the licensing and construction of nuclear and fossil fueled generating units resulting in the need to purchase power from other electric utility systems, high costs in raising large amounts of capital in competition with other major users of capital, and an unpredictable rate of growth of energy sales due to weather, uncertain economic conditions and energy conservation measures by customers. As discussed herein, certain of these problems have had and are expected to have an impact on HL&P's operations. See "Construction Program", "Peak Loads and Capability" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

In November 1978, federal energy legislation was enacted which was designed to achieve, through various regulatory provisions, the conservation of energy and the development and use of more plentiful domestic fuels. As discussed herein (see "Fuel — General"), the portion of such National Energy Act known as the Power Plant and Industrial Fuel Use Act of 1978 imposes restrictions on the use of natural gas or oil as fuel in certain industrial and utility facilities and, if strictly enforced, will adversely affect HL&P and its service area. Other provisions of the National Energy Act provide for the establishment of federal electric rate design standards and federal authority to order interconnections and wheeling of power under specified circumstances. Because of their complexity and uncertainties in their interpretation and implementation, the effect on HL&P of these other provisions cannot be predicted.

During 1977, federal legislation was enacted which provided for regulation of, among other things, construction which results in new sources of emission in clean air attainment areas, control technologies for the limitation and removal of plant emissions, and the imposition of penalties for not complying with air quality control standards commensurate with the economic value of noncompliance. The implementation of this legislation has significantly increased HL&P's construction costs, will increase its future operating costs and may reduce the rate of industrial expansion in HL&P's service area. See "Construction Program" and "Regulatory Matters – Environmental Quality".

Service Area and Franchises

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

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

HL&P operates in the City of Houston under a franchise which expires in October 2007. Franchises granted by other incorporated municipalities expire in 2007 or in later years.

Construction Program

HL&P has a continuing program of major construction to provide facilities to meet increased customer demands and utilize more plentiful domestic fuels. As described below, HL&P recently completed a reassessment of its construction program as a result of substantial increases in cost estimates and the related difficulties it and the Company could expect to encounter in raising large amounts of capital to finance HL&P's construction activities. Based on such reassessment, the program for the three-year period 1981-1983 is currently estimated to cost $2.4 billion, with $691 million to be spent in 1981, $759 million to be spent in 1982 and $947 million to be spent in 1983. The new three-year program (exclusive of allowance for funds used during construction and payments for nuclear fuel) consists of the following principal items:

	Amount	%
Fossil-fueled generating facilities	$ 886,000,000	37
Nuclear-fueled generating facilities	609,000,000	25
Transmission facilities	281,000,000	12
Distribution facilities	457,000,000	19
General plant facilities	164,000,000	7
Total	$2,397,000,000	100

At December 31, 1980 HL&P owned and operated generating facilities with an aggregate name-plate capacity of 11,607,502 kilowatts. The 1981-1983 construction program includes expenditures in connection with the following major generating projects aggregating 5,450,000 kilowatts of capacity.

Plant and Location (County)	Estimated Unit Capacity (KW)	Fuel	Scheduled In-Service Date(a)	Millions of Dollars: Expenditures Through December 31, 1980	Millions of Dollars: Estimated Completed Cost	Estimated Cost per KW
W. A. Parish No. 8 (Fort Bend)	600,000	Coal	1983	$147	$ 408	$ 680
South Texas No. 1 (Matagorda)(b)	385,000	Nuclear	See Note (b) below			
South Texas No. 2 (Matagorda)(b)	385,000	Nuclear				
Limestone No. 1 (Limestone)	750,000	Lignite	1987	56	1,600	1,067
Limestone No. 2 (Limestone)	750,000	Lignite	1988			
To be determined No. 1(c)	690,000	Lignite	1989	1	1,870	1,355
To be determined No. 2(c)	690,000	Lignite	1990			
Allens Creek (Austin)	1,200,000	Nuclear	1991	249	2,090	1,742

(See notes on following page)

(a) The scheduled in-service date indicates the year the unit is expected to be available to meet peak demand.

(b) The capacity for each of the South Texas nuclear units represents HL&P's 30.8% share of a 2.5 million kilowatt project which is jointly owned with the Cities of Austin and San Antonio and Central Power and Light Company. As approved by all participants in the project in late 1979, the scheduled in-service dates for the two units are 1984 and 1986, respectively, with HL&P's share of the total estimated completed cost for both units being $832 million or $1,080 per kilowatt. These figures do not give effect to significant developments during 1980 described below under "Matters Affecting Nuclear Construction" which are expected to adversely affect the scheduled in-service dates and completed cost for the project. Through December 31, 1980, HL&P had spent approximately $450 million on its share of the project.

(c) Selection of a site for these units is dependent upon HL&P's ability to obtain a long-term fuel supply.

The foregoing amounts do not include estimates of the allowance for funds used during construction or nuclear fuel expenditures. Through December 31, 1980, HL&P had spent $98 million for uranium concentrate and nuclear fuel processing services, including $39 million for its share of the fuel for the South Texas units. It expects to spend $60 million for such purposes during the 1981-1983 period. Additional nuclear fuel expenditures, which could include substantial sums for long-term storage of spent nuclear fuel, will be required after 1983. During the 1981-1983 period, Utility Fuels expects to acquire additional railroad cars and coal handling facilities costing $79 million (a portion of which is expected to be financed through leveraged lease arrangements) in order to be able to meet the increased coal delivery requirements of the W. A. Parish Plant. Utility Fuels expects to spend an additional $11 million during the same period for transportation equipment and lignite mining and handling facilities for the Limestone plant.

Actual construction expenditures will vary from the above estimates as a result of numerous factors including continuing inflation at an annual rate in excess of 10%, changes in equipment delivery schedules, construction delays, availability of fuel, environmental protection expenditures, licensing delays, additional changes in the construction program, legislative changes and changes in customer demand and business conditions. A significant portion of HL&P's generating facilities in the early 1990's is scheduled to be natural gas and oil-fired, but enforcement of the federal Fuel Use Act could require HL&P to supplement, convert or replace such generating capacity earlier than presently planned.

Federal and state action to protect the environment may also materially affect the current esimates of future construction expenditures. Expenditures for environmental protection facilities for the five years ended December 31, 1980 aggregated $104 million, including expenditures of $27 million in 1980. Environmental protection expenditures for 1981-1983 are estimated to be $212 million, of which $60 million is expected to be expended during 1981, $54 million during 1982 and $98 million in 1983. Because of uncertainties surrounding the disposal or long-term storage of spent nuclear fuel, fuel costs associated with the continuing operation of nuclear units could be substantial.

Total gross additions to the plant of HL&P during the five years ended December 31, 1980 amounted to $2.5 billion and during the same period retirements amounted to $86 million. Gross additions during the period amounted to approximately 55% of total utility plant at December 31, 1980.

HL&P's construction program for the 1981-1983 period previously contemplated expenditures totaling $3.3 billion, with $761 million to be spent in 1981, $1.044 billion to be spent in 1982 and $1.494 billion to be spent in 1983. The revised program provides for a two-year delay in the completion of each of the four lignite units and the Allens Creek nuclear unit with the result that estimated construction expenditures have been reduced by $70 million in 1981, $285 million in 1982 and $547 million in 1983. Utility Fuels' estimated expenditures in connection with the Limestone units were reduced by $99 million from the previous estimate of $110 million for the same three-year period. The delayed in-service dates have also resulted, however, in increases in estimated completed costs of $159 million for the two Limestone lignite units, $382 million for the two lignite units at the site which has yet to be determined and $230 million for the Allens Creek nuclear plant. In addition, as discussed below under "Peak Loads and Capability", the planned delays for bringing these five units into service will require HL&P to contract for additional quantities of purchased power and to implement additional load management and conservation measures in order to be able to maintain adequate reserve margins in the mid and late 1980's.

In the reassessment of the construction program as previously scheduled, particular attention was given to the need to alleviate the anticipated difficulties of financing the program during periods when other major users of capital would also be seeking substantial external funds. Even assuming that HL&P could continue to obtain rate relief on a timely basis at a level comparable to that most recently granted to it by the Texas Public Utility Commission, approximately 70% to 75% of the previous 1981-1983 construction budget would have had to be financed from external sources. Principally because of these capital requirements, Moody's Investors Service, Inc. lowered its rating of HL&P's First Mortgage Bonds and Preferred Stock in November 1980 from "Aa" to "A" and from "aa" to "a", respectively. Such securities continue to be rated "double A" or equivalent by Standard & Poor's Corporation and Fitch Investor's Service, Inc. Under the revised program, it is expected that approximately 65% to 70% of the 1981-1983 budget will still have to be financed from external sources, assuming HL&P can obtain adequate and timely rate relief.

Matters Affecting Nuclear Construction. Throughout most of 1980, certain major construction activities on the South Texas project, principally complex concrete pouring and safety-related welding, were voluntarily suspended pending an evaluation by HL&P (which is the project manager) and the principal contractor of irregularities in some of the work previously performed. During such suspension, the Nuclear Regulatory Commission (NRC) found various procedural deficiencies in the project's quality assurance and quality control programs, fined HL&P $100,000 (the maximum permitted under applicable law) and ordered HL&P to show cause why safety-related construction activities on the project should not be stopped until specified steps have been taken to assure the NRC that the programs for quality assurance and quality control meet NRC standards and that the procedural deficiencies identified by the NRC have been corrected. In July 1980, HL&P submitted to the NRC detailed plans for improving the quality assurance program and for correcting such deficiencies. In November 1980 and January 1981, respectively, the NRC authorized full resumption of structural welding and limited resumption of complex concrete pouring and safety-related pipe welding. HL&P is unable to predict when all major construction activities on the project can be fully resumed; however, if such activities continue to be limited or curtailed for a protracted period of time, HL&P's earning power, reliability of service and ability to finance its other construction projects will be adversely affected. In connection with the application to the NRC for operating licenses for each of the generating units in the project, it is anticipated that hearings will be conducted during 1981 to consider, among other things, whether the findings by the NRC as to the adequacy of the project's previous quality assurance and quality control programs affect HL&P's qualifications to become a licensee.

In February 1980, an independent engineering firm recommended that the commercial operation date of each unit in the South Texas project be extended by six months, that the total size of the work force on the project be expanded, that multi-shift overtime work programs be utilized, and that $136 million ($42 million for the account of HL&P) be added to the allowances for contingencies. Such report was based on the status of the project prior to the suspensions described above.

The scheduled in-service dates and estimated completed costs set forth in Note (b) to the construction table do not reflect the delays expected to be experienced or substantial additional cost expected to be incurred on the basis of the matters discussed in the two preceding paragraphs. The extent to which such dates and costs have been affected by these developments must be determined jointly by all participants in the project following a comprehensive engineering and financial review which is expected to be completed in mid-1981. The existing construction permits for the two units in the South Texas project are scheduled to expire in May 1982 and October 1983, respectively. In order to complete construction of the project, it will be necessary to obtain authorization of the NRC for extension of such permits.

Completion of construction of the Allens Creek nuclear unit as shown in the table is dependent upon the issuance of a construction permit by the NRC by mid 1982. Based on current concerns relating to safety and siting of nuclear power plants and the activities of citizens and environmental groups that have intervened in opposition to the project, there can be no assurance that such permit can be obtained.

Financing of Construction Program. HL&P proposes to finance its construction program through the use of internally generated funds and the proceeds received from the issuance of securities including, on an interim basis, short-term debt. Except for $125 million of 13⅞% First Mortgage Bonds due February 1, 1991 which were sold by HL&P in February 1981 and 3,000,000 shares of Common Stock sold by the Company in March 1981 (resulting in total net proceeds of approximately $196 million), the types, amounts and time of issuance of such securities have not yet been determined. HL&P's ability to provide internally generated funds for, and thereby continue with, its presently proposed construction program will be dependent upon its ability to obtain adequate and timely rate relief. See "Regulatory Matters — Rates and Services".

Peak Loads and Capability

The following table sets forth information with respect to the installed net capability of HL&P at the time of peak demand, the net maximum hourly demand on the system (excluding demand which is interruptible), and the reserve margin at the time of its system net maximum hourly demand:

		Net Maximum Hourly Demand			
Year	Installed Net Capability (Megawatts)	Date	Megawatts	% Increase Over Prior Year	Reserve Margin (%)
1976	9,810	August 9	8,019	10.6	22.3
1977	10,170	July 25	8,445	5.3	20.4
1978	10,828	July 18	9,114	7.9	18.8
1979	11,193	August 2	9,336	2.4	19.9
1980	11,763	August 22	10,266	10.0	14.6

The net capability and reserve margins presented above do not reflect additional firm capability available through interconnections with other utility systems. Although historically such interconnections were maintained principally for the purpose of meeting emergency conditions, they are now also used for HL&P's supplemental power needs discussed below. The substantial increase in peak demand in 1980 over 1979 reflects the record high temperatures experienced in the HL&P service area in 1980 as compared to the relatively mild summer of 1979.

In conjunction with its decision to extend the scheduled in-service dates for the four lignite units and the Allens Creek nuclear plant (see "Construction Program" above), HL&P is actively pursuing comprehensive load management measures. A program to reduce system voltage during periods of emergencies is under development and rate studies designed to encourage industrial customers to reduce their demands during periods of peak system loads are being conducted.

It is presently estimated that HL&P's compound growth rate in peak demand for the five-year period 1981-1985 will be approximately 3% to 4%. The current estimate is derived from a continuing survey of industrial customers which reflects expectations for power consumption, assessment of the effect of additional residential customers on peak demands, the prospect of more intensive energy conservation measures by all classes of customers, and assumptions as to the effectiveness of the load management program discussed above. HL&P has contracted with the City of Austin, Texas to purchase up to 800 megawatts of Austin's generating capacity through 1987. HL&P has also contracted with the City Public Service Board of San Antonio to purchase varying amounts of capacity during the years 1982 through 1987, ranging from 200 to 500 megawatts. Performance of these contracts is subject to, among other things, fuel limitations that may be imposed on Austin, San Antonio or their fuel suppliers. In the event of fuel limitations, HL&P will be entitled to arrange for delivery of natural gas from its own suppliers to Austin or San Antonio for use in providing such capacity. The terms of the contracts include fixed capacity charges for each year and variable charges for fuel and operation and maintenance expenses. HL&P expects to recover all fuel charges and a substantial portion of the operation and maintenance expenses through its fuel adjustment clauses. Capacity charges associated with 500 megawatts of the Austin contract are presently recoverable through base rates. Recovery of additional capacity charges will be requested in future rate proceedings.

Assuming it is able to purchase the supplemental capacity it has contracted for from Austin and San Antonio, HL&P expects to maintain a minimum reserve margin of at least 15% in excess of its current estimate of peak-load requirements through 1985. Up to 300 megawatts of additional supplemental capacity in 1986 and up to 500 megawatts in 1988 and 1989 will be required in order to maintain a reserve margin at or above 15% subsequent to 1985. No assurances can be given that additional power purchase contracts can be obtained or that, if obtained, they will be upon terms favorable to HL&P.

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ieral. Approximately 82% of HL&P's generating fuel requirements during 1980 was met with natural gas, 17% was met with coal and the balance was met with oil. Prior to 1979 substantially all of such requirements were met with natural gas. HL&P currently expects its future use of gas, oil, coal and lignite, and nuclear fuel in its own generating units to be in the following relative proportions:

	% of Generating Requirements				
	1981	1982	1983	1985	1990
Gas	83%	75%	76%	72%	55%
Oil	1	8	1	1	1
Coal and lignite	16	17	23	24	38
Nuclear	–	–	–	3	6
Total	100%	100%	100%	100%	100%

HL&P's actual fuel mix in future years could vary substantially from the percentages shown in the table. Such percentages are based upon numerous estimates and assumptions relating to, among other things, environmental protection requirements, load growth, the cost and availability of fuels, and scheduled in-service dates of its planned generating facilities. The percentages for 1990 are further based upon the assumption that the Power Plant and Industrial Fuel Use Act of 1978, which generally prohibits the use of oil or gas as a fuel for electric generation beginning in 1990, will be amended to allow the use of natural gas in existing generating units throughout their useful lives. If such Act is not so amended, it will have a material adverse effect upon HL&P and its service area.

Natural Gas Supply. HL&P purchases natural gas from Exxon Company, U.S.A. (Exxon) and United Texas Transmission Company (United) under three separate long-term contracts. The Exxon contract expires after delivery of a specified quantity of gas, but in no event later than December 31, 1996. The two contracts with United provide for delivery of a specified quantity of gas through 1989. Approximately 80% of the natural gas requirements presently contemplated through 1989 and 25% for 1990 are expected to be met through these two suppliers. HL&P is currently negotiating for additional natural gas supplies to meet its remaining natural gas requirements. Should HL&P be unable to contract for additional natural gas supplies through 1989, it has sufficient quantities of oil under contract to meet its remaining fuel requirements with respect to units which are normally gas-fired.

Gas deliveries by Exxon are being made from its reserves which have been dedicated to meet the requirements of HL&P during the term of the Exxon contract, while deliveries by United consist principally of gas purchased from unaffiliated suppliers. Under the priorities contained in a gas curtailment program approved by the Railroad Commission, deliveries by jurisdictional suppliers to customers such as HL&P must be curtailed before any curtailment of deliveries to other contract customers, exclusive of those served on an interruptible basis.

All of the natural gas being delivered to HL&P is intrastate gas. The Natural Gas Policy Act of 1978 has not adversely affected HL&P's supply of natural gas. HL&P cannot accurately predict the effect such Act may have on its future supply of natural gas. It appears that the phased price decontrol provisions of such Act have increased and will continue to increase the cost of natural gas to HL&P.

Oil Supply. As indicated above, HL&P expects to rely on oil in meeting a portion of its future generating fuel requirements. HL&P has storage facilities for 6,700,000 barrels of oil and has installed a pipeline system linking most of its major power plants to provide for distribution of oil to those units capable of using oil. There is sufficient oil presently on hand to permit the exclusive use of oil for 17 days in those units that are capable of burning oil on a continuous basis. HL&P has a contract with Exxon under which it is entitled to purchase sufficient quantities of oil to satisfy substantially all of its presently anticipated oil requirements through 1989. However, the contract may be re-opened once at any time at the election of either party and if agreement on new terms cannot be reached after such a re-opening, the contract may be cancelled at the election of either party. The contract is also subject to re-negotiation and cancellation in the event of material changes in existing laws and regulations affecting fuel oil. The contract provides for deliveries of oil having a maximum sulphur content which is less than that permitted under current air quality standards for oil-burning generating units. Deliveries are made through an Exxon pipeline from its Baytown, Texas refinery directly to HL&P's oil pipeline facilities.

If oil instead of gas were to be burned in all of HL&P's units capable of continuous use of either fuel, such equipment's generating capacity would be reduced by 3%. In addition, it is anticipated that increased costs will be incurred for repair and maintenance, as well as for operation in a manner that insures compliance with applicable air quality control requirements, when oil instead of gas is used as boiler fuel. See "Regulatory Matters – Environmental Quality" below.

Coal and Lignite Supply. It is estimated that the three coal-fired generating units now in operation at HL&P's W. A. Parish plant and the additional coal-fired unit being constructed at that location (see "Construction Program") will require an aggregate of 200 million tons of low-sulphur Western coal for the first 25 years of operation of each unit. The actual amount of coal used will depend on, among other things, its heat content. Coal supply services for the W. A. Parish plant are being provided by Utility Fuels. Utility Fuels is presently purchasing Wyoming coal from Kerr-McGee Coal Corporation (Kerr-McGee) and Montana coal from Spring Creek Coal Company (Spring Creek), under long-term coal supply contracts. Substantially all of the coal requirements of HL&P's W. A. Parish coal units are expected to be met under such contracts, which provide for deliveries of coal having a relatively low sulphur content. See "Regulatory Matters – Environmental Quality". The cost of the coal under both agreements is governed by formulas containing various escalation provisions relating to changes in specified [illegible] cost indices. A major component of the delivered cost is the railroad charge for transporting the coal from surface mines in Wyoming and Montana operated by Kerr-McGee and Spring Creek. Such mines are 1,700 railroad miles from Houston. The Interstate Commerce Commission (ICC) currently authorizes a railroad charge for the Wyoming coal of $21.70 per ton and Montana coal of $22.73 per ton in contrast to the cost per ton of coal which is approximately half the cost of such rail charges.

In August 1979, HL&P acquired lignite leases located in the Texas counties of Limestone, Leon and Freestone, and Utility Fuels contracted with Northwestern Resources Co. (NWR) for an additional supply of lignite located in the same counties. The estimated recoverable lignite represented by HL&P's leases and those dedicated under the NWR contract are expected to meet 65% to 75% of the total fuel requirements of the Limestone Electric Generating Station. Total fuel requirements for the first 30 years of operation are 240 million tons of lignite. NWR and Utility Fuels are currently negotiating for additional lignite reserves needed to meet the remaining fuel requirements of the plant.

Additional long-term commitments for coal and for lignite are being sought. Federal legislation enacted in 1977 relating to surface mining and mine safety could adversely affect the availability of coal and lignite under any future contracts. The legislation has not affected, and is not expected to affect, the availability of coal presently under contract, but has resulted in increases in cost. The operating and maintenance expenses for coal and lignite-fired units are substantially higher than those for HL&P's gas-fired units.

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

Westinghouse Electric Corporation has contracted to provide the South Texas nuclear units with up to 9,377,000 pounds of uranium concentrate which, together with a minimum of 5,600,000 pounds to be provided by another supplier, is expected to satisfy the fuel requirements for the first 14 years of operation of each unit. Westinghouse has also contracted to furnish fuel fabrication services for the initial core and 16 years of reloads for each unit, certain additional services and equipment, and additional concentrate subject to the development of additional uranium reserves. Contracts with Westinghouse and others provide for conversion services for the South Texas units through 1988 and for enrichment services for a period of up to 30 years.

Contracts have been concluded for HL&P's proposed Allens Creek nuclear plant which provide for uranium concentrate in sufficient quantities to supply the initial core, for conversion services for the initial core, for enrichment services for a period of up to 30 years, and for fabrication of the nuclear fuel assemblies to be used in the initial core and one year of fuel reloads. HL&P is currently seeking other long-term arrangements for uranium concentrate and for additional nuclear fuel components and services that will be required for the Allens Creek facility.

As part of current federal energy policy, reprocessing of spent nuclear fuel has been indefinitely deferred. If the fuel discharged from the South Texas and Allens Creek units cannot be reprocessed, it must eventually be placed into long-term off-site storage. The South Texas and Allens Creek plants will have on-site storage facilities with the capacity to store approximately ten years of spent fuel discharged from each unit. HL&P cannot predict the extent to which the indefinite deferral of reprocessing will increase the cost of and demand for uranium concentrate.

Cost of Fuel. The cost of fuel to HL&P has increased substantially over the past three years. See "Operating Statistics of HL&P" and Item 8, "Financial Statements and Supplementary Data". The unit cost of coal includes the actual cost of the coal delivered to the boiler as well as a carrying charge for inventory and the use of related facilities. HL&P is unable to accurately estimate its future cost of fuel, but expects that it will continue to increase. Substantially all of the increases in costs for fuel are presently covered by fuel adjustment clauses contained in HL&P's rate tariffs. However, recent rate orders have limited the recovery of a portion of the carrying charge referred to above with respect to coal.

Regulatory Matters

Rates and Services. Prior to 1976, HL&P's general rate levels were based on ordinances of the City of Houston and the other incorporated municipalities in HL&P's service area. In September 1976, pursuant to the Texas Public Utility Regulatory Act passed in June 1975, the Public Utility Commission of Texas (Utility Commission) assumed original jurisdiction over electric rates and services in unincorporated areas of the State (which accounted for 46% of HL&P's operating revenues and 53% of KWH sales for the twelve months ended December 31, 1980) and appellate jurisdiction over electric rates and services within incorporated municipalities.

In November 1978, following HL&P's request for a rate increase of 12.6% for an adjusted test year ended March 31, 1978, the Utility Commission granted an increase of 7%. In January 1980, following HL&P's request in July 1979 for a rate increase of $179 million or 10.5% for an adjusted test year ended March 31, 1979, the Utility Commission issued an order granting HL&P an increase of $82 million or 4.9%. In the January 1980 order, the Utility Commission included $454 million or 60% of construction work in progress and nuclear fuel in process in HL&P's rate base, while only $179 million or 40% of such items was included in the rate base in the Utility Commission's 1978 order. HL&P requested inclusion of 100% of these items for both test years.

On September 15, 1980, the Utility Commission granted an increase of $135 million or 6.3% for an adjusted test year ended March 31, 1980. HL&P had requested $214 million which represented a 10% increase. The final order issued by the Utility Commission was based upon a settlement agreement entered into by HL&P, the Utility Commission and the major intervenors in the case. The final order provided for the inclusion of $677 million or 72% of construction work in progress and nuclear fuel in process in rate base and granted a 15.8% return on common equity. The Company had requested 85% of construction work in progress and nuclear fuel in process in the rate base.

HL&P's actual returns on common equity have been somewhat lower than those granted in the Utility Commission's rate orders. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The City of Houston and certain other incorporated municipalities within HL&P's service area attempted to grant rate increases which were lower than the increases authorized by the Utility Commission. Following appeals from the municipal rate orders, the Utility Commission permitted HL&P, pending final disposition of such appeals, to set rates in the incorporated areas on an interim basis at the same level permitted for unincorporated areas. HL&P expects to seek another general rate increase prior to the end of 1981 and may be required to seek general rate relief in the future on a more frequent basis.

Environmental Quality. HL&P is subject to regulation with respect to air and water quality, solid waste disposal and other environmental matters by various federal, state and local authorities. Environmental regulations continue to evolve as a result of regulatory response to new legislation, administrative actions, and judicial review and interpretation. As a result, the precise effect of existing and potential regulations upon existing and proposed facilities and operations cannot presently be determined. However, developments in these and other areas of regulation have in the past required HL&P to modify, supplement or replace equipment and facilities and may in the future delay or impede construction and operation of new facilities at costs which could be substantial.

The Texas Air Control Board (Air Board) has jurisdiction and enforcement power to determine the level of air contaminants emitted in the State of Texas. HL&P is of the opinion that its generating facilities currently in operation are in compliance with the Texas Clean Air Act and with the current rules and regulations adopted thereunder by the Air Board. HL&P is also of the opinion that units under construction will, when operational, comply with the current requirements of the Texas Clean Air Act and the Federal Clean Air Act as amended. The standards established by the Texas Clean Air Act and the rules of the Air Board are subject to modification by standards promulgated by the federal Environmental Protection Agency (EPA). Although HL&P believes that its existing facilities and the facilities under construction will comply or can be modified to comply with such standards, there can be no assurance that such will be the case without substantial expense. A substantial portion of the cost to be incurred in constructing the W. A. Parish No. 8 unit and the four planned lignite-fired generating units (see "Construction Program") is the cost of scrubbers to control emissions of sulphur dioxide and other pollutants. As a result of EPA new-source performance standards and restrictions on deterioration of air quality applicable to HL&P's service area, the rate of future growth in kilowatt-hour sales to industrial customers may be lower than in the past. See "Operating Statistics of HL&P".

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

HL&P is also subject to regulation by the TDWR and the EPA with respect to the handling and disposal of solid waste generated on-site. In 1980 the EPA promulgated a number of regulations under the Resource Conservation and Recovery Act to protect human health and the environment from the improper management of hazardous waste. Applications for hazardous waste permits have been submitted by HL&P for each generating station and other facilities.

Nuclear Licensing. HL&P is subject to licensing and regulation by the Nuclear Regulatory Commission (NRC) with respect to environmental, public health and safety aspects of the construction and operation of nuclear power plants. In its capacity as manager of the South Texas nuclear project, HL&P is constructing two nuclear generating units pursuant to construction permits issued by the NRC in December 1975. HL&P has submitted an application for an operating license for both South Texas units. In connection with such application, hearings are expected to be conducted in 1981 to consider, among other things, whether the findings by the NRC as to the adequacy of the project's quality assurance and quality control programs affect HL&P's qualifications to become a licensee. An operating license is not issuable by the NRC until construction is substantially complete.

An application for a construction permit for the Allen Creek unit is pending before the NRC. Hearings in connection with the environmental aspects of such construction permit commenced in January 1981 and are expected to be completed by mid-1981. See "Construction Program".

Operating Statistics of HL&P

	Year Ended December 31,		
	1978	1979	1980
Electric Energy Generated and Purchased (Mkwh):			
Generated – Net Station Output	53,101,474	54,678,417	57,228,126
Purchased	222,670	377,387	720,293
Total	53,324,144	55,055,804	57,948,419
Company Use, Lost and Unaccounted for	2,857,928	2,512,650	2,951,893
Other	190,449	182,651	192,907
Energy Sold	50,275,767	52,360,503	54,803,619
Electric Sales (Mkwh):			
Residential	10,956,914	11,078,887	12,566,097
Commercial	8,568,636	8,813,791	9,324,496
Industrial	27,808,895	29,309,384	29,672,733
Street Lighting – Government and Municipal	103,049	106,848	91,307
Total	47,437,494	49,308,910	51,654,633
Other Electric Utilities	2,838,273	3,051,593	3,148,986
Total	50,275,767	52,360,503	54,803,619
Number of Customers (End of Period):			
Residential	778,850	849,319	909,016
Commercial	111,050	117,324	124,298
Industrial	1,522	1,572	1,633
Street Lighting – Government and Municipal	81	70	70
Total	891,503	968,285	1,035,017
Other Electric Utilities	6	6	6
Total	891,509	968,291	1,035,023
Operating Revenue (Thousands of Dollars):			
Residential	$ 367,730	$ 453,354	$ 628,599
Commercial	274,081	350,000	436,360
Industrial	593,251	790,715	951,546
Street Lighting – Government and Municipal	3,608	6,634	9,257
Other Electric Utilities	57,359	78,898	98,353
Total	1,296,029	1,679,601	2,124,115
Miscellaneous Electric Revenues	7,575	27,971	(158)
Total	$1,303,604	$1,707,572	$2,123,957
Installed Generating Capacity (Kw) (End of Period)	11,056,353	11,056,353	11,607,502
Costs of Fuel (Cents per Million Btu):			
Gas	124.3	166.3	205.5
Oil	196.9	187.0	270.1
Coal	208.7	218.1	204.5
Average	126.2	171.0	205.9

BUSINESSES OF OTHER SUBSIDIARIES

Primary Fuels, Inc.

Primary Fuels, Inc., a wholly owned subsidiary of the Company, contributed 2% to the Company's consolidated net income for the year ended December 31, 1980. The principal asset of Primary Fuels is a 50% interest in an oil and gas exploration venture that presently holds 71,000 offshore acres under lease from the State of Texas and 5,800 offshore acres under lease from the federal government. The discovery of oil and gas reserves has enabled the venture to finance the construction of a pipeline gathering system and a condensate pipeline system as well as a continuing exploration and development program. Oil and gas produced by the venture are not regarded as potential sources of fuel for HL&P's utility operations. Of the total acreage leased by the venture, 35% is held by commercial production or wells capable of commercial production. The leases covering the remaining acreage expire at various dates through 1985, unless prior to such dates they are successfully drilled or, with the permission of the lessor, pooled with other leases that are producing.

In August 1978, Primary Fuels became a limited partner in a drilling program that encompasses all onshore oil and gas exploration and development by Shell Oil Company within the 48 contiguous United States (exclusive of Michigan, certain areas of North Dakota, and the tertiary belt of the Louisiana and Texas Gulf Coast area). During 1980, Primary Fuels invested $41 million in the program without the establishment of significant proved reserves. As a result, depreciation, depletion and amortization expense increased by $9,500,000. The program is still primarily in the exploratory stage. Therefore, Primary Fuels has retained its interest in the exploration program in 1981.

Primary Fuels expects to spend $71 million on exploratory and development activities during 1981 (including $50 million on the Shell program) which it expects to finance from internally generated funds, its own credit lines and, possibly, sales of production payments.

Reserves. The following table sets forth information respecting the estimated net quantities of proved developed and undeveloped oil and gas reserves of Primary Fuels as of the dates indicated based on reports made to Primary Fuels by Miller and Lents, Ltd., independent oil and gas consultants. All of Primary Fuels' reserves are located within the United States.

	Natural Gas (MMCF)	Oil, Condensate and Natural Gas Liquids (Barrels)
Proved Developed and Undeveloped Reserves:		
As of January 1, 1979	88,666	1,035,094
Revisions of Previous Estimates	4,621	101,048
Extensions, Discoveries and Other Additions	4,613	771,353
Production	(17,064)	(227,071)
As of January 1, 1980	80,836	1,680,424
Proved Developed and Undeveloped Reserves:		
As of January 1, 1980	80,836	1,680,424
Revisions of Previous Estimates	(3,302)	98,549
Extensions, Discoveries and Other Additions	5,895	172,832
Production	(13,666)	(204,352)
As of January 1, 1981	69,763	1,747,453
Proved Developed Reserves:		
As of January 1, 1979	88,666	1,035,094
As of January 1, 1980	80,679	1,598,532
As of January 1, 1981	45,378	1,538,003

As of January 1, 1981, 25 billion cubic feet out of the 80.7 billion cubic feet of net proved developed natural gas reserves reported as of January 1, 1980 were reclassified from proved developed producing to proved undeveloped.

As of January 1, 1981, 75% of Primary Fuels' proved developed natural gas reserves were located in or near an offshore area known as the El Gordo Field located close to Matagorda Island, Texas. Such reserves underlying six of the tracts in the El Gordo Field have been dedicated to an intrastate pipeline company under a gas contract expiring in 1996. The associated condensate represents 28% of the oil and condensate reserves and is being sold under a contract of comparable duration.

Wells Drilled. Since its formation in 1973, Primary Fuels has participated in the drilling of 229 wells, with 82 wells resulting in commercial producers and 99 resulting in dry holes. During 1980, Primary Fuels participated, through the Shell venture, in the drilling of 88 wells, of which 45 were still being drilled or tested at year end and 16 resulting in commercial producers. In the wells in which Primary Fuels has participated, it holds working interests ranging from 5% for the Shell venture to 50% for the offshore venture.

Production. Net production for the account of Primary Fuels at the end of 1980 was at the rate of 34 million cubic feet of gas and 571 barrels of oil and condensate per day, with 76% of such net daily gas production being out of the El Gordo Field pursuant to the long-term gas contract described above. The average daily production during the year was at the rate of 37 million cubic feet of gas and 560 barrels of oil and condensate. Substantially all of the gas for the account of Primary Fuels is being sold under long-term contracts. The average price, after all transportation charges and other adjustments, was $2.87 per thousand cubic feet at the end of 1980 and $2.54 during the year. Oil and condensate was being sold at an average price of $26.38 per barrel at the end of the year and $22.09 during the year. The prices are subject to future escalation.

Utility Fuels, Inc.

Utility Fuels, which contributed 2% to the Company's consolidated net income for the year ended December 31, 1980, provides coal supply services to HL&P and owns railroad cars and coal handling equipment necessary for such purpose. Utility Fuels has coal supply contracts with Kerr-McGee Coal Corporation and Spring Creek Coal Company which are described above under "Business of HL&P – Fuel – Coal and Lignite Supply". Utility Fuels owns the coal handling facilities located at HL&P's W. A. Parish Plant. It also owns 1,360 railroad cars and leases an additional 610 cars which on a combined basis comprise 18 unit trains used for hauling coal. Utility Fuels spent $110 million for such facilities and equipment through December 31, 1980. Estimated expenditures for additional railroad cars and coal handling facilities to be used at the W. A. Parish plant are $51 million in 1981 $28 million in 1982 and $1 million in 1983.

Utility Fuels will provide lignite supply services for HL&P's Limestone Electric Generating Station. In August 1979, it entered into a contract with Northwestern Resources Co. (NWR) for the lignite to be used at such plant. See "Business of HL&P – Fuel – Coal and Lignite Supply". The terms of the contract provide for Utility Fuels to finance the necessary mining facilities and equipment, while NWR will provide the necessary expertise for the mining of the lignite reserves and reclamation of the mined area. Utility Fuels expects to spend $2 million in 1981, $1 million in 1982 and $8 million in 1983 for mining activities and the construction of a lignite handling system and a lignite transportation [illegible] for the Limestone Station.

Capital requirements of Utility Fuels are expected to be financed principally through sales of long-term debt and from leveraged leases, both involving guarantees by the Company. Interim financing requirements will be met through short-term bank loans and issuance of commercial paper.

Utility Fuels also owns a uranium strip-mining project on 80 acres held under lease in Carbon County, Wyoming. The project is a relatively small one and, if successful, would not enable Utility Fuels to make a significant contribution to HL&P's anticipated nuclear fuel requirements. Based on most recent estimates of the commercially recoverable mineralization within the leased acreages, the project would yield uranium concentrate for a maximum of three years of fuel reloads for a 1200 megawatt nuclear plant. There are presently no commitments respecting the eventual purchase by HL&P or anyone else of any concentrate that may be produced through the project. A total of $38 million is invested in the project at December 31, 1980.

REGULATION OF THE COMPANY

The Company is a holding company as defined in the Public Utility Holding Company Act of 1935. It is exempt from regulation as a "registered holding company" under that Act except with respect to the acquisition of securities of other public utility companies. Such exemption is based upon the intrastate character of the operations of the Company's public utility subsidiary, HL&P, and the filing with the SEC of an annual exemption statement pursuant to its Rule U-2. The SEC is authorized by the Public Utility Holding Company Act and by its own rules to deny or terminate such an exemption upon a determination that it is detrimental to the public interest or to the interest of investors or consumers. Accordingly, there may be limits on the extent to which the Company and its non-utility subsidiaries may expand or diversify without raising questions about the Company's exempt status. Current SEC policies regarding the scope of permissible non-utility activities are subject to change. The Company has no present intention, however, of becoming a registered holding company subject to regulation by the SEC under the Public Utility Holding Company Act. The Company has been advised by its counsel, Baker & Botts, that based on the present provisions of such Act and the present regulations of the SEC thereunder, the Company's exempt status should not be affected by the outcome of any of the proceedings referred to under Item 3. Legal Proceedings.

The Company is not subject to regulation by the Utility Commission under the Texas Public Utility Regulatory Act or by the incorporated municipalities served by HL&P. Such regulatory bodies do, however, have authority to review all accounts, records and contracts relating to transactions by HL&P with the Company or its other subsidiaries.

EXECUTIVE OFFICERS OF THE COMPANY

Name	Age	Officer Since*	Business Experience 1976-1980 Position(s)	Terms
D. D. Jordan	48	1976	President and Chief Executive Officer and Director	1977-
			President and Director	1976-1977
			Positions with HL&P:	
		1971	President and Chief Executive Officer and Director	1977-
			President and Director	1976-1977
G. W. Oprea, Jr.	54	1976	Vice President and Director	1976-
			Positions with HL&P:	
		1971	Executive Vice President and Director	1976-
H. R. Dean	54	1976	Vice President and Treasurer and Director	1976-
			Positions with HL&P:	
		1966	Group Vice President-Accounting and Finance and Director	1978-
			Group Vice President and Comptroller and Director	1977-1978
			Group Vice President and Comptroller	1976-1977
J. R. Johnston	57	1979	Secretary and Assistant Treasurer	1979-
			Assistant Secretary	1976-1979
			Positions with HL&P:	
		1979	Secretary and Treasurer	1979-
			Assistant Secretary and Assistant Treasurer	1976-1979

* Executive officers were elected April 23, 1980 to serve for one year and until their successors are duly elected and qualified.

Item 2. *Properties.*

All of the electric generating stations and substantially all other operating property of the Company's subsidiaries are located in the State of Texas. The Company considers this property to be well maintained and in good operating condition.

Electric Generating Stations. HL&P has eleven electric generating stations (79 generating units) with an installed capacity of 11,607,502 Kw.

Substations. As of December 31, 1980, HL&P owned 186 major substations having a total installed rated transformer capacity of 45,219,234 Kva (exclusive of spare transformers).

Electric Lines. As of December 31. 1980, HL&P operated 23,566 miles of transmission and distribution lines, including 1,440 miles operated at 138,000 volts and 392 miles operated at 345,000 volts.

General Properties. The Company's subsidiaries own various properties which include a 27-story headquarters office building, division offices, service centers and other facilities used for general purposes.

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

The major properties of HL&P and Utility Fuels are subject to liens securing their long-term debt and titles to some of their properties are subject to minor encumbrances and defects, none of which impair the use of the property in the operation of their businesses.

See Item 1, "Business".

Item 3. *Legal Proceedings.*

Controversy With Central and South West Corporation

In January 1976, the Securities and Exchange Commission (SEC) initiated proceedings under the Public Utility Holding Company Act for purposes of considering whether Central and South West Corporation (CSW), a registered holding company, is or can become a single integrated and coordinated system as required by that Act. CSW's principal operating subsidiaries are Central Power and Light Company (CPL), West Texas Utilities Company (WTU), Public Service Company of Oklahoma and Southwestern Electric Power Company. CPL is a participant with HL&P in the South Texas nuclear project. See Item 1, "Business-Construction Program". CPL and WTU, as members of the Electric Reliability Council of Texas (ERCOT), have historically conducted their respective utility operations in a manner so that, whenever interconnected directly or indirectly with HL&P and other ERCOT members, they would not transmit electric energy across any state lines. In the proceedings before the SEC, CSW submitted various proposals regarding the future operations of its system, including proposals that would require HL&P and other members of ERCOT to become interconnected directly or indirectly, with CSW's non-Texas subsidiaries. HL&P opposed CSW's synchronous interconnection proposals because, in its judgment, their implementation would have a substantial detrimental effect on HL&P's cost of operation and reliability of service. In addition, participation by HL&P in a synchronous interstate interconnection could subject it to regulation under the Federal Power Act. As a result of such opposition, CSW has attempted to compel HL&P and other ERCOT members to become interconnected with its non-Texas subsidiaries by initiating proceedings in the federal courts, the Federal Energy Regulatory Commission and the NRC. Proceedings have also been conducted by the Texas Utility Commission which ruled in May 1977 that, pending the outcome of the federal regulatory and judicial proceedings on this matter, the Texas interconnected system (in which HL&P, CPL, WTU and others are participants) must continue to operate on an intrastate basis.

In June 1980, HL&P reached an agreement with CSW which calls for the settlement of all outstanding controversies concerning the question of whether ERCOT should be interconnected with CSW's non-Texas subsidiaries. The agreement provides for the construction of two direct current non-synchronous interconnections between utilities in Texas and in neighboring states through construction of a 200-megawatt interconnection in north Texas and a 500-megawatt interconnection in south Texas. HL&P would construct and own 200 megawatts of the south Texas interconnection and the CSW subsidiaries would construct and own all of the north Texas interconnection and 300 megawatts of the south Texas interconnection. Although HL&P would be required to wheel, transmit, sell, coordinate, comingle and exchange electri power to, from or within the State of Texas over such interconnections, the system is not expected to materially affect the cost of HL&P's construction program or its service reliability because of the non-synchronous, direct current mode of operation. Implementation of the settlement agreement is subject to numerous conditions, including the condition that it be approved by the Federal Energy Regulatory Commission (FERC) pursuant to those provisions of the Federal Power Act (as amended in 1978 by the Public Utility Regulatory Policies Act) which would not require HL&P to become regulated as a "public utility". Implementation is also subject to the approval of other federal and state agencies. No prediction can be made as to whether such approvals can be obtained. In December 1980, the FERC granted a motion of the U.S. Department of Justice to intervene in the settlement proceedings. Such motion generally opposes the proposed settlement. Whether or not the requisite approvals of the settlement proposal are obtained, HL&P intends to continue to oppose any attempts to force it to participate on a synchronous basis in an interconnected system that includes CSW's non-Texas subsidiaries.

Item 4. ***Security Ownership of Certain Beneficial Owners and Management.***

As of March 16, 1981, no person or group (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934) owned more than five percent of the Company's Common Stock. Less than ½ of 1% of any class of equity securities of any subsidiary of the Company was beneficially owned by the directors and officers of the Company as a group as of such date.

The following table sets forth as of March 16, 1981, the number of shares of Common Stock of the Company beneficially owned by (i) each director and (ii) all directors and officers as a group and the percent of the class of Common Stock so owned.

	Shares of Common Stock Beneficially Owned	Percent of Class(1)
Searcy Bracewell	1,000	*
Wm. R. Brown	1,743	*
H. R. Dean	4,328	.01%
John C. Echols	1,000	*
Howard W. Horne	459	*
D. D. Jordan	6,647	.01%
Thomas B. McDade	2,000	*
G. W. Oprea, Jr.	5,126	.01%
Stewart Orton	100	*
Willard E. Walbridge	250	*
Joe C. Wessendorff	9,454	.02%
Directors and officers as a group	33,745	.07%

(1) Percentages are rounded to the nearest one-hundredth of one percent. Asterisk indicates that the percentage is less than .01%.

PART II

Item 5. ***Market for the Registrant's Common Stock and Related Security Holder Matters.***

The Company's Common Stock, which at March 16, 1981 was held of record by 39,856 shareholders, is listed on the New York and Midwest Stock Exchanges (symbol: HOU). The following table sets forth the high and low sales prices of the Common Stock on the composite tape during the periods indicated, as reported by *The Wall Street Journal*, and the dividends declared for such periods:

1980

Quarter	Date	High	Date	Low	Dividends Declared Per Share
First	January 11	31⅝	February 28	24⅝	$0.67
Second	June 25	29⅞	June 10	25¾	$0.67
Third	July 15	29⅞	August 21	26¼	$0.67
Fourth	December 23	29½	November 7	25⅛	$0.67

1979

Quarter	Date	High	Date	Low	Dividends Declared Per Share
First	March 22	30¼	January 2	27⅛	$0.59
Second	June 21	31½	May 22	28¾	$0.59
Third	July 10	31⅝	September 25	28¼	$0.59
Fourth	December 7	30⅝	October 10	26¼	$0.59

Item 6. ***Selected Financial Data.***

The following table sets forth selected financial data with respect to the Company's consolidated financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere herein.

	(thousands of dollars, except per share amounts)				
	Year Ended December 31,				
	1976	1977	1978	1979	1980
Revenues	$ 851,174	$1,095,561	$1,349,438	$1,854,159	$2,367,264
Net Income	$ 105,314	$ 125,636	$ 128,657	$ 161,846	$ 183,981
Earnings per share	$4.01	$4.41	$4.21	$4.84	$4.71
Cash dividends declared per common share	$1.61	$1.86	$2.12	$2.36	$2.68
Return on average common equity	15.0%	14.9%	13.3%	14.4%	13.6%
At year-end:					
Book value per common share	$ 28.27	$ 31.14	$ 33.04	$ 34.62	$ 35.14
Market price per common share	$ 31¾	$ 30⅝	$ 27⅜	$ 29⅛	$ 28½
Market price per common share as % of book value	112%	98%	83%	84%	81%
At year-end:					
Total Assets	$2,289,982	$2,719,865	$3,314,671	$3,834,697	$4,432,938
Long-term debt of subsidiaries	$ 950,310	$1,074,980	$1,377,646	$1,497,390	$1,604,337
Capitalization:					
Common stock equity	40%	40%	39%	41%	44%
Cumulative preferred stock	9	10	8	8	7
Long-term debt	51	50	53	51	49
Total Capitalization	100%	100%	100%	100%	100%
Capital expenditures:					
Construction expenditures (excl. AFUDC)	$309,775	$441,566	$498,482	$523,477	$664,843
Oil, gas and mining expenditures	$ 15,869	$ 24,690	$ 32,102	$ 39,879	$ 66,975
HL&P selected data:					
Percent of construction expenditures financed internally from operations	49%	40%	39%	39%	37%
Ratio of earnings to fixed charges	3.97	4.08	3.61	3.62	3.54
AFUDC as a percent of Net Income	16%	20%	24%	29%	24%

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

General

The Company's operating results have been mixed over the last three years because of the negative pressures of increasing construction expenditures during the periods of high inflation and erratic electric sales due to uncertain economic conditions, weather and energy conservation. Rate increases, which have been approved and implemented approximately once each year, have allowed HL&P to keep pace with its service area's immediate needs for power, but its overall financial condition has deteriorated since the mid 1970's.

The portion of HL&P's construction program that was financed from internally generated funds from operations and interest coverage declined during 1980 reflecting the 25% increase in construction spending and the substantial increase in interest rates. HL&P's return on average common equity has improved somewhat during the past two years principally as a result of $89 million of rate relief realized in 1979 and $106 million in 1980. Nevertheless, as discussed under "Supplementary Information to Disclose the Effects of Changing Prices", electric rates have not kept pace with inflation. As a result, HL&P has been unable to earn the returns on common equity granted by the Utility Commission in its rate orders. HL&P's authorized returns on common equity for 1979 and 1980 were 13.8% and 15%, but the actual returns were 13.1% and 13.4%, respectively.

Another indication of the Company's general financial condition is the portion of net income attributable to the allowance for funds used during construction (AFUDC). Although AFUDC, a non-cash item, rose steadily in 1978 and 1979 because of increases in construction activity and increased AFUDC accrual rates due to higher costs of capital, the amount of AFUDC in relation to net income declined in 1980 due to the allowance of larger portions of construction work in progress in rate base by regulatory authorities and the placing in service of the W. A. Parish No. 7 coal-fired unit.

Net income for 1980 was 14% higher than for 1979, but due to a 17% increase in the Company's average common shares outstanding, earnings per share decreased by 13 cents. HL&P's contribution to the Company's per share earnings reflects an increase of 18 cents while Primary Fuels' and Utility Fuels' contributions were down 24 cents and 6 cents per share, respectively. To help finance new construction, 6.7 million shares of additional common stock were sold in 1980 with net proceeds of $175 million and $100 million of First Mortgage Bonds, resulting in part in the improvement at December 31, 1980 in the Company's capitalization ratios.

Results of Operation

Earnings for HL&P increased in each of the last three years as a result of sales growth and rate increases, but were adversely affected by rapid escalation in operation and maintenance costs and rising interest rates. Although fuel expense has nearly doubled since 1978, earnings were generally unaffected due to adjustment clauses in the electric service rate schedules.

The contributions of Primary Fuels to the Company's earnings were 24¢ and 34¢ per share in 1978 and 1979, respectively, primarily as the result of increased sales of oil and gas. However, Primary Fuels' earnings in 1980 were adversely affected by substantial expenditures in its oil and gas exploration program without the establishment of significant proved reserves. In December 1980, based on a January 1, 1981 reserve study of Primary Fuels' independent oil and gas consultants, an adjustment for depreciation, depletion and amortization of approximately $8,000,000 was charged against income. In addition, gas sales did not keep pace with increased operating expenses. This factor, coupled with the increase in the Company's average shares outstanding, caused Primary Fuels' contribution to the Company's earnings in 1980 to dip to 10¢ per share. Utility Fuels' contract with HL&P is a cost-plus contract allowing Utility Fuels to recover its cost plus a fixed return on its net investment. The reduction in Utility Fuels' contribution is principally due to the increase in the Company's average shares outstanding and less miscellaneous income than in 1979.

Revenues. As shown below, the majority of the increase in electric operating revenues has been due to the recovery of increased fuel costs through fuel adjustment clauses.

Comparative Periods	% of Revenue Increase Attributable to: Recovery of Increased Fuel Costs	Rate Increases	Increased KWH Sales
1978 v. 1977	73%	5%	22%
1979 v. 1978	63%	22%	15%
1980 v. 1979	63%	25%	12%

Increasing construction expenditures to meet load growth and comply with federal requirements for the conversion to alternate fuel sources, coupled with inflationary pressures, has required HL&P to seek rate increases more frequently. As a result, new rates have been placed in effect in each of the past three years. KWH sales increases have averaged 6% over the last three years, contributing to the growth in revenue. This growth rate is lower than experienced historically due to some conservation by customers and, in 1980, economic conditions affecting the larger industrial customers. Because of the widespread use of air conditioning, weather also significantly affects KWH sales in the HL&P service area, primarily in the residential class. An unseasonably mild summer negatively influenced 1979 electric usage. However, an extended heat wave in 1980 caused residential KWH usage to attain record levels and average usage per residential customer increased from 13,522 KWH in 1979 to 14,219 KWH in 1980.

Gas sales by Primary Fuels decreased by 20% during 1980 as a result of decreased demand and a normal decline in productive capacity as compared with an increase of 54% in 1979 over sales levels of 1978. Decreased sales in 1980, however, were almost completely offset by increased prices.

Fuel Expense. These costs have nearly doubled since 1978. The increase in the price of fuel and, to a lesser extent, increased KWH generation are the contributing factors. The rapid increase in fuel costs has contributed to the increase in HL&P's average residential revenue per KWH from 3.4¢ in 1978 to 5.0¢ in 1980. The increases in cost of coal sold for each year are due to larger coal requirements by HL&P for its W. A. Parish plant. HL&P brought new coal-fired units into service in each of the years 1978-1980.

Purchased Power Expense. The increase in these costs reflects purchases of economy energy from other utilities in Texas.

Operation and Maintenance Expenses. Operation and maintenance costs have increased 58% over the last three years because of general inflationary pressures, the use of larger, more complicated generating and pollution control equipment and substantial increases in labor costs. Increased reliance on coal-fired power plants has added significantly to the costs of operation and maintenance. The employee work force has increased by about 21% over the last three years as a result of increasingly complex construction and business activities, additional government regulations and the growth in the number of customers being served.

Non-Operating Items. AFUDC is an amount representing the cost of funds used to finance construction projects and is capitalized as part of the cost of the asset. AFUDC is a non-cash item of net income and represents a cost recoverable from customers through provisions for depreciation in future periods. Increases in amounts for AFUDC not only correspond to increases in construction expenditures, but also to increases in the AFUDC accrual rate and the level of investment in construction that is not earning a cash return. Since January 1979, AFUDC has been computed on a net of tax rate closely following the rising cost of capital. The AFUDC accrual rates for 1978 through 1980 were 6.5%, 7.5% and 8.5%, respectively. Effective January 1, 1981, HL&P began accruing AFUDC at a rate of 9.25%.

In the Utility Commission's final order relating to HL&P's 1979 rate case, the recovery of its investment in a uranium exploration project was disallowed. As a result, $8,964,000 was charged against other income in December 1979.

Liquidity and Capital Resources

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

	Millions of dollars			
	1980	1981	1982	1983
Construction and nuclear fuel (excluding AFUDC)	$637	$709	$783	$964
Railroad cars, coal handling facilities and lignite mining and handling facilities	31	53	29	9
Oil and gas exploration and development	53	71	—	—
Maturities of long-term debt	8	28	8	17
Total	$729	$861	$820	$990

Construction and nuclear fuel expenditures represent estimated costs of HL&P's construction program. The estimated expenditures for railroad cars, coal handling facilities and lignite mining and handling facilities are planned expenditures by Utility Fuels in connection with HL&P's major generating station projects. Primary Fuels' expenditures for oil and gas exploration subsequent to 1981 cannot be estimated until the results of its 1981 exploration and development program are known.

HL&P expects to finance a portion of its construction program through funds generated internally from operations. Factors affecting the ability of HL&P to fund a portion of its capital requirements from internal funds include regulatory practices allowing a substantial portion of construction work in progress in rate base, adequate depreciation rates, full recovery of the cost of fuel used in the generation of electricity and the opportunity to earn competitive rates of return. It is presently estimated that during the next three years 30% to 35% of HL&P's construction program can be financed through the use of internally generated funds from operations assuming HL&P can obtain rate relief on a timely basis at a level comparable to that most recently granted by the Utility Commission.

The remainder of HL&P's construction program will be financed through proceeds received from the sale of common stock by the Company and the sales of preferred stocks and long-term debt by HL&P. HL&P's capitalization ratios at December 31, 1980 consisted of 48% long-term debt, 7% preferred stock and 45% common stock and retained earnings with similar ratios expected to be maintained in the future. Principally because of HL&P's large capital requirements, Moody's Investors Service, Inc. lowered its rating of HL&P's First Mortgage Bonds and Preferred Stock in 1980 from double A to single A; however, two other rating agencies continue to rate HL&P's securities double A. As a result of such downgrading, HL&P expects relatively higher capital costs in connection with its future sales of long-term debt and preferred stock.

Utility Fuels and Primary Fuels finance their respective capital requirements independent of HL&P. Capital requirements of Utility Fuels are expected to be financed principally through sales of long-term debt and from leveraged leases, both involving guarantees by the Company. Primary Fuels' expenditures for 1981 are expected to be met from internally generated funds, short-term borrowings and, possibly, sales of production payments.

For information regarding bank lines of credit and short-term borrowings see Note 5 to the Consolidated Financial Statements.

Item 8. *Financial Statements and Supplementary Data.*

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
(Thousands of Dollars)

	Year Ended December 31,		
	1978	1979	1980
Revenues:			
Electric	$1,303,604	$1,707,572	$2,123,957
Coal sales	20,823	105,686	202,953
Oil and gas	25,011	40,901	40,354
Total	1,349,438	1,854,159	2,367,264
Expenses:			
Electric:			
Fuel	682,261	958,112	1,206,872
Purchased power	4,753	8,440	29,995
Operation and maintenance	190,110	245,368	301,065
Taxes other than income taxes	62,251	72,853	80,856
Cost of coal sold	15,489	82,170	180,373
Oil and gas operating expenses	5,449	6,755	8,883
Depreciation, depletion and amortization	81,010	109,445	129,483
Total	1,041,323	1,483,143	1,937,527
Operating Income	308,115	371,016	429,737
Other Income:			
Allowance for other funds used during construction	17,029	31,928	32,735
Other – net	2,689	(3,792)	3,057
Total	19,718	28,136	35,792
Fixed Charges:			
Interest on long-term debt	87,140	107,447	129,139
Other interest	7,566	11,992	16,566
Allowance for borrowed funds used during construction	(11,639)	(20,205)	(18,302)
Preferred dividends of subsidiary	17,330	19,765	20,042
Total	100,397	118,999	147,445
Income Before Federal Income Taxes	227,436	280,153	318,084
Federal Income Taxes:			
Current	(3,074)	5,925	10,466
Deferred:			
Liberalized depreciation	34,511	32,316	39,507
Investment tax credit – net	50,833	57,758	43,685
Oil and gas	7,117	6,014	11,286
Other – net	9,392	16,294	29,159
Total	98,779	118,307	134,103
Net Income	$ 128,657	$ 161,846	$ 183,981
Earnings Per Common Share	$4.21	$4.84	$4.71
Weighted Average Common Shares Outstanding (000)	30,590	33,437	39,075

See Notes to Consolidated Financial Statements.

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HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)

ASSETS

	December 31, 1979	December 31, 1980
Property, Plant and Equipment — At Cost:		
Plant:		
Production	$1,578,928	$1,881,347
Transmission	299,483	333,698
Distribution	779,741	879,551
General	183,144	214,849
Construction work in progress	972,526	1,143,102
Nuclear fuel in process	83,947	104,947
Coal handling equipment	81,358	109,835
Electric plant acquisition adjustments	3,166	3,166
Oil, gas and mining property	129,226	196,364
Total	4,111,519	4,866,859
Less accumulated depreciation, depletion and amortization	622,656	735,550
Property, plant and equipment — net	3,488,863	4,131,309
Current Assets:		
Cash in banks	12,690	13,027
Temporary cash investments, at cost	52,129	2,000
Working funds and special deposits	5,269	5,382
Accounts receivable:		
Customers	63,853	84,247
Others	22,578	22,652
Fuel stock:		
Oil, at average cost	47,843	66,364
Coal, at lifo cost	50,015	23,277
Materials and supplies, at average cost	32,978	32,107
Other	14,316	3,239
Total	301,671	252,295
Deferred Debits	44,163	49,334
Total	$3,834,697	$4,432,938

See Notes to Consolidated Financial Statements

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

LIABILITIES

	December 31, 1979	December 31, 1980
Common Stock Equity:		
Common stock, no par; authorized 75,000,000 shares; outstanding 35,952,287 shares at December 31, 1979 and 42,644,520 shares at December 31, 1980 (1,063,062 shares reserved at December 31, 1979 and 1,097,999 shares at December 31, 1980 for conversion of 5½% convertible debentures due 1985)	$ 591,865	$ 767,137
Retained earnings	652,573	731,406
Total	1,244,438	1,498,543
Preference Stock – no par; authorized, 10,000,000 shares; none outstanding		
Cumulative Preferred Stock of Subsidiary (statement on following page)	243,518	243,518
5½% Convertible Debentures due 1985 (convertible into common stock of the Company at a rate of $37.55 a share at December 31, 1979 and $35.98 a share at December 31, 1980)	39,918	39,506
Long-Term Debt of Subsidiaries (statement on following page)	1,497,390	1,604,337
Total	3,025,264	3,385,904
Current Liabilities:		
Notes payable	88,614	126,500
Accounts payable	122,665	149,174
Taxes accrued	26,206	33,525
Interest accrued	29,305	31,110
Accrued liabilities to municipalities	36,008	45,557
Dividends declared	5,010	5,010
Current portion of long-term debt	7,530	29,605
Other	16,471	23,147
Total	331,809	443,628
Deferred Credits:		
Accumulated deferred federal income taxes	252,176	332,556
Unamortized investment tax credit	202,148	244,704
Other	14,931	17,761
Total	469,255	595,021
Property Insurance Reserve	8,369	8,385
Commitments and Contingencies		
Total	$3,834,697	$4,432,938

See Notes to Consolidated Financial Statements

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF SUBSIDIARIES' PREFERRED STOCK AND LONG-TERM DEBT

(Thousands of Dollars)

	December 31, 1979	December 31, 1980
CUMULATIVE PREFERRED STOCK – no par; authorized 10,000,000 shares; outstanding (entitled upon involuntary liquidation to $100 a share)		
HOUSTON LIGHTING & POWER COMPANY:		
$4 series, 97,397 shares	$ 9,740	$ 9,740
$6.72 series, 250,000 shares	25,115	25,115
$7.52 series, 500,000 shares	50,225	50,225
$9.52 series, 400,000 shares	39,372	39,372
$9.08 series, 400,000 shares	39,395	39,395
$8.12 series, 500,000 shares	50,098	50,098
$9.04 series, 300,000 shares	29,573	29,573
Total	$ 243,518	$ 243,518
LONG-TERM DEBT:		
HOUSTON LIGHTING & POWER COMPANY:		
First mortgage bonds:		
3¼% series, due 1981	$ 20,000	$ 20,000
2¾% series, due 1985	30,000	30,000
3¼% series, due 1986	30,000	30,000
4¾% series, due 1987	40,000	40,000
3% series, due 1989	30,000	30,000
4⅞% series, due 1989	25,000	25,000
4½% series, due 1992	25,000	25,000
5¼% series, due 1996	40,000	40,000
5¼% series, due 1997	40,000	40,000
6¾% series, due 1997	35,000	35,000
6¾% series, due 1998	35,000	35,000
7½% series, due 1999	30,000	30,000
7¼% series, due 2001	50,000	50,000
7½% series, due 2001	50,000	50,000
8⅛% series, due 2004	100,000	100,000
10⅛% series, due 2004	100,000	100,000
8¾% series, due 2005	125,000	125,000
8⅜% series, due 2006	125,000	125,000
8⅜% series, due 2007	125,000	125,000
8⅞% series, due 2008	125,000	125,000
9¼% series, due 2008	100,000	100,000
11¼% series, due 2009	125,000	125,000
12% series, due 2010		100,000
Total	1,405,000	1,505,000
Pollution control revenue bonds:		
7⅜% series, due 2004	18,000	18,000
9½% series, due 1998	19,200	19,200
9.9% series, due 1998		5,000
UTILITY FUELS, INC.:		
9% secured notes, maturing $7,200 annually through 1988	61,400	54,200
Variable rate secured note, due 1983		9,800
Capitalized lease obligations		21,752
Other	1,320	990
Subtotal	1,504,920	1,633,942
Less current maturities	7,530	29,605
Total	$1,497,390	$1,604,337

See Notes to Consolidated Financial Statements

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

(Thousands of Dollars)

	Year Ended December 31,		
	1978	1979	1980
Balance at Beginning of Period	$505,165	$569,364	$652,573
Add – Net Income	128,657	161,846	183,981
Total	633,822	731,210	836,554
Deduct – Common Stock Dividends:			
1978, $2.12; 1979, $2.36; 1980, $2.68 (a share)	64,458	78,637	105,148
Balance at End of Period	$569,364	$652,573	$731,406

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

(Thousands of Dollars)

	Year Ended December 31, 1978	1979	1980
Sources of funds:			
Operations:			
Net income	$128,657	$161,846	$183,981
Items not requiring an outlay of working capital:			
Depreciation, depletion and amortization	82,303	110,462	134,009
Deferred federal income taxes – net	50,929	54,624	79,952
Investment tax credit deferred – net	44,380	49,634	43,685
Allowance for funds used during construction	(28,668)	(52,133)	(51,037)
Total	277,601	324,433	390,590
Common stock dividends	(64,458)	(78,637)	(105,148)
Reinvested funds from operations	213,143	245,796	285,442
Financing:			
Sale of common stock	65,090	134,350	175,272
Sale of preferred stock	–	29,573	–
Sale of first mortgage bonds	225,000	125,000	100,000
Sale of secured notes and capital leases	65,000	–	31,552
Pollution control revenue bonds	16,926	2,274	5,000
Change in notes payable and temporary cash investments	(44,496)	49,052	88,015
Reclassification to current maturity of long-term debt	(3,930)	(7,530)	(29,605)
	323,590	332,719	370,234
Other:			
Decrease (increase) in working capital (exclusive of notes payable and temporary cash investments)	3,563	(18,559)	73,180
Other – net	(9,702)	3,400	2,962
	(6,139)	(15,159)	76,142
Total	$530,594	$563,356	$731,818
Application of funds:			
Construction and nuclear fuel expenditures and lignite advance (net of allowance for funds used during construction)	$498,492	$523,477	$664,843
Oil, gas and mining expenditures	32,102	39,879	66,975
Total	$530,594	$563,356	$731,818
Increase (decrease) in working capital (exclusive of notes payable and temporary cash investments):			
Current assets:			
Cash in banks	$ (1,657)	$ 2,084	$ 337
Customer accounts receivable	16,675	5,614	20,394
Fuel stock and materials and supplies	27,217	32,142	(9,088)
Other	6,782	3,348	(10,890)
Total	49,017	43,188	753
Current liabilities:			
Accounts payable	35,660	7,037	26,509
Taxes and interest accrued	2,663	5,921	9,124
Current portion of long-term debt	3,930	3,600	22,075
Other	10,327	8,071	16,225
Total	52,580	24,629	73,933
Increase (decrease) in working capital (exclusive of notes payable and temporary cash investments)	$ (3,563)	$ 18,559	$(73,180)

See Notes to Consolidated Financial Statements.

HOUSTON INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Three Years Ended December 31, 1980

(1) Summary of Significant Accounting Policies

System of Accounts

The accounting records of Houston Lighting & Power Company (HL&P), the principal subsidiary, are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts which have been adopted by the Public Utility Commission of Texas (Utility Commission).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, HL&P, Primary Fuels, Inc. (PFI) and Utility Fuels, Inc. (UFI). Coal sales and related cost of coal sold represent UFI coal sales to HL&P and are not eliminated because of the distinction for regulatory purposes between utility and non-utility operations. All other significant intercompany transactions and balances are eliminated in consolidation.

Plant

Additions to electric plant, reduced by contributions in aid of construction, betterments to existing property, and replacements of units of property are capitalized at cost. Cost includes the original cost of contracted services, direct labor and material, indirect charges for engineering supervision and similar overhead items, and an allowance for funds used during construction (AFUDC).

Maintenance of property and replacements and renewals of items determined to be less than units of property are charged to expense. The actual or average book cost of units of property replaced or renewed are removed from plant and such costs plus removal cost, less salvage, are charged to accumulated depreciation.

HL&P and UFI compute depreciation using the straight-line method. The depreciation provision as a percentage of the depreciable cost of plant was 3.3% for 1978 and 3.6% for 1979 and 1980.

Oil and Gas Property

The full-cost method of accounting is used for oil and gas operations. Accordingly, all costs of acquisition, exploration, and development of properties are capitalized. Depreciation, depletion and amortization of these costs are determined on the unit-of-production method based on the estimated proved reserves of oil and gas properties. Depreciation, depletion and amortization amounted to $5,737,000, $11,350,000 and $20,895,000 or $.48, $.62 and $1.40 per equivalent unit-of-production for the years ended December 31, 1978, 1979 and 1980, respectively.

Allowance for Funds Used During Construction

Prior to 1979, HL&P accrued AFUDC at a rate of 6½% on projects estimated to cost in excess of $50,000 and estimated to require more than 90 days to construct. During 1979, HL&P accrued AFUDC at a 7½% rate, net of federal income taxes, on construction projects and nuclear fuel payments except for amounts included in the rate base by regulatory authorities. Effective January 1, 1980, the accrual rate was increased to 8½%, net of federal income taxes. The borrowed funds component of AFUDC, before federal income taxes, is reflected in the Statements of Consolidated Income as a credit to fixed charges and the other funds component is shown as other income.

In 1980, UFI began capitalizing interest applicable to qualifying assets. Such amounts are included in the borrowed funds component of AFUDC in the Statements of Consolidated Income.

Revenues — Electric

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

Federal Income Taxes

Since January 1979, the Company has followed a policy of comprehensive interperiod income tax allocation. Prior to January 1979, deferred income taxes were not recognized on the borrowed funds component of AFUDC which is deducted currently for federal income tax purposes.

Investment tax credits are deferred and amortized over the estimated lives of the related property.

Property Insurance Reserve

The cost of replacing uninsured plant losses of HL&P, less related tax effects, are charged against the reserve when incurred. Effective January 1980, additional accruals to the reserve have been denied by regulatory authorities.

Earnings Per Common Share

Earnings per common share are computed by dividing net income by the weighted average number of shares outstanding during the respective periods. Common stock equivalents outstanding during the periods did not have a material dilutive effect on earnings per share.

(2) Common Stock

At the 1980 Annual Meeting of Shareholders, a resolution was approved to amend the Articles of Incorporation to increase the authorized common stock, without par value, from 50,000,000 to 75,000,000 shares. Common stock issued during 1978, 1979 and 1980 amounted to 2,260,866 shares, 4,863,185 shares and 6,692,233 shares, respectively.

(3) Preferred Stock

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

$4 Series — $105.00. $6.72 Series: through July 31, 1983 — $103.51; thereafter — $102.51. $7.52 Series: through October 31, 1982 — $105.35; thereafter — $103.35 to $102.35. $9.52 Series: through September 30, 1985 — $109.52; thereafter — $105.00 to $101.00. $9.08 Series: through March 31, 1981 — $109.08; thereafter — $105.00 to $101.00. $8.12 Series: through November 30, 1982 — $109.37; thereafter — $106.25 to $102.25. $9.04 Series: through January 31, 1984 — $109.04; thereafter — $105.00 to $101.00.

(4) Long-Term Debt

At December 31, 1980, sinking or improvement fund requirements of HL&P's first mortgage bonds outstanding will be $27,850,000 for the year 1981, $28,700,000 in 1982 and $29,700,000 for each of the years 1983 through 1985. Of such requirements, $15,050,000 for the year 1981 and $14,850,000 for each of the years 1982 through 1985 may be satisfied by certification of property additions at 100% of the requirements and the remainder through certification of such property additions at 166⅔% of the requirements. Sinking or improvement fund requirements for 1980 and prior years have been satisfied by certification of property additions.

Annual maturities of long-term debt are $27,530,000 in 1981, $7,530,000 in 1982, $17,330,000 in 1983, $7,200,000 in 1984 and $76,706,000 in 1985. At December 31, 1980, the future minimum lease payments under the UFI capital leases are $2,075,000 for the year 1981 and $2,334,000 for each of the years 1982 through 1985, and $26,840,000 thereafter through 1997. The present value of the $38,251,000 minimum lease payments at December 31, 1980 is approximately $21,752,000, at an assumed discount rate of 7.4%.

The issuable amount of HL&P first mortgage bonds is unlimited as to authorization, but limited by property, earnings, and other provisions of the mortgage and deed of trust and the supplemental indentures thereto. Substantially all properties of HL&P and UFI are subject to liens securing their long-term debt.

(5) Short-Term Financing

The interim financing requirements of the Company's operating subsidiaries are met through short-term bank loans and the issuance of commercial paper. The subsidiaries have bank lines of credit aggregating $410 million (as compared with $315 million during 1979) which limit their total short-term borrowings and provide for interest at the prime rate. Bank loans and commercial paper outstanding were $78,300,000 and $47,330,000 at December 31, 1980 and $57,100,000 and $30,430,000 at December 31, 1979, respectively. Compensating balances are not required under the lines of credit.

(6) Retirement Plan

The Company has a noncontributory retirement plan covering substantially all employees. The policy of the Company is to fund pension costs accrued, which includes amortization of prior service costs, over a period of thirty to forty years.

The total cost of the Company's retirement plan for the year 1978 through 1980 was $4,773,000, $6,223,000 and $7,563,000, respectively. In 1979, the assumed return on plan investments was increased to 7% and the plan was amended to provide substantially increased benefits for all plan participants. The net effect of the change and amendment was to increase prior service costs by $14,210,000 and pension cost accrued by $1,400,000 for 1979. As of January 1, 1980, actuarially computed prior service costs were $34,047,000. A comparison of accumulated plan benefits and plan net assets for the Company's retirement plan is presented below:

Actuarial present value of accumulated plan benefits:

	January 1,	
	1979	1980
Vested	$49,139,000	$49,280,000
Nonvested	2,341,000	4,179,000
	$51,480,000	$53,459,000
Market value of net assets available for plan benefits	$50,680,000	$67,272,000

(7) Commitments and Contingencies

Significant commitments have been incurred in connection with HL&P's construction program and for nuclear fuel purchases. The construction program (exclusive of the allowance for funds used during construction) is presently estimated to cost $691 million in 1981, $759 million in 1982 and $947 million in 1983. An additional $60 million is expected to be spent for uranium concentrate and nuclear fuel processing services for HL&P's South Texas and Allens Creek nuclear plants. Commitments in connection with HL&P's construction program, principally for generating plants and related facilities, are generally revocable by HL&P subject to reimbursement of manufacturers for expenditures incurred or other cancellation penalties. In addition, during the 1981-1983 period, UFI expects to spent $79 million for coal handling equipment and railroad cars in order to serve HL&P's W. A. Parish plant and $11 million for transportation equipment and lignite mining and handling facilities for HL&P's Limestone Plant. PFI expects to spend $71 million on exploratory and development activities during 1981.

UFI has entered into financing arrangements for coal transportation equipment which are treated as capital leases for financial accounting purposes. The Company has no other material lease commitments.

(8) Jointly Owned Electric Plant

HL&P is project manager and one of four participants in the South Texas Nuclear project which consists of two 1250 megawatt nuclear generating units. Each participant finances its own share of construction expenditures with HL&P's participating interest in the project being 30.8%. As of December 31, 1980, HL&P's share of expenditures included in construction work in progress and nuclear fuel in process were $450 million and $39 million, respectively.

(9) Regulatory Proceedings

As part of the Utility Commission's final rate order in January 1980, the Utility Commission disallowed HL&P's request to amortize its investment in a uranium exploration project terminated in October 1978. As a result $4,661,000 (net of federal income taxes) was charged against HL&P's income in the month of December 1979. A number of accounting changes were implemented by HL&P in January 1980 as a result of the Utility Commission's January 1980 order. Such changes include (1) the capitalization of ad valorem taxes related to construction work in progress (2) the capitalization of employee benefits and depreciation of transportation equipment related to construction and (3) the discontinuance of accruals to the reserves for property insurance and injuries and damages.

(10) Federal Income Taxes

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

	Year Ended December 31,		
	1978	1979	1980
	Thousands of Dollars		
Income before federal income taxes	$227,436	$280,153	$318,084
Preferred dividends of subsidiary	17,330	19,765	20,042
Total	244,766	299,918	338,126
Statutory rate	48%	46%	46%
Federal income taxes at statutory corporate rate	117,487	137,962	155,538
Reduction in taxes resulting from:			
Allowance for other funds used during construction	13,761	14,687	15,058
Other — net	4,947	4,968	6,377
Total	18,708	19,655	21,435
Federal income taxes	$ 98,779	$118,307	$134,103
Effective rate	40.4%	39.4%	39.7%

At December 31, 1980, the Company had an investment tax credit carryover of approximately $8,570,000.

(11) Supplementary Expense Information

	Year Ended December 31,		
	1978	1979	1980
	Thousands of Dollars		
Taxes, other than income taxes, were charged to expenses as follows:			
Electric:			
Ad valorem	$38,131	$42,666	$42,686
State gross receipts	12,686	16,044	20,717
Payroll	4,897	6,189	7,467
PUC assessment	2,079	2,885	3,671
Miscellaneous	4,458	5,069	6,315
Total	62,251	72,853	80,856
Taxes included in oil and gas operating expenses	2,399	3,778	5,081
Total taxes other than income taxes	$64,650	$76,631	$85,937
Research and development costs charged to expenses	$ 8,775	$10,152	$12,146

(12) Unaudited Quarterly Information

The following unaudited quarterly financial information for 1979 and 1980 includes, in the Company's opinion, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation.

	Revenues	Net Operating Income	Net Income	Earnings per Common Share(a)
	Thousands of Dollars			
March 31, 1979	$385,216	$ 73,06[illegible]	$30,755	$ .96
June 30, 1979	448,962	85,599	36,676	1.11
September 30, 1979	550,987	129,037	60,998	1.84
December 31, 1979	468,994	83,317	33,417(b)	.95
March 31, 1980	459,307	70,288	28,176	.78
June 30, 1980	581,425	93,890	39,892	1.03
September 30, 1980	755,713	169,937	79,239	2.01
December 31, 1980	570,817	95,622	36,674(c)	.86

(a) Quarterly earnings per common share are based on the weighted average number of shares outstanding during the quarter and the sum of the quarters may not equal annual earnings per common share.

(b) See Note 9, "Regulatory Proceedings" regarding the December, 1979 charge against HL&P's income.

(c) See "Management's Discussion and Analysis of Financial Condition and Results of Operations" concerning the December, 1980 charge against PFI's income.

(13) Reclassification

Certain amounts from previous years have been reclassified to conform to the 1980 presentation of the financial statements. Such reclassifications are immaterial and do not affect earnings.

(14) Other

On January 5, 1981, the Company's Board of Directors recommended a three-for-two stock split and an increase in the authorized common stock from 75,000,000 to 125,000,000 shares. The stock split and the authorization to increase common stock are subject to shareholder approval at the 1981 Annual Meeting of Shareholders.

On February 10, 1981, HL&P issued $125,000,000 of 13⅞% First Mortgage Bonds due February 1, 1991.

On March 6, 1981 (subsequent to the date of the Auditors' Opinion), the Company sold 3,000,000 shares of common stock at a public offering price per share of $25.25. The net proceeds of the sale were invested in the common stock of HL&P and were used by HL&P to defray the cost of its construction program including the repayment of short-term debt incurred in connection with such program. To the extent that such proceeds were not immediately so used, they were temporarily invested in short-term interest bearing obligations. As a result of the sale, the conversion price for the outstanding 5½% convertible debentures was changed from $35.98 to $35.25 per share, and the number of shares of common stock reserved for conversion for such debentures was increased from 1,096,697 to 1,119,404.

AUDITORS' OPINION

Houston Industries Incorporated and Subsidiaries:

We have examined the consolidated balance sheets and the statements of subsidiaries' preferred stock and long-term debt of Houston Industries Incorporated and subsidiaries as of December 31, 1979 and 1980 and the related statements of consolidated income, consolidated retained earnings and changes in consolidated financial position 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 above-mentioned consolidated financial statements present fairly the financial position of the Company and subsidiaries at December 31, 1979 and 1980 and the results of their operations and the changes in their financial position 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 V, VI, VIII and IX for each of the three years in the period ended December 31, 1980. In our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

Houston, Texas
February 1b, 1981

SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (UNAUDITED)

Financial statements of business enterprises, in accordance with generally accepted accounting principles, reflect historical costs and dollars of varying purchasing power and accordingly do not measure the effects of inflation. The following unaudited supplementary information is supplied in accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information regarding the effects of both general inflation (constant dollars) and changes in specific prices (current cost), which are not reflected in traditional financial statements. Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of property from the date the property was acquired to the present, and may differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general. This information should be viewed only as an estimate of the approximate effect of inflation rather than as a precise measurement.

The Company's principal subsidiary, HL&P, in common with other electric utility companies in general, continues to be adversely impacted by the effects of an inflationary economy. Certain effects of inflation such as higher interest costs associated with long-term bonds and increased operating and maintenance costs are reflected in traditional financial statements. Increased revenues to recover such expenses, however, tend to lag behind the actual incurrence of such increased costs. Electric rates are established based on costs as of a specific point in time and are designed to allow the electric utility to recover its operating costs and earn a fair rate of return on its investment in property, plant and equipment. However, in a highly inflationary environment, expenses have increased at a much greater rate than the increase in electric sales which has resulted in an erosion of return on invested capital. It is unlikely that rates based on historical costs can keep pace with increased costs during inflationary periods. This has resulted, in part, in the need for larger and more frequent rate increases.

There are a number of other effects of inflation which are not reflected in traditional financial statements and to which the accompanying supplementary information is intended to give effect. One major expense so affected is depreciation. The cost of constructing and replacing property, plant and equipment has been escalating dramatically. Historical financial statements reflect depreciation based on the historical costs of assets and do not reflect the true economic cost of the asset "used up" and which must be replaced at substantially higher future values. However, a substantial amount of such assets are financed with long-term bonds and preferred stock which effectively acts as a hedge against the impact of inflation. Utility plants financed from investment by common shareholders and retained earnings are not afforded such a hedge. While a certain amount of the impact on such depreciation is reduced through higher returns allowed on the common equity investment in property when electric rates are established, the end result of continuing inflation is an erosion of the common shareholder's investment when viewed in terms of real purchasing power.

The Company has made significant increases in the common stock dividend over the last several years. Actual annual cash dividends have increased from $1.61 in 1976 to $2.68 in 1980. However, when restated in terms of average 1980 dollars, the dividend increases appear much more modest, going from $2.33 in 1976 to $2.68 in 1980. It is significant that the common stock dividends, in real terms, have been able to keep pace with inflation over the last five years, a period of very high inflation. When restated in terms of average 1980 dollars, the last three years annual dividend rate was $2.68. While this indicates that no real growth has occurred in common stock dividends, the purchasing power of common dividends has been maintained.

STATEMENT OF CONSOLIDATED INCOME ADJUSTED FOR CHANGING PRICES
For the Year Ended December 31, 1980

(In thousands of dollars)

	Conventional Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
Revenues	$2,367,264	$2,367,264	$2,367,264
Expenses:			
Electric	1,618,788	1,618,788	1,618,788
Cost of coal sold	180,373	180,373	180,373
Oil and gas operating expenses	8,883	8,883	8,883
Depreciation, depletion and amortization	129,483	227,942	239,251
Income taxes	134,103	134,103	134,103
Fixed charges and other income – net	111,653	111,653	111,653
Net Income (excluding reduction to net recoverable cost)	$ 183,981	$ 85,522*	$ 74,213
Increase in specific prices (current cost) of property, plant, and equipment held during the year**			$ 637,939
Less increase in cost of property, plant, and equipment adjusted for changes in general price level			745,144
Excess of increase in general price level over increase in specific prices			(107,205)
Reduction of utility property to net recoverable costs		(329,671)	(204,446)
Gain from decline in purchasing power of net amounts owed		286,744	286,744
Net		$ (42,927)	$ (24,927)

* Including the reduction to net recoverable cost, loss on a constant dollar basis would have been $244,149 for 1980.

** At December 31, 1980, current cost of property, plant and equipment, net of accumulated depreciation was $7,022,944, while historical cost was $4,131,309.

FIVE YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In thousands of average 1980 dollars, except per share amounts)

	1976	1977	1978	1979	1980
Revenues					
Historical	$ 851,174	$1,095,561	$1,349,438	$1,854,159	$2,367,264
Constant dollar	1,232,081	1,489,722	1,704,408	2,104,905	2,367,264
Net Income					
Historical				$ 161,846	$ 183,081
Constant dollar				102,284	85,522
Current cost				86,194	74,213
Earnings per share					
Historical				$ 4.84	$ 4.71
Constant dollar				3.05	2.19
Current cost				2.58	1.90
Common Stock Equity at year-end (including electric utility property only to the extent recoverable)					
Historical				$1,244,438	$1,498,543
Constant dollar				1,374,477	1,490,689
Current cost				1,374,842	1,495,413
Gain from decline in purchasing power of net amounts owed				$ 301,435	$ 286,744
Excess of increase in general price level over increase in specific prices				$ 304,527	$ 107,205
Cash dividends declared per common share					
Historical	$1.61	$1.86	$2.12	$2.36	$2.68
Constant dollar	2.33	2.53	2.68	2.68	2.68
Market price per common share at year end					
Historical	$ 31¾	$ 30⅝	$ 27⅜	$ 29⅛	$ 28½
Constant dollar	44	40⅝	33¼	31¼	27¼
Average consumer price index	170.5	181.5	195.4	217.4	246.8

Property, plant and equipment as referred to in the accompanying data includes utility plant in service, land, land rights and property held for future use, nuclear fuel in process, construction work in progress, coal handling equipment and oil, gas and mining property. The constant dollar information was determined by adjusting historical amounts by the ratio of the average level of the CPI-U during the year the assets were acquired or constructed to the average CPI-U index for 1980. Current cost of utility properties was determined primarily by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. Oil and gas properties were restated to current costs primarily by adjusting historical costs by externally developed indexes for onshore and offshore properties. Current cost information does not represent the replacement cost of the Company's productive capacity since plant would not be replaced precisely in kind, but rather are an approximation of the current cost of existing assets.

The constant dollar and current cost provisions for depreciation were determined by applying the Company's historical depreciation rates to the restated property amounts. Restatement of depreciation, depletion and amortization of oil, gas and mining properties was computed by applying historical unit-of-production rates to the restated property amounts.

As allowed by FASB No. 33, items in the income statement, other than depreciation expenses, were not adjusted. The cost of fuel used in electric generation and operating and maintenance expenses are essentially stated in terms of average current year prices and therefore do not require restatement.

In accordance with FASB No. 33, federal income tax expense has not been adjusted. Current federal income tax policy recognizes to a certain extent the effects of inflation. Liberalized depreciation allowances and the investment tax credit accelerate capital recovery. However, as the statutory federal income tax rate has remained stable the effective rate has increased significantly as a result of the declining purchasing power of the related taxable income. The Company's effective federal income tax rate in 1980, when adjusted for inflation, is 56 percent under constant dollar and 59 percent under current cost, each of which exceeds its reported effective tax rate of 40 percent and the statutory rate of 46 percent.

Under the rate making prescribed by the regulatory authorities to which HL&P is subject, only the historical cost of plant is recoverable through depreciation. Therefore the excess of the cost of utility plant stated in terms of constant dollars and current cost that occurred as a result of inflation in the current year over the historical cost of utility plant is not presently recoverable in rates as depreciation and is reflected as a reduction to net recoverable cost.

To properly reflect the economics of rate regulation in the Statement of Income Adjusted for Changing Prices, the reduction of net property, plant, and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt and preferred stock which has been used to finance property, plant and equipment. However, since the depreciation on this utility plant is limited to the recovery of historical costs, HL&P does not have the opportunity to realize a holding gain, and is limited to recovery only of the embedded cost of such capital. Thus, to the extent that utility plant is financed with debt and preferred stock the reduction to net recoverable cost and the holding gain essentially offset each other.

As indicated above, the rates charged by HL&P are regulated. As a result it is not as free as a non-regulated enterprise to raise its prices in response to inflation. Further, except in the case of fuel costs, the regulatory process introduces a substantial time lag between the incurrence of operating and capital costs and the recovery of such costs. This is commonly referred to in the industry as "regulatory lag" and is one of the most significant factors contributing to the erosion of investor capital. Compounding the problem is the fact that the HL&P must compete in the same marketplace as a non-regulated enterprise for capital necessary to finance its construction program.

PART III

Item 9. *Directors and Executive Officers of the Registrant.*(*)

Item 10. *Management Remuneration and Transactions.*(*)

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* The information called for by Items 9 and 10, to the extent not set forth under Item 1, "Business — Executive Officers of the Company", is set forth in the definitive proxy statement relating to the 1981 Annual Meeting of Shareholders of Houston Industries Incorporated pursuant to the Commission's Regulation 14A (File No. 1-7629). Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and is incorporated herein by reference pursuant to Instruction G to Form 10-K.

PART IV

Item 11. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K.***

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

I, II, III, IV, VII, X, XI, XII and XIII.

(a)(3) Exhibits.

See Exhibit Index on page 52.

(b) Reports on Form 8-K.

The Company filed reports on Form 8-K during the fourth quarter of 1980 as follows:

November 21, 1980 (date of earliest event reported) Item 5. OTHER MATERIALLY IMPORTANT EVENTS:

(1) On November 21, 1980, Houston Lighting & Power Company (HL&P), was advised by Moody's Investors Service that its First Mortgage Bonds and Preferred Stock had been downgraded from Double-A (Aa) to Single-A (A) or equivalent.

(2) On December 3, 1980, HL&P elected to cancel its plans to offer on December 10, 1980, $35 million of a new series of Preferred Stock and deferred its planned offering of $125 million principal amount of First Mortgage Bonds.

SCHEDULE V – PROPERTY, PLANT AND EQUIPMENT

For the Three Years Ended December 31, 1980

(Thousands of Dollars)

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Classification	Balance Beginning of Year	Additions at Cost	Retire-ments	Other Changes — Add (Deduct)	Balance End of Year
For the Year Ended December 31, 1980:					
Production Plant	$1,578,928	$304,475	$ 2,056		$1,881,347
Transmission Plant	299,483	34,925	710		333,698
Distribution Plant	779,741	112,105	12,295		879,551
General Plant	183,144	35,564	3,859		214,849
Plant Acquisition Adjustments	3,166				3,166
Coal Handling Equipment	81,358	28,571	94		109,835
Oil, Gas and Mining Property	129,226	67,199	61		196,364
Total Plant	3,055,046	582,839	19,075		3,618,810
Construction Work in Progress (A)	972,526	170,576			1,143,102
Nuclear Fuel in Process	83,947	21,000			104,947
Total	$4,111,519	$774,415	$19,075		$4,866,859
For the Year Ended December 31, 1979:					
Production Plant	$1,551,962	$ 27,236	$ 270	$	$1,578,928
Transmission Plant	290,951	9,055	523		299,483
Distribution Plant	683,425	107,052	10,736		779,741
General Plant	165,789	20,014	2,659		183,144
Plant Acquisition Adjustments	3,166				3,166
Coal Handling Equipment	71,470	10,190	302		81,358
Oil, Gas and Mining Property	89,348	39,878			129,226
Total Plant	2,856,111	213,425	14,490		3,055,046
Construction Work in Progress (A)	621,175	351,351			972,526
Nuclear Fuel in Process	64,777	23,130		(3,960)	83,947
Total	$3,542,063	$587,906	$14,490	$(3,960)	$4,111,519
For the Year Ended December 31, 1978:					
Production Plant	$1,296,211	$257,147	$ 1,396		$1,551,962
Transmission Plant	273,381	19,321	1,751		290,951
Distribution Plant	616,936	80,133	13,644		683,425
General Plant	160,127	7,311	1,649		165,789
Plant Acquisition Adjustments	3,166				3,166
Coal Handling Equipment		71,559	89		71,470
Oil, Gas and Mining Property	57,245	32,103			89,348
Total Plant	2,407,066	467,574	18,529		2,856,111
Construction Work in Progress (A)	538,109	83,066			621,175
Nuclear Fuel in Process	56,067	8,710			64,777
Total	$3,001,242	$559,350	$18,529		$3,542,063

NOTES:

(A) Substantially all additions are originally charged to CWIP and transferred to electric utility plant accounts upon completion. Additions at cost give effect to such transfers.

(B) Additions at cost include non-cash charges for an allowance for other funds used during construction.

(C) HL&P and UFI compute depreciation using the straight-line method. The depreciation provisions as a percentage of the depreciable cost of plant was 3.3% in 1978 and 3.6% for 1979 and 1980.

SCHEDULE VI – ACCUMULATED PROVISION FOR DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

For the Three Years Ended December 31, 1980

(Thousands of Dollars)

Col. A	Col. B	Col. C		Col. D		Col. E
		Additions		Deductions from Reserve		
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Retirements, Renewals and Replacements	Other	Balance at Close of Period
Year Ended December 31, 1980 –						
Depreciation, depletion and amortization of property, plant and equipment	$622,656	$129,483	$4,526	$21,115		$735,550
Year Ended December 31, 1979 –						
Depreciation, depletion and amortization of property, plant and equipment	$528,083	$109,445	$1,017	$15,889		$622,656
Year Ended December 31, 1978 –						
Depreciation, depletion and amortization of property, plant and equipment	$458,483	$ 81,010	$1,293	$12,703		$528,083

SCHEDULE VIII – RESERVES

For the Three Years Ended December 31, 1980

(Thousands of Dollars)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions from Reserves (A)	Balance at Close of Period
Year Ended December 31, 1980:					
Accumulated provisions, deducted from related assets on balance sheet:					
Uncollectible accounts	$3,691	$7,876		$7,858	$3,709
Inventory adjustments (B)	1,028	78	$ 393	90	1,409
Reserves other than those deducted from assets on balance sheet:					
Property insurance	8,369			(16)	8,385
Injuries and damages	450			450	-0-
Year Ended December 31, 1979:					
Accumulated provisions, deducted from related assets on balance sheet:					
Uncollectible accounts	$ 250	$8,956		$5,515	$3,691
Inventory adjustments (B)	785	77	$ 278	112	1,028
Reserves other than those deducted from assets on balance sheet:					
Property insurance	8,500	100		231	8,369
Injuries and damages	408	142		100	450
Year Ended December 31, 1978:					
Accumulated provisions, deducted from related assets on balance sheet:					
Uncollectible accounts	$ 453	$3,653		$3,856	$ 250
Inventory adjustments (B)	689	49	$ 294	247	785
Reserves other than those deducted from assets on balance sheet:					
Property insurance	8,000	500			8,500
Injuries and damages	353	450		395	408

NOTES:

(A) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.

(B) Reserve provided by charges to various accounts on basis of materials issued.

SCHEDULE IX – SHORT-TERM BORROWINGS

For the Three Years Ended December 31, 1980
(Thousands of Dollars)

	Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Description	Category of Aggregate Short-term Borrowings	Balance at End of Period(A)	Weighted Average Interest Rate at End of Period	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period	Weighted Average Interest Rate During the Period
Year Ended:						
December 31, 1980	Bank Loans	$ 78,300	21.00%	$131,400	$ 70,320	15.42%
	Commercial Paper	47,330	18.90	68,570	37,145	12.64
Year Ended:						
December 31, 1979	Bank Loans	57,100	15.25	121,600	58,942	13.07
	Commercial Paper	30,430	13.93	43,650	31,342	11.24
Year Ended:						
December 31, 1978	Bank Loans	30,300	11.75	116,200	65,313	8.79
	Commercial Paper	25,000	10.53	27,109	12,752	8.03

NOTES:

(A) The Balance at End of Period excludes land notes of $1,197, $1,084 and $870 as of December 31, 1978, 1979 and 1980, respectively.

HOUSTON INDUSTRIES INCORPORATED

Financial Statements

(Thousands of Dollars)

Balance Sheets

ASSETS

	December 31, 1979	December 31, 1980
Investment in subsidiaries – at equity	$1,243,731	$1,495,113
Investment in 5½% debenture of HL&P, due 1985	40,000	40,000
Cash	292	203
Temporary cash investments, at cost		2,000
Prepaid taxes	151	207
Due from subsidiaries	917	917
Other		1,699
Total	$1,285,091	$1,540,139

LIABILITIES

	December 31, 1979	December 31, 1980
Common Stock, no par; authorized, 75,000,000 shares; outstanding 35,952,287 shares at December 31, 1979 and 42,644,520 shares at December 31, 1980	$ 591,865	$ 767,137
Retained earnings	652,573	731,406
Total	1,244,438	1,498,543
Preference Stock – no par; authorized, 10,000,000 shares; none outstanding		
5½% Convertible debentures due 1985	39,918	39,506
Due to subsidiaries		1,423
Accrued liabilities	735	667
Total	$1,285,091	$1,540,139

Statements of Income and Retained Earnings

	Year Ended December 31, 1978	1979	1980
Interest income from subsidiaries	$ 2,209	$ 2,301	$ 2,363
Other interest income	81	106	55
Total	2,290	2,407	2,418
Expenses and other deductions:			
Interest on 5½% convertible debentures	2,197	2,196	2,176
Operating expenses	952	1,074	1,345
Federal income tax credit	(615)	(491)	(555)
Total	2,534	2,779	2,966
Loss before equity in earnings of subsidiaries	(244)	(372)	(548)
Equity in earnings of subsidiaries	128,901	162,218	184,529
Net income	128,657	161,846	183,981
Retained earnings, beginning of period	505,165	569,364	652,573
Common stock dividends, $2.12, $2.36 and $2.68 a share in 1978, 1979 and 1980	(64,458)	(78,637)	(105,148)
Retained earnings, end of period	$ 569,364	$ 652,573	$ 731,406

Statements of Sources of Funds for Investment

	Year Ended December 31,		
	1978	1979	1980
Net income	$ 128,657	$ 161,846	$ 183,981
Deduct:			
Common stock dividends	64,458	78,637	105,148
Undistributed earnings of subsidiaries	62,986	83,089	78,671
Net funds from operations	1,213	120	162
Sale of common stock	65,090	134,350	175,272
Other (net)	(1,079)	284	(2,723)
Investment in common stocks of subsidiaries	$ 65,224	$ 134,754	$ 172,711

Notes:

(1) See Notes 2, 6, 7, 12 and 14 of the Notes to Consolidated Financial Statements.

(2) The Company has guaranteed substantially all of the short-term and long-term debt of its subsidiaries, PFI and UFI.

(3) Dividends received from HL&P were $65,915,000, $79,129,000 and $105,859,000 in the years 1978, 1979 and 1980, respectively.

AUDITORS' OPINION

Houston Industries Incorporated:

We have examined the balance sheets of Houston Industries Incorporated as of December 31, 1979 and 1980 and the related statements of income and retained earnings and of sources of funds for investment 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 above-mentioned financial statements present fairly the financial position of the Company at December 31, 1979 and 1980 and the results of its operations and sources of its funds 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.

DELOITTE HASKINS & SELLS

Houston, Texas
February 16, 1981

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, in the City of Houston and State of Texas, on the 25th day of March, 1981.

HOUSTON INDUSTRIES INCORPORATED
(Registrant)

D. D. JORDAN
(D. D. Jordan, 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 date indicated.

Signature	Title	Date
D. D. JORDAN (D. D. Jordan, President)	Principal Executive Officer and Director	March 25, 1981
H. R. DEAN (H. R. Dean, Vice President and Treasurer)	Principal Financial and Accounting Officer and Director	
SEARCY BRACEWELL (Searcy Bracewell)	Director	
WM. R. BROWN (Wm. R. Brown)	Director	
JOHN C. ECHOLS (John C. Echols)	Director	
HOWARD W. HORNE (Howard W. Horne)	Director	
THOMAS B. McDADE (Thomas B. McDade)	Director	
G. W. OPREA, JR. (G. W. Oprea, Jr.)	Director	
STEWART ORTON (Stewart Orton)	Director	
WILLARD E. WALBRIDGE (Willard E. Walbridge)	Director	
JOE C. WESSENDORFF (Joe C. Wessendorff)	Director	

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

HOUSTON INDUSTRIES INCORPORATED:

We hereby consent to the incorporation by reference in Post-Effective Amendment No. 1 to Registration Statement No. 2-60673 on Form S-16 of our opinion dated February 16, 1981 appearing in this Annual Report on Form 10-K of Houston Industries Incorporated for the year ended December 31, 1980. We also consent to the reference to us under the heading "Experts" in the Prospectus constituting a part of that Registration Statement.

DELOITTE HASKINS & SELLS

Houston, Texas
March 25, 1981

HOUSTON INDUSTRIES INCORPORATED

Exhibits to the Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 1980

INDEX OF EXHIBITS

– Exhibits not incorporated by reference to a prior filing are designated by an asterisk; all exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

*3(a) – Articles of Incorporation of the Company, as amended April 1980.

*3(b) – Copy of By-Laws of the Company, as amended October 1978.

4(b)(1) – Mortgage and Deed of Trust, dated as of November 1, 1944, between HL&P and South Texas Commercial National Bank of Houston (Texas Commerce Bank National Association, successor trustee), Trustee (Exhibit B-4, File No. 2-5515).

4(b)(2) – First Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to 1948, Form 10-K of HL&P).

4(b)(3) – Second Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 7D to April, 1950, Form 8-K of HL&P).

4(b)(4) – Third Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 7E to October, 1951, Form 8-K of HL&P).

4(b)(5) – Fourth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-12263).

4(b)(6) – Fifth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2 to 1955, Form 10-K of HL&P).

4(b)(7) – Sixth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-15384).

4(b)(8) – Seventh Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to August, 1959, Form 8-K of HL&P).

4(b)(9) – Eighth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to 1962, Form 10-K of HL&P).

4(b)(10) – Ninth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-25829).

4(b)(11) – Tenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-27512).

4(b)(12) – Eleventh Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-28341).

4(b)(13) – Twelfth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-32751).

4(b)(14) – Thirteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-39257).

4(b)(15) – Fourteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 3(f) to 1970, Form 10-K of HL&P).

4(b)(16) – Fifteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 3(f) to 1971, Form 10-K of HL&P).

4(b)(17)	– Sixteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-50004).
4(b)(18)	– Seventeenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-51731).
4(b)(19)	– Eighteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(c), File No. 2-52709).
4(b)(20)	– Nineteenth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(b)(1), File No. 2-57123).
4(b)(21)	– Twentieth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 3(a)(1) to 1976, Form 10-K).
4(b)(22)	– Twenty-First Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2 to 1977, Form 10-K of HL&P).
4(b)(23)	– Twenty-Second Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 2(d), File No. 2-62879).
4(b)(24)	– Twenty-Third Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to 1978, Form 10-K of HL&P).
4(b)(25)	– Twenty-Fourth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 1 to 1979, Form 10-K of HL&P).
4(b)(26)	– Twenty-Fifth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 4(b)(26) to 1980, Form 10-K of HL&P).
4(b)(27)	– Twenty-Sixth Supplemental Indenture to Exhibit 4(b)(1) (Exhibit 4(b)(27) to 1980, Form 10-K of HL&P).
10(b)(1)	– Gas sales contract, dated September 6, 1963, between HL&P and Humble Oil and Refining Company (Exhibit 4(a), File No. 2-24599).
10(b)(2)	– Amendment to Gas Purchase Contract, dated May 29, 1974, between Exxon Company, U.S.A. and HL&P, amending gas sales contract, dated September 6, 1963, between HL&P and Humble Oil & Refining Company (Exhibit 1 to June 1974, Form 8-K of HL&P).
10(b)(3)	– Gas sales contract, dated January 14, 1964, between HL&P and United Gas Pipeline Company (Exhibit 4(b), File No. 2-24599).
10(b)(4)	– Amendment, dated September 6, 1972 to gas sales contract, dated January 14, 1964, between HL&P and United Gas Pipeline Company (Exhibit 5(b), File No. 2-45327).
10(b)(5)	– Franchise granted by City of Houston, Ordinance No. 57-929, effective October 1, 1957, and acceptance by HL&P of the same dated September 19, 1957 (Exhibit 5(c), File No. 2-59748).
10(b)(6)	– Letter agreement dated January 21, 1977 amending certain provisions contained in Exhibits 10(b)(3) and 10(b)(4) (Exhibit 5(d)(1), File No. 2-58113).
10(b)(7)	– Coal Supply Agreement, dated June 2, 1978, between Utility Fuels, Inc. and Spring Creek Coal Company (Exhibit 5(f), File No. 2-62291).
10(b)(8)	– Lignite Supply Agreement, dated August, 1979, between Utility Fuels, Inc. and Northwestern Resources Company (Exhibit 1 to August, 1979, Form 8-K).
10(b)(9)	– Coal Supply Agreement, dated April 18, 1980, between Utility Fuels, Inc. and Kerr-McGee Coal Corporation (Exhibit 1 to January-March 1980, Form 10-Q).
10(b)(10)	– Gas sales contract, dated January 19, 1981, between HL&P and United Texas Transmission Company (Exhibit 1 to January, 1981, Form 8-K).

*11	– Computation of Earnings Per Common Share.
*12	– Computation of Ratio of Earnings to Fixed Charges for HL&P.
13	– None.
19	– None.
20	– None.
*22	– Subsidiaries of the registrant.

Undertaking.

The undersigned, Houston Industries Incorporated, hereby undertakes pursuant to Regulation S-K, Item 7, paragraph (b)(4)(c), to furnish to the Securities and Exchange Commission upon request all constituent instruments defining the rights of holders of long-term debt of Houston Industries Incorporated and its consolidated subsidiaries not filed herewith for the reason that the total amount of securities authorized under any such instruments does not exceed 10% of the total consolidated assets of Houston Industries Incorporated and its consolidated subsidiaries.

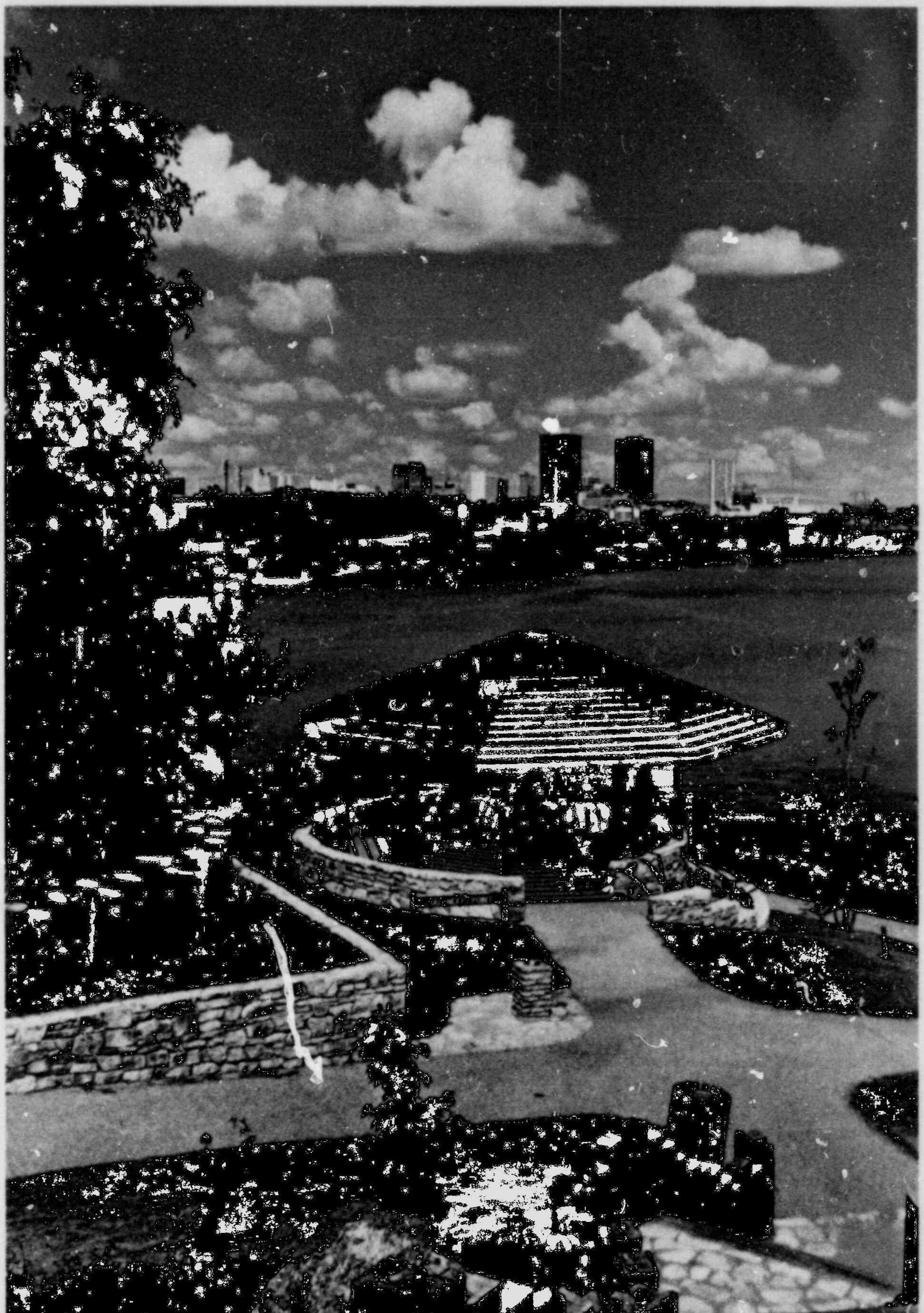
austin texas

$27,000,000

Utility System
Revenue Bonds, Series 9

SALE DATE

May 28, 1981, at 10:30 AM, CDT



Looking Across Town Lake
Austin Skyline in the Background

OFFICIAL BID FORM

Honorable Mayor and City Council
City of Austin
Austin, Texas

May 28, 1981

Ladies and Gentlemen:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated May 7, of $27,000,000 CITY OF AUSTIN, TEXAS UTILITY SYSTEM REVENUE BONDS, SERIES 9, both of which constitute a part hereof.

For your legally issued Bonds, as described in said Notice of Sale and Bidding Instructions and Official Statement, we will pay you par and accrued interest from date of issue to date of delivery to us, plus a cash premium of $_______ for Bonds maturing and bearing interest as follows:

Maturity	Interest Rate	Maturity	Interest Rate	Maturity	Interest Rate
10-1-1987	_____%	10-1-1992	_____%	10-1-1997	_____%
10-1-1988	_____%	10-1-1993	_____%	10-1-1998	_____%
10-1-1989	_____%	10-1-1994	_____%	10-1-1999	_____%
10-1-1990	_____%	10-1-1995	_____%	10-1-2000	_____%
10-1-1991	_____%	10-1-1996	_____%	10-1-2001	_____%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

Total Interest Cost .... $_______________
Less Premium .... _______________
NET INTEREST COST .... $_______________
EFFECTIVE INTEREST RATE .... _______________%

________ Check of the ____________________ Bank, _______________, in the amount $540,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms as set forth in the Official Statement and Notice of Sale and Bidding Instructions.

We agree to accept delivery of and make payment for the Bonds at Citibank, N.A., New York, New York, on June 30, 1981, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions.

Respectfully submitted,

____________________ ____________________

____________________ ____________________

____________________ By ____________________

Authorized Representative

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Austin, Texas, this the 28th day of May, 1981.

____
Mayor, City of Austin, Texas

ATTEST:

____
City Clerk, City of Austin, Texas

Approved:

____
City Attorney, City of Austin, Texas

••••••

Return of Good Faith Deposit is hereby acknowledged: ____________________

By ____________________

OFFICIAL BID FORM

Honorable Mayor and City Council
City of Austin
Austin, Texas

May 28, 1981

Ladies and Gentlemen:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated May 7, of $27,000,000 CITY OF AUSTIN, TEXAS UTILITY SYSTEM REVENUE BONDS, SERIES 9, both of which constitute a part hereof.

For your legally issued Bonds, as described in said Notice of Sale and Bidding Instructions and Official Statement, we will pay you par and accrued interest from date of issue to date of delivery to us, plus a cash premium of $________ for Bonds maturing and bearing interest as follows:

Maturity	Interest Rate	Maturity	Interest Rate	Maturity	Interest Rate
10-1-1987	______%	10-1-1992	______%	10-1-1997	______%
10-1-1988	______%	10-1-1993	______%	10-1-1998	______%
10-1-1989	______%	10-1-1994	______%	10-1-1999	______%
10-1-1990	______%	10-1-1995	______%	10-1-2000	______%
10-1-1991	______%	10-1-1996	______%	10-1-2001	______%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

Total Interest Cost	$__________________
Less Premium	__________________
NET INTEREST COST	$__________________
EFFECTIVE INTEREST RATE	__________________%

__________ Check of the __________________________ Bank, ____________________, in the amount $540,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms as set forth in the Official Statement and Notice of Sale and Bidding Instructions.

We agree to accept delivery of and make payment for the Bonds at Citibank, N.A., New York, New York, on June 30, 1981, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions.

Respectfully submitted,

______________________________ ______________________________

______________________________ ______________________________

______________________________ By ______________________________

Authorized Representative

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Austin, Texas, this the 28th day of May, 1981.

____

Mayor, City of Austin, Texas

ATTEST:

____

City Clerk, City of Austin, Texas

Approved:

____

City Attorney, City of Austin, Texas

* * * * * *

Return of Good Faith Deposit is hereby acknowledged: ______________________________

By ______________________________

NOTICE OF SALE
AND
BIDDING INSTRUCTIONS
ON

$27,000,000
City of Austin, Texas
(Travis and Williamson Counties)

Utility System Revenue Bonds, Series 9

Selling Thursday, May 28, 1981, at 10:30 AM, CDT

THE SALE

Bonds Offered for Sale at Competitive Bidding . . . The City of Austin, Texas (the "City"), is offering for sale its $27,000,000 Utility System Revenue Bonds, Series 9 (the "Bonds").

Address of Bids . . . Sealed bids, plainly marked "Bid for Bonds", should be addressed and delivered to "Mayor and City Council, City of Austin, Texas" prior to 10:30 AM CDT, on the date of the bid opening. All bids must be submitted on the Official Bid Form, without alteration or interlineation.

Place and Time of Bid Opening . . . The City Council will open and publicly read the bids for the purchase of the Bonds in the Council Chambers, City Hall Annex, at 10:30 AM, CDT, Thursday, May 28, 1981.

Award of the Bonds . . . The City Council will take action to award the Bonds (or reject all bids) promptly after the opening of bids, and adopt an Ordinance authorizing the Bonds (the "Ordinance") and approving the Official Statement.

THE BONDS

Description . . . The Bonds will be dated June 1, 1981, and interest coupons will be due on October 1, 1981, and each April and October 1 thereafter until the earlier of maturity or prior redemption. The Bonds and interest coupons attached thereto will be payable at The American National Bank of Austin, Austin, Texas, or, at the option of the holder, at Citibank, N.A., New York, New York. The Bonds will mature serially on October 1 in each year as follows:

Year	Principal Amount	Year	Principal Amount	Year	Principal Amount
1987	$1,800,000	1992	$1,800,000*	1997	$1,800,000*
1988	1,800,000	1993	1,800,000*	1998	1,800,000*
1989	1,800,000	1994	1,800,000*	1999	1,800,000*
1990	1,800,000	1995	1,800,000*	2000	1,800,000*
1991	1,800,000	1996	1,800,000*	2001	1,800,000*

*The City reserves the right, at its option, to redeem Bonds maturing 10-1-1992 through 10-1-2001, both inclusive, in whole or any part thereof, on 10-1-1991, or any interest payment date thereafter, at the par value thereof, plus accrued interest to the date fixed for redemption.

Security for Payment . . . These bonds (the "Bonds"), authorized at elections, will constitute special obligations of the City of Austin, payable as to both principal and interest and equally secured by a first lien on and pledge of the net revenues of the City's combined Electric Light and Power, Waterworks and Sewer System and are in all things on a parity with all outstanding and unpaid previously issued parity bonds (as herein defined). The City, however, expressly reserves the right to issue additional bonds or incur contractual obligations payable from such net revenues in all things on a parity with the Bonds and previously issued parity bonds, provided, however, that any and all such further bonds or contractual obligations may be so issued or incurred only in accordance with and subject to the covenants, conditions, limitations and restrictions relating thereto which are set forth and contained in the Ordinance authorizing this series of bonds and to which said Ordinance reference is hereby made for more complete and full particulars.

CONDITIONS OF THE SALE

Type of Bids and Interest Rates . . . The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than their par value plus accrued interest to the date of delivery of the Bonds. Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the effective interest rate must not exceed 15%. The highest coupon rate bid may not exceed the lowest coupon rate bid by more than 1% in coupon rate. No limitation is imposed upon bidders as to the number of rates or coupon changes which may be used. All Bonds of one maturity must bear one and the same rate. No bids involving supplemental coupons will be considered. Each bidder shall state in his bid the total interest cost in dollars and the net effective interest rate determined thereby, which shall be considered informative only and not as a part of the bid.

Basis for Award . . . For the purpose of awarding the sale of the Bonds, the interest cost of each bid will be computed by determining, at the rate or rates specified therein, the total dollar cost of all interest on the Bonds from the date thereof to their respective maturities, using the table of Bond Years herein, and deducting therefrom the premium bid, if any. Subject to the City's right to reject any or all bids and to waive any irregularities except time of filing, the Bonds will be awarded to the bidder (the "Purchaser") whose bid based on the above computation produces the lowest net effective interest cost to the City.

Good Faith Deposit . . . A Good Faith Deposit, payable to the "City of Austin, Texas", in the amount of $540,000, is required. Such Good Faith Deposit shall be in the form of a Cashier's Check, or its equivalent, which is to be retained uncashed by the City pending the Purchaser's compliance with the terms of his bid and the Notice of Sale and Bidding Instructions. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the City prior to the opening of the bids, and shall be accompanied by instructions from the bank on which drawn which authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. The Good Faith Deposit of the Purchaser will be applied on the purchase price on the date of delivery of the Bonds. No interest will be allowed on the Good Faith Deposit. In the event the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with his bid, then said check shall be cashed and accepted by the City as full and complete liquidated damages. The checks accompanying bids other than the winning bid will be returned immediately after the bids are opened, and an award of the Bonds has been made.

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

Printed Bonds . . . The City will furnish printed bonds which will be executed by the facsimile signatures of the Mayor and Clerk of the City, and by the manual signature of the Comptroller of Public Accounts of the State of Texas. The Bonds will be in coupon form without privilege of registration as to principal or interest.

CUSIP Numbers . . . It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and the terms of the Official Bid Form. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the City; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the Purchaser.

Delivery . . . The Bonds will be tendered for delivery to the Purchaser at Citibank, N.A., New York, New York, at the expense of the City. Payment for the Bonds must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given five business days' notice of the time fixed for delivery of the Bonds. It is anticipated that delivery can be made on or about June 30, 1981, and it is understood and agreed that the Purchaser will accept delivery and make payments for the Bonds on June 30, 1981, or thereafter on the date the Bonds are tendered for delivery, up to and including July 14, 1981. If for any reason the City is unable to make delivery on or before July 14, 1981, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend his offer for an additional thirty days. If the Purchaser does not elect to extend his offer within five days thereafter, then his Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the City's reasonable control.

Conditions to Delivery . . . The obligation of the Purchaser to take up and pay for the Bonds is subject to the Purchaser's receipt of (a) the legal opinion of Messrs. Dumas, Huguenin, Boothman & Morrow, Bond Counsel for the City ("Bond Counsel"), (b) the no-litigation certificate, and (c) the certification as to the Official Statement, all as further described in the Official Statement.

Legal Opinions . . . The Bonds are offered when, as and if issued, subject to the unqualified legal opinion of the Attorney General of the State of Texas, and Messrs. Dumas, Huguenin, Boothman & Morrow (see Legal Opinions in Official Statement); the opinion of said firm will be printed on the Bonds.

Certification of Official Statement . . . At the time of payment for and delivery of the Bonds, the City will execute and deliver to the Purchaser a certificate in the form set forth in the Official Statement.

Change in Tax Exempt Status . . . At any time before the Bonds are tendered for delivery, the Purchaser may withdraw his bid if the interest received by private holders from bonds of the same type and character shall be declared to be taxable income under present Federal income tax laws, either by ruling of the Internal Revenue Service or by a decision of any Federal court, or shall be declared taxable or be required to be taken into account in computing any Federal income taxes, by the terms of any Federal income tax law enacted subsequent to the date of this Notice of Sale and Bidding Instructions.

GENERAL

Financial Advisor's Right to Bid . . . First Southwest Company, the City's Financial Advisor, reserves the right to bid on the Bonds.

Blue Sky Laws . . . By submission of his bid, the Purchaser represents that the sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Bonds in accordance with the securities law of the states in which the Bonds are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Bonds or obtaining an exemption from registration in any state where such action is necessary.

Not an Offer to Sell . . . This Notice of Sale does not alone constitute an offer to sell the Bonds, but is merely notice of the sale of the Bonds. The offer to sell the Bonds is being made by means of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Bonds.

Issuance of Additional Bonds . . . The City anticipates issuing approximately $40,000,000 Utility System Revenue Bonds in August, 1981.

Ratings . . . The outstanding Utility System Revenue Bonds of the City are rated "Aa" by Moody's Investors Service, Inc. and "A+" by Standard & Poor's Corporation. Applications for contract ratings on this issue have been made to both Moody's and Standard & Poor's. The results of their determinations will be provided as soon as possible.

The Official Statement . . . The City will furnish to the Purchaser, without cost, 100 copies of the Official Statement (and 100 copies of any addenda, supplement or amendment thereto), complete except as to interest rates and other terms relating to the reoffering of the Bonds. Arrangements have been made with the printer of the Official Statement, Bowne of Dallas, Dallas, Texas, phone number 214-651-1001, to hold the type intact until after the date of the sale of the Bonds. The Purchaser may order at his own expense any number of the Official Statements from the printer, and may also arrange, at his total expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Bonds. The City assumes no responsibility or obligation for the distribution or delivery of any of these copies to any one other than the Purchaser.

Additional Copies of Notice, Bid Form and Statement . . . A limited number of additional copies of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, as available over and above the normal mailing, may be obtained at the offices of First Southwest Company, Investment Bankers, 900 Mercantile Bank Building, Dallas, Texas 75201, Financial Advisors to the City.

The City reserves the right to reject any and all bids and to waive irregularities, except time of filing.

The Official Statement will be approved as to form and content and the use thereof in the offering of the Bonds will be authorized, ratified and approved by the City Council on the date of sale, and the Purchaser will be furnished, at the time of payment for and delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials.

DAN DAVIDSON
City Manager

ATTEST:

GRACE MONROE
City Clerk

May 7, 1981

BOND YEARS

Year	Amount	Bond Years	Accumulated Bond Years	Year
1987	$1,800,000	11,399.994	11,399.994	1987
1988	1,800,000	13,199.994	24,599.988	1988
1989	1,800,000	14,999.994	39,599.982	1989
1990	1,800,000	16,799.994	56,399.976	1990
1991	1,800,000	18,599.994	74,999.970	1991
1992	1,800,000	20,399.994	95,399.964	1992
1993	1,800,000	22,199.994	117,599.958	1993
1994	1,800,000	23,999.994	141,599.952	1994
1995	1,800,000	25,799.994	167,399.946	1995
1996	1,800,000	27,599.994	194,999.940	1996
1997	1,800,000	29,399.994	224,399.934	1997
1998	1,800,000	31,199.994	255,599.928	1998
1999	1,800,000	32,999.994	288,599.922	1999
2000	1,800,000	34,799.994	323,399.916	2000
2001	1,800,000	36,599.994	359,999.910	2001
Average Maturity				13.333 Years

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

OFFICIAL STATEMENT

Dated May 7, 1981

INTEREST EXEMPT, IN THE OPINION OF BOND COUNSEL, FROM PRESENT FEDERAL INCOME TAXES UNDER EXISTING STATUTES, REGULATIONS, RULINGS AND COURT DECISIONS

$27,000,000

City of Austin, Texas

(Travis and Williamson Counties)

Utility System Revenue Bonds, Series 9

Dated: June 1, 1981 — Denomination: $5,000

Principal and semi-annual interest (April 1 and October 1) payable at
The American National Bank of Austin, Austin, Texas,
or, at the option of the holder, at
Citibank, N.A., New York, New York.
First interest coupon due October 1, 1981.
Coupon bearer bonds, not registrable.

MATURITY SCHEDULE

Amount	Maturity	Rate	Yield	Amount	Maturity	Rate	Yield
$1,800,000	10-1-1987			$1,800,000	10-1-1995*		
1,800,000	10-1-1988			1,800,000	10-1-1996*		
1,800,000	10-1-1989			1,800,000	10-1-1997*		
1,800,000	10-1-1990			1,800,000	10-1-1998*		
1,800,000	10-1-1991			1,800,000	10-1-1999*		
1,800,000	10-1-1992*			1,800,000	10-1-2000*		
1,800,000	10-1-1993*			1,800,000	10-1-2001*		
1,800,000	10-1-1994*						

* The City reserves the right, at its option, to redeem the Bonds maturing 10-1-1992 through 10-1-2001, both inclusive, in whole or any part thereof, on 10-1-1991, or any interest payment date thereafter, at the par value thereof, plus accrued interest to the date fixed for redemption.

Payment Record: The City has never defaulted on its Revenue Bonds. There has been no default on General Obligation Bonds since 1900. As a matter of historical interest, the General Obligation debt was refunded at par with a voluntary reduction in interest rate following a disastrous flood in April, 1900, which destroyed the City's dam, water plant and power station. The City was in default prior to this time because it had not appropriated available funds to the payment of interest due January 1, 1900, on Water and Light Bonds.

Legality: Attorney General of the State of Texas, and
Messrs. Dumas, Huguenin, Boothman & Morrow, Attorneys, Dallas, Texas.
(Opinion Printed on the Bonds; See Legal Opinions.)

Delivery: Anticipated on or about June 30, 1981

TABLE OF CONTENTS

The cover page hereof, this page, and any addenda, supplement or amendment hereto, are part of the Official Statement.

A copy of the Annual Financial Report for the Fiscal Year Ending September 30, 1980, is available under separate cover.

ELECTED OFFICIALS

(All Terms Expire 5-15-81)

Carole Keeton McClellan	Mayor
Lee Cooke	Councilmember
Richard Goodman	Councilmember
Betty Himmelblau	Councilmember
Ron Mullen	Councilmember
Vacancy	Councilmember
John Trevino, Jr.	Councilmember

The City Council election for all members, including the Mayor, was held April 4, 1981; with a run off to be held May 2, 1981. The new City Council will be seated on May 15, 1981.

APPOINTED OFFICIALS

Name	Position and Length of Time in This Position		Length of Employment with City of Austin
Dan Davidson	City Manager	for 9½ Years	11½ Years
Philip B. Scheps	Director of Finance	for ⅙ Year	⅙ Year
Jerry L. Harris	City Attorney	for 5 Years	12 Years
Grace Monroe	City Clerk	for 6½ Years	33 Years
John German	Director of Public Works	for 4 Years	11½ Years
R. L. Hancock	Director of Electric Utility	for 10½ Years	32 Years
William P. Bulloch	Director of Water and Wastewater	for 1½ Years	8 Years
Jack Klitgaard	Tax Assessor-Collector	for 17½ Years	29 Years
Robert W. Bramlett*	City Auditor	for 2 Years	2 Years

CONSULTANTS AND ADVISORS

Auditors	Peat, Marwick, Mitchell & Co., Austin, Texas
Consulting Engineers	Bovay Engineers, Inc. Houston, Texas
Bond Counsel	Dumas, Huguenin, Boothman & Morrow Dallas, Texas
Financial Advisors	First Southwest Company Dallas, Texas

* Acting Director of Finance until March 16, 1981.

OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere herein.

The Issue

$27,000,000 Electric System Nuclear Revenue Bonds, Series 9 ("Bonds") of the City of Austin, Texas ("City") issued pursuant to an ("Ordinance") adopted by the City Council on April 9, 1981 constituting the fourth series of $215,850,000 of revenue bonds authorized by the City Council on April 7, 1979.

Use of Bond Proceeds

$27,000,000 Electric System Nuclear Revenue Bonds will be used for progress payments for the South Texas Project.

Source of Payment

These Bonds will constitute special obligations of the City of Austin, payable as to both principal and interest and equally secured by a first lien on and pledge of the net revenues of the City's combined Electric Light and Power, Waterworks, and Sewer System and are in all things on a parity with all outstanding and unpaid previously issued parity bonds (as herein defined).

Payment Record

The City has never defaulted on its Revenue Bonds. There has been no default on General Obligation bonds since 1900. As a matter of historical interest, the General Obligation debt was refunded at par with a voluntary reduction in interest rate following a disastrous flood in April, 1900 which destroyed the City's dam, water plant and power station. The City was in default prior to this time because it had not appropriated available funds to the payment of interest due January 1, 1900 on Water and Light Bonds.

Legal Investments in Texas

Under Texas law, the Bonds are legal investments for sinking funds of Texas counties, cities, and towns. The Bonds are eligible to secure Texas state, county, city and school district funds and constitute legal investments for insurance companies in the State of Texas.

Ratings

Moody's Investors Service, Inc.	Ratings have been applied for
Standard & Poor's Corporation	

SECURITY FOR PAYMENT

These bonds (the "Bonds"), authorized at elections, will constitute special obligations of the City of Austin, payable as to both principal and interest and equally secured by a first lien on and pledge of the net revenues of the City's combined Electric Light and Power, Waterworks and Sewer System and are in all things on a parity with all outstanding and unpaid previously issued parity bonds (as herein defined). The City, however, expressly reserves the right to issue additional bonds or incur contractual obligations payable from such net revenues in all things on a parity with the Bonds and previously issued parity bonds, provided, however, that any and all such further bonds or contractual obligations may be so issued or incurred only in accordance with and subject to the covenants, conditions, limitations and restrictions relating thereto which are set forth and contained in the Ordinance authorizing this series of bonds and to which said Ordinance reference is hereby made for more complete and full particulars.

CONDENSED OPERATING STATEMENT

ELECTRIC LIGHT AND POWER, WATERWORKS AND SEWER SYSTEM

(With Fuel Cost Adjustment)

	12 Months Ended 2-28-81(a)	12 Months Ended 9-30-80
INCOME		
Electric Utility	$219,817,833	$207,213,796
Water Utility	22,565,120	22,766,377
Wastewater Utility	11,408,708	12,023,520
Miscellaneous Utility	17,687,900	16,955,352
Total Income	$271,479,561	$258,959,045
EXPENSES		
Electric Utility	$140,156,936	$129,949,440
Water Utility	11,262,493	10,541,957
Wastewater Utility	7,176,208	6,650,269
Total Expenses	$158,595,637	$147,141,666
NET INCOME AVAILABLE FOR DEBT SERVICE	$112,883,924	$111,817,379
Recoverable Fuel Costs Excluded from Expense(b)	$ 2,577,208	$ 3,193,251
Electric Customers	165,760	163,182
Water Customers	110,764	108,990
Wastewater Customers	98,792	97,046

(a) 2-28-81 figures are not audited.

(b) Recoverable fuel costs reflected in the Utility Fund have been deferred based upon a fuel cost adjustment formula in use from 1973 to March 31, 1978, designed to bill electric utility customers for fuel costs in excess of 18¢ per 1 MM BTU's on a six-month moving average. A new utility rate schedule was implemented on April 1, 1978, to bill, on a monthly basis, the estimated actual fuel cost incurred from that date. The remaining unbilled balance of the recoverable fuel cost of $20,685,800 was scheduled to be billed to customers beginning October 1, 1979, to September 30, 1983, in accordance with a rate surcharge ordinance passed by the City Council during 1978. The recoverable amount to be billed to customers was reduced significantly with the final settlement of the Coastal States/Lo-Vaca Gathering lawsuit on December 31, 1979, which provided Austin with approximately 5.9% ownership in the settlement trust established by the courts. At March 31, 1980, Austin's share of the trust was valued at $10,637,767. The lawsuit, in addition, allowed the City to release a contingency reserve created by the withholding of payments to Lo-Vaca Gathering Company from February, 1973, through January, 1976. This reserve, including accrued interest, totaled $4,486,373, at September 30, 1979, and has been applied as a reduction to recoverable fuel cost in the fiscal year 1979 annual report. The City Council, on March 6, 1980, authorized the application of Austin's assets in the Lo-Vaca/Valero Trust to the recoverable fuel cost balance which, along with the customer billings from October 1, 1979, through February 28, 1981, reduced the outstanding recoverable fuel cost to $2,577,208 on February 28, 1981.

COVERAGE FACTORS AND OUTSTANDING BONDS

Maximum principal and interest requirements, 2002, all outstanding First Lien Utility System Revenue Bonds and these Series 9 Bonds at an assumed interest rate of 9.9%	$ 59,328,500
Coverage of maximum requirements by 2-28-81 Net Income	1.90 times
Utility System Revenue Bonds outstanding, 2-28-81, and the Bonds	$547,780,000*
Electric, Waterworks and Sewer System Refunding Revenue Bonds outstanding, 2-28-81	$313,715,000**

*Before payment of $1,000,000 on 4-1-81 for Utility System Revenue Bond Debt Service.

**Before payment of $5,185,000 on 4-1-81 for Refunding Revenue Bond Debt Service.

OPERATING STATEMENT

ELECTRIC LIGHT AND POWER, WATERWORKS AND SEWER SYSTEM

REVENUE	Fiscal Year Ended				
ELECTRIC UTILITY	9-30-80	9-30-79	9-30-78	9-30-77	9-30-76
Domestic / Rural — Residential	$ 75,377,989	$ 57,095,139	$ 60,449,943	$ 55,318,072	$ 47,773,026
Commercial — General	98,153,782	83,228,118	82,036,727	64,340,363	58,893,256
City Utility Department	3,986,551	3,075,900	3,328,592	1,764,433	1,221,870
Public Street Lighting	2,681,297	2,458,837	1,678,593	865,783	436,808
City General Government Departments	1,435,675	1,190,983	1,233,840	1,241,608	637,929
Sales to Other Utilities Including Capacity Contract (a)	23,417,563	638,359	–0–	–0–	
Rent from Electric Property	148,866	109,356	101,313	105,495	126,704
Customers' Forfeited Discounts and Penalties	1,092,134	911,434	1,651,577	2,324,231	1,637,240
Miscellaneous	919,939	345,328	327,157	269,692	199,422
Receivables, Adjustments, Etc. (b)	–0–	–0–	–0–	(1,274,379)	(1,137,033)
Total Electric Utility	$207,213,796	$149,053,454	$150,807,742	$124,955,298	$110,177,644
WATER UTILITY					
Urban	$ 16,751,736	$ 12,219,526	$ 14,146,315	$ 9,951,870	$ 10,208,632
Rural	2,968,263	2,041,540	2,330,484	1,647,706	1,383,365
City Utility Departments	331,068	407,743	335,205	369,059	279,782
City General Government Departments	583,120	237,770	481,958	451,355	313,742
Austin Public Schools	–0–	–0–	–0–	–0–	37,226
Sales to Other Water Utilities	573,233	365,274	399,936	506,141	356,976
Receivables, Adjustments, Etc. (b)	–0–	–0–	–0–	(127,286)	(129,964)
Water Connections	1,009,833	928,635	1,469,362	768,327	411,182
Customers' Forfeited Discounts	160,212	155,488	73,720	–0–	–0–
Miscellaneous	388,912	252,525	269,535	194,793	200,758
Total Water Utility	$ 22,766,377	$ 16,608,501	$ 19,506,515	$ 13,761,965	$ 13,061,699
SEWER UTILITY					
Urban	$ 10,523,976	$ 9,420,981	$ 9,198,834	$ 8,604,308	$ 7,912,503
Rural	113,626	79,196	70,114	121,810	161,242
City Utility Departments	5,095	5,000	6,607	7,937	8,958
City General Government Departments	93,619	72,928	77,306	82,525	84,669
Austin Public Schools	–0–	–0–	–0–	–0–	17,571
Sewer Connections	773,662	823,881	745,974	515,422	455,045
Customers' Forfeited Discounts	95,727	81,416	36,558	–0–	–0–
Rent from Sewer Property	140	1,404	1,232	1,028	1,034
Miscellaneous	417,675	63,048	544,818	15,410	64,083
Receivables, Adjustments, Etc. (b)	–0–	–0–	–0–	(87,261)	(91,732)
Total Sewer Utility	$ 12,023,520	$ 10,547,854	$ 10,681,443	$ 9,261,179	$ 8,613,373
Interest and Other	$ 16,955,352	$ 11,671,592	$ 6,671,451	$ 4,225,356	$ 3,659,234
TOTAL REVENUES	$258,959,045	$187,881,401	$187,667,151	$152,263,793	$134,911,950

OPERATING STATEMENT

ELECTRIC LIGHT AND POWER, WATERWORKS AND SEWER SYSTEM — Continued

	Fiscal Year Ended 9-30-80	9-30-79	9-30-78	9-30-77	9-26-76
EXPENSE					
ELECTRIC UTILITY					
Production	$118,237,110	$ 83,965,35[illegible]	$ 86,300,[illegible]63	$64,328,558	$ 56,837,492
Distribution	5,488,455	4,640,023	4,602,672	3,638,065	3,913,033
Transmission	361,948	218,894	195,259	157,583	–0–
Customers' Accounting and Collection	2,388,590	2,330,124	2,242,677	1,895,218	1,149,935
Sales Promotion	–0–	124,121	182,160	156,321	127,672
Jobbing and Contract Work	51,410	258,647	67,581	(9,897)	46,292
Administrative and General	3,173,760	2,436,077	4,920,652(b)	810,588	692,279
Engineering	248,167	16,066	46,520	31,367	78,837
Total Electric Utility	$129,949,446	$ 93,989,803	$ 97,957,545	$71,007,593	$ 62,845,450
WATER UTILITY					
Pumping Plant	$ –0–	$ –0–	$ –0–	$ –0–	$ –0–
Purification	4,902,489	3,833,244	3,720,089	2,669,977	2,308,781
Distribution	4,508,353	3,423,345	3,230,416	2,952,532	2,127,950
Customers' Accounting and Collection	978,606	940,225	862,528	762,848	866,162
Jobbing and Contract Work	34,862	58,706	(6,518)	(107,976)	235,393
Administrative and General	117,617	223,192	609,976(b)	111,771	421,970
Total Water Utility	10,541,957	$ 8,478,712	$ 8,416,491	$ 6,419,252	$ 5,960,256
SEWER UTILITY					
Sewer Lines	2,359,493	$ 1,859,471	$ 1,351,498	$ 1,590,644	$ 1,668,137
Sewage Treatment Plant	3,032,429	2,590,152	2,350,981	1,180,004	1,078,911
Jobbing and Contract Work	(6,056)	2,969	17,176	14,433	(17,915)
Administrative and General	487,590	153,867	312,409(b)	48,051	260,401
Design Engineering	(74,517)	72,803	35,594	46,965	65,366
Customers' Accounting and Collection	851,330	817,587	750,024	663,346	783,786
Total Sewer Utility	6,650,269	$ 5,496,389	$ 5,397,682	$ 3,543,443	$ 3,838,686
TOTAL EXPENSE (c)	147,141,666	$107,964,864	$111,771,718	$80,970,588	$ 72,644,392
NET REVENUE AVAILABLE FOR DEBT SERVICE	111,817,379	$ 79,918,537	$ 75,895,433(b)	$71,233,210	$ 62,267,558
Electric Customers	163,182	154,682	144,115	137,376	124,121
Water Customers	108,990	104,804	99,989	98,579	91,654
Sewer Customers	97,046	93,160	87,159	85,790	81,850

(a) Primarily revenues from a capacity contract with Houston Lighting and Power Company. (See Capacity Contracts, Page 20).

(b) Revenues and expenses for the years ended September 30, 1978 and 1979, reflect the provision for doubtful collection of accounts receivable in general and administration expenses. These provisions are reflected net in revenues in prior years.

(c) All interest expense is included in this statement except for interest on revenue bonds. In the Annual Financial Report, the interest is shown separately in compliance with AICPA requirements. Depreciation expenses are not included in this schedule. See "Comparative Analysis of Utility Operations".

FUND BALANCES
(As of 2-28-81)

Utility System Revenue Bonds:	
Interest and Sinking Fund	$ 12,887,454
Reserve Fund	$ 16,024,007
Electric, Waterworks and Sewer System Refunding Revenue Bonds:	
Interest and Sinking Fund	$ 16,863,000
Reserve Fund	$ 30,000,000

AUTHORIZED REVENUE BONDS

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
Water Improvements	11-20-76	$ 32,237,000	$ 26,065,000	–0–	$ 6,172,000
Sewer Improvements	11-20-76	46,920,000	29,920,000	–0–	17,000,000
Electric System Improvements	1-20-79	23,810,000	23,810,000	–0–	–0–
Electric System Nuclear(a)	4-7-79	215,850,000	97,000,000	$27,000,000	91,850,000
		$318,817,000	$176,795,000	$27,000,000	$115,022,000

(a) The issuance of these bonds is restricted to participation in the South Texas Project and purchase of nuclear fuel.

The City anticipates issuing approximately $40,000,000 Bonds in August, 1981. The decisions for issuance of future indebtedness will be made later.

ANTICIPATED NEW BONDING AUTHORITY

The City Council is currently considering the submission to the voters for a referendum to obtain additional bond authority.

COMPARATIVE ANALYSIS OF UTILITY OPERATIONS

October 1, 1975 to September 30, 1980
(Thousands Rounded)

	Fiscal Year Ended					
	9-30-76	(b) 9-30-77	9-30-78	9-30-79	9-30-80	5 Year Increase
Dollars						
Revenue	$134,912	$152,210	$187,667	$187,881	$258,959	192%
Operating Expense	72,644	80,971	111,772	107,965	147,142	203%
Balance Available for Debt Service	$ 62,268	$ 71,239	$ 75,895	$ 79,916	$111,817	180%
Depreciation Expense	9,804	10,727	13,289	16,980	21,689	221%
Earnings Before Interest Expense	$ 52,464	$ 60,512	$ 62,606	$ 62,936	$ 90,128	172%
Interest Incurred on Debt	15,123	22,248	29,203	37,999	47,104	311%
Less Interest Capitalized	(7,545)	(12,663)	(18,197)	(20,243)	(16,146)	214%
NET INCOME(a)	$ 44,886	$ 50,927	$ 51,600	$ 45,180	$ 59,170	132%
Percentages						
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	
Operating Expense	53.85%	53.20%	59.56%	57.46%	56.82%	
Balance Available for Debt Service	46.15%	46.80%	40.44%	42.54%	43.18%	
Depreciation Expense	7.26%	7.05%	7.08%	9.04%	8.38%	
Earnings Before Interest Expense	38.89%	39.75%	33.36%	33.50%	34.80%	
Interest Incurred on Debt	11.21%	14.62%	15.56%	20.22%	18.19%	
Less Interest Capitalized	(5.59%)	(6.75%)	(9.70%)	(10.77%)	(6.23%)	
NET INCOME	33.27%	31.88%	27.50%	24.05%	22.84%	

(a) Years prior to September 30, 1978, have been restated to give effect to interest capitalized on fixed assets.

(b) Year ended September 30, 1977, has been restated to conform to the audited financial statements.

DEBT SERVICE REQUIREMENTS AS OF MAY 7, 1981

Calendar Year	Outstanding First Lien Bonds			Series 9 First Lien Bonds		
	Principal	Interest	Total	Principal	Interest	Total
1981	$ 1,000,000	$ 16,734,591	$ 17,734,591	$	$ 890,991	$ 890,991
1982	2,800,000	33,342,690	36,142,690		2,673,000	2,673,000
1983	3,200,000	33,148,190	36,348,190		2,673,000	2,673,000
1984	3,300,000	32,934,440	36,234,440		2,673,000	2,673,000
1985	3,675,000	32,707,689	36,382,689		2,673,000	2,673,000
1986	6,950,000	32,459,503	39,409,503		2,673,000	2,673,000
1987	10,275,000	31,960,877	42,235,877	1,800,000	2,673,000	4,473,000
1988	10,575,000	31,155,189	41,730,189	1,800,000	2,494,800	4,294,800
1989	11,085,000	30,323,253	41,408,253	1,800,000	2,316,600	4,116,600
1990	12,295,000	29,437,340	41,732,340	1,800,000	2,138,400	3,938,400
1991	13,340,000	28,501,019	41,841,019	1,800,000	1,960,200	3,760,200
1992	14,660,000	27,517,328	42,177,328	1,800,000	1,782,000	3,582,000
1993	16,620,000	26,503,652	43,123,652	1,800,000	1,603,800	3,403,800
1994	18,250,000	25,402,578	43,652,578	1,800,000	1,425,600	3,225,600
1995	20,335,000	24,205,202	44,540,202	1,800,000	1,247,400	3,047,400
1996	22,525,000	22,892,738	45,417,738	1,800,000	1,069,200	2,869,200
1997	24,850,000	21,443,926	46,293,926	1,800,000	891,000	2,691,000
1998	28,280,000	19,764,500	48,044,500	1,800,000	712,800	2,512,800
1999	31,570,000	17,907,560	49,477,560	1,800,000	534,600	2,334,600
2000	36,075,000	15,819,650	51,894,650	1,800,000	356,400	2,156,400
2001	40,620,000	13,496,425	54,116,425	1,800,000	178,200	1,978,200
2002	48,500,000	10,828,500	59,328,500			
2003	44,000,000	8,063,500	52,063,500			
2004	38,500,000	5,724,500	44,224,500			
2005	39,500,000	2,901,250	42,401,250			
2006	17,000,000	806,000	17,806,000			
TOTALS	$519,780,000	$575,982,090	$1,095,762,090	$27,000,000	$35,639,991	$62,639,991

Note: Interest on the Series 9 First Lien Bonds has been calculated at the rate of 9.9% for purposes of illustration.

Total First Lien Bonds	Refunding Second Lien Bonds			Grand Total Requirements	% of Principal Retired
	Principal	Interest	Total		
$ 18,625,582	$ 4,865,000	$ 9,767,440	$ 14,632,440	$ 33,258,022	
38,815,690	11,550,000	19,096,680	30,646,680	69,462,370	
39,021,190	12,180,000	18,436,420	30,616,420	69,637,610	
38,907,440	12,820,000	17,758,400	30,578,400	69,485,840	
39,055,689	13,470,000	16,993,163	30,463,163	69,518,852	8.05%
42,082,503	14,285,000	16,148,312	30,433,312	72,515,815	
46,708,877	15,095,000	15,283,486	30,378,486	77,087,363	
46,024,989	16,025,000	14,340,272	30,365,272	76,390,261	
45,524,853	16,865,000	13,302,510	30,167,510	75,692,363	
45,670,740	17,050,000	12,275,575	29,325,575	74,996,315	24.15%
45,601,219	17,480,000	11,215,215	28,695,215	74,296,434	
45,759,328	17,780,000	10,061,040	27,841,040	73,600,368	
46,527,452	17,535,000	8,886,570	26,421,570	72,949,022	
46,878,178	17,620,000	7,727,775	25,347,775	72,225,953	
47,587,602	17,460,000	6,574,590	24,034,590	71,622,192	45.20%
48,869,938	17,240,000	5,420,910	22,660,910	71,530,848	
48,984,926	17,065,000	4,281,915	21,346,915	70,331,841	
50,557,300	15,890,000	3,153,975	19,043,975	69,601,275	
51,812,160	15,000,000	2,136,915	17,136,915	68,949,075	
54,051,050	13,095,000	1,141,305	14,236,305	68,287,355	72.16%
56,094,625	8,160,000	368,280	8,528,280	64,622,905	
59,328,500				59,328,500	
52,063,500				52,063,500	
44,224,500				44,224,500	
42,401,250				42,401,250	98.01%
17,806,000				17,806,000	100.00%
$1,158,985,081	$308,530,000	$214,370,748	$522,900,748	$1,681,885,829	

VALUE OF THE SYSTEMS

	Fiscal Year Ended				
	9-30-80	9-30-79	9-30-78	9-30-77	9-30-76
Utility Plant:					
Electric	$ 881,710,370	$ 752,387,489	$599,998,382	$462,640,065	$361,285,594
Water	153,494,174	143,998,294	138,108,893	129,024,075	122,729,719
Sewer	159,019,632	150,533,135	142,725,264	133,358,585	124,119,619
Total Value	$1,194,224,176	$1,046,918,918	$880,832,539	$725,022,725	$608,134,932
Reserve for Depreciation:					
Electric	$ 105,842,084	$ 89,779,929	$ 78,865,125	$ 68,413,047	$ 61,004,776
Water	30,502,448	27,289,569	25,303,850	22,369,653	20,578,097
Sewer	20,852,992	18,281,509	16,078,155	13,416,770	11,740,697
Total Depreciation	$ 157,197,524	$ 135,851,007	$120,247,130	$104,199,470	$ 93,323,570
Value After Depreciation	$1,037,026,652	$ 911,067,911	$760,585,409	$620,823,255	$514,811,362

CITY'S EQUITY IN UTILITY SYSTEMS

	Fiscal Year Ended				
	9-30-80	9-30-79	9-30-78	9-30-77	9-30-76
Utility Plant	$1,194,224,176	$1,046,918,918	$880,832,539	$725,022,725	$608,134,932
Plus: Inventories, Materials and Supplies*	–0–	–0–	28,540	–0–	–0–
Construction Cash	21,249,598	114,997,073	46,265,264	38,792,074	10,793,878
	$1,215,473,774	$1,161,915,991	$927,126,343	$763,814,799	$618,928,810
Less: Reserve for Depreciation	157,197,524	$ 135,851,007	$120,247,130	$104,199,470	$ 93,323,570
Revaluation of Properties	–0–	–0–	–0–	2,993,773	3,232,730
Customers' Advances for Construction	16,825,652	16,956,653	17,403,931	18,976,429	20,416,207
	$ 174,023,176	$ 152,807,660	$137,651,061	$126,169,672	$116,972,507
Utility Plant, Net	$1,041,450,598	$1,009,108,331	$789,475,282	$637,645,127	$501,956,303
Net Debt:					
Revenue Bonds Outstanding	783,310,000	$ 749,705,000	$553,855,000	$434,885,000	$319,345,000
Less:					
Bond Principal Retirement and Reserve Fund	44,564,908	39,405,610	27,435,695	27,893,412	24,446,390
Net Debt	$ 738,745,092	$ 710,299,390	$526,419,305	$406,991,588	$294,898,610
City's Equity in Utility Plant	$ 302,705,506	$ 298,808,941	$263,055,977	$230,653,539	$207,057,693
Percentage of City's Equity	29.07%	29.61%	33.32%	36.17%	41.25%

* Does not include fuel oil or coal inventories of approximately $20,000,000.

Note: Net Utility Plant and Net Debt have been restated from previous Official Statements to reflect Construction Cash as a part of the Utility Plant rather than a reduction to revenue bonds outstanding.

Capitalized interest is included in the preceding figures as follows:

Fiscal Year Ended 9-30-76	$ 7,544,789
Fiscal Year Ended 9-30-76	7,544,789
Fiscal Year Ended 9-30-77	12,662,648
Fiscal Year Ended 9-30-78	18,197,408
Fiscal Year Ended 9-30-80	16,145,683
Total	$74,793,820

THE ELECTRIC, WATERWORKS AND WASTEWATER SYSTEMS

The City owns and operates a combined utilities system (the "System") which provides the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and sewer service. The City owns all the facilities of the water and sewer systems and owns all existing facilities of the electric system. As described below, the City owns participations with other utility systems in coal and nuclear facilities of the electric system currently under construction. There follows a description of the System, the service areas, operations and responsibilities, existing facilities and current construction.

THE ELECTRIC SYSTEM

Service Area and Customers

The City's electric utility system (the "Electric System") currently serves an area of 121.3 square miles comprising the corporate limits of the City and an additional 300 square mile area lying beyond the corporate limits. The Electric System's service area has been experiencing growth in population in recent years, mainly in the City and adjoining areas. The City's population in 1980 was estimated to be 345,109. The Electric System has approximately 166,000 customers in 1981, an increase of approximately 7% over the previous year. The Electric System expects continued growth in the number of customers and power demand from both residential and commercial users. Thus, its current construction and diversification program is designed to meet existing and future requirements of its service area.

The Electric System's main sources of revenue are residential and commercial customers within the service area, which together accounted for approximately 85% of revenues for the twelve months ending 9-30-80. The City has entered into a power sales contract with Houston Lighting & Power Company pursuant to which the City has agreed to supply 800 MW (megawatts) of capacity for calendar years 1981 through 1987.

The following table lists the ten largest users of electric power in the System for the twelve months ending 9-30-80, which in total represent 7% of sales revenues:

MAJOR ELECTRIC ACCOUNTS

Fiscal Year Ending 9-30-80

Account	KW Demand	Revenue
Texas Instruments	11,616 KW	$3,142,021
Motorola, Inc.	7,920 KW	2,528,453
IBM Corporation	10,152 KW	2,349,410
Bergstrom Air Force Base	10,848 KW	2,296,286
State Capitol Complex	3,960 KW	927,853
Highland Mall	3,600 KW	678,652
Austin State Hospital	3,204 KW	613,857
Texas Highway Department	2,268 KW	577,330
Seton Medical Center	1,845 KW	570,849
State Health Department	2,466 KW	565,101

Existing Facilities

Generating Stations. The Electric System currently operates three steam generating plants with a total of eleven turbine generators. These power plants are located along the north bank of the Colorado River and along an off-stream impounded pond, east of the downtown area of the City. The existing facilities have a total station generating capacity of 1,400,000 KW (kilowatts) consisting of the following:

4 – 20,000 KW Turbine Generators	(installed 1951 and 1955)	– Seaholm Power Plant
1 – 40,000 KW Turbine Generator	(installed 1958)	– Seaholm Powe. Plant
2 – 100,000 KW Turbine Generators	(installed 1960 and 1964)	– Holly Street Power Plant
1 – 165,000 KW Turbine Generator	(installed 1966)	– Holly Street Power Plant
1 – 325,000 KW Turbine Generator	(installed 1970)	– Decker Power Station
1 – 190,000 KW Turbine Generator	(installed 1974)	– Holly Street Power Plant
1 – 400,000 KW Turbine Generator	(installed 1977)	– Decker Power Station

In addition to these units operated by the City of Austin, Austin is a 50% owner in the Fayette Power Project, consisting of 2 – 550 M.W. Western coal fired units. Both of these units are now classified as commercial.

Distribution System. The Electric System is composed of approximately 8,220 miles of distribution lines and an underground secondary network system serving the business area of the City. This system consists of 24 primary feeders with approximately 160,800 KVA of network transformers with their associated protectors.

Transmission System. The transmission system consists of a 69 KV and 138 KV transmission grid with a 345 KV transmission system connecting the remote coal plant to the Austin system. The existing 69 KV and 138 KV transmission system consists of 146 miles of the line, 31 substations with 1,743,000 KVA in transformation. The City of Austin has completed 55 miles of 345 KV transmission line from its Austrop Substation in Travis County to the Fayette Power Project. In addition to this, Austin is a 50% owner in 64 miles of 345 KV transmission line recently placed in service from the Fayette Power Project to an interconnection with the Lower Colorado River Authority ("LCRA") system approximately 20 miles south of the City of Austin. This circuit provides the second interconnection from the Fayette Power Project back into Austin's electrical utility system. Construction is underway on 70 miles of 345 KV transmission line from the South Texas Project to the existing 345 KV transmission system. Completion is anticipated before January 1982.

Interconnections with Other Systems. The Electric System is interconnected with the LCRA, a hydro-electric and steam system, with whom the City has a power interchange agreement. In addition, the City is a member of the Texas Interconnected System, which is composed of six major investor owned systems, three major municipal systems, one municipal Joint Agency representing four cities and two cooperatives. As a participant in the Texas Interconnected System, the City's Electric System is able to buy from and sell to other members of such system. The diversification of the fuel sources of the member systems increases the potential for economic interchanges among the respective systems. The Electric System will be able to sell its power to other members during periods of excess capacity, and purchase from other members during periods of high demand. This arrangement generally provides for the possibility of maximizing the use of the less expensive fuel sources by all members of the interconnected system. The mechanics of such arrangements will be greatly enhanced by the completion of the 345 KV transmission line to STP because it will directly connect Austin to 3 other electric utilities.

Major Construction Program

In response to the short supply of natural gas as a fuel source for power plant boilers and the high cost of natural gas, the City developed and is currently implementing a generation plan that will lessen the Electric System's dependence on natural gas as a source of boiler fuel by the construction of power facilities that will make use of coal (the Fayette Power Project), and uranium (the South Texas Project). It is expected that these efforts will result in a significant lessening of the System's dependence on natural gas by the early 1980's and will, in the mid 1980s, enable the Electric System to limit the operation of existing gas fired facilities to "peaking" capability, thereby establishing solid fuel facilities as the "base load" generating mode of the System.

The classification of the two units at the Fayette Power Project as commercial marks the completion of one-half of the long range Generation Plan. The remaining portion of the Generation Plan, the South Texas Project, is scheduled for completion in the mid 1980's, and will further reduce Austin's previous 100% dependence on oil and natural gas to approximately 10%.

On January 20, 1979 the citizens of Austin approved the borrowing authority of the City in the amount of $82,400,000 for certain capital improvements in fiscal years 1978-79 and 1979-80. The borrowing authority encompasses the financing of transmission, distribution, substation, street-lighting improvements and completion of the construction program at the Fayette Power Plant Project.

In a January 20, 1979, referendum, the citizens of Austin declined to authorize a reduction in the City's participation in the South Texas Project to a level consistent with then existing borrowing authority ($161,000,000). A subsequent referendum on April 7, 1979, resulted in citizen approval of a continued 16% participation by the City in the South Texas Project. Additional borrowing authority of $215,850,000 was also approved for financing of the plant and the purchase of nuclear fuel.

Fayette Power Project. The Fayette Power Project is a joint power project (50% per participant) undertaken by LCRA and the City. Pursuant to the participation agreement, LCRA was appointed Project Manager and established a Management Committee composed of two representatives from each participant to direct the development and operation of the project. The project consists of the installation of two 550 MW generation units utilizing western coal as a fuel source. The location of the Fayette Power Project is approximately 8½ miles east of LaGrange, located between LaGrange and Fayetteville in Fayette County.

Coal deliveries began in January, 1979. Unit No. 1 and common facilities were classified commercial June 16, 1979. Unit No. 2 is identical to Unit No. 1 and was classified commercial May, 1980. The project was completed ahead of schedule and it is estimated final cost will be slightly under budget. It is estimated that 70% of Austin's electrical energy in fiscal year 1981 will be from coal. The City's portion of plant cost for both units is anticipated to be $215,500,000, with $208,295,000 invested in the project as of February 28, 1981. The utilization of coal in 1981 instead of natural gas as a boiler fuel will reduce the fuel cost approximately $31,000,000. This economic advantage is expected to increase in the future.

South Texas Project. The South Texas Project is a jointly owned nuclear fueled facility, located in Matagorda County between Bay City and Palacios. The participants in the project are Houston Lighting & Power, Central Power and Light, City Public Service of San Antonio, and the City. The City and City Public Service are municipal entities. Houston Lighting & Power and Central Power and Light are investor owned utilities. The City of Austin entered into the project subsequent to bonding authority approved in November of 1973, and became a participant in the project after basic siting, construction, and equipment decisions were made. Pursuant to the participation contract executed by all participants in the Project, Houston Lighting & Power was designated as the Project Manager and a Management Committee was established which is composed of representatives of each participant. The decision-making authority of the representatives on the Management Committee is in direct relation to the dollar amount of their participation in the construction of Project.

The construction and eventual operation of the South Texas Facility are subject to the extensive regulatory requirements of the Nuclear Regulatory Commission (the "NRC"). The licensing status is covered in the section titled "Regulatory Matters".

The project consists of two 1,250 MW generating units. Austin's participation in the project is 16%, which when the project is fully operational will provide approximately 400 MW of generating capability.

The generator for Unit No. 1 has been set, the condensers installed, the low pressure turbines installed and many major pieces of equipment have been set. The river intake structure has been turned over to Houston Lighting & Power and is undergoing final tests and startup. The cooling water reservoir is essentially complete, and is suitable for filling. The nuclear reactor vessel for Unit No. 1 was set in July and the placement of the four large steam generators followed shortly. The current project schedule anticipates commercial status of Unit No. 1 for February, 1984, and commercial status of Unit No. 2 for February, 1986. Brown & Root, Inc. is Engineer-Constructor on the project. Currently there are approximately 3,600 employees at the project site. Due to the long time frame associated with a project of this type, equipment and construction costs are subject to considerable escalation. Currently, the total project cost is estimated by the Engineer-Constructor to be $2,720,000,000. Based on the cost and schedule estimates prepared in 1979, the City's dollar portion of that estimated expenditure is $435,200,000. The City's expenditure for its portion of the South Texas Project through February 28, 1981, is approximately $247,009,842.

The cost and schedule for the South Texas Project ("STP") was reviewed by a task force consisting of Houston Lighting & Power Company ("HLP") (the project manager), the architect-engineer constructor and an independent consulting firm. The STP Management Committee (Committee) engaged an independent engineering firm to review the task force's cost and schedule estimates. Based upon the Committee's review of the recommendations and findings of the task force and the independent engineering firm the Committee adopted a revised project cost of $2.72 billion and new commercial operation dates of February, 1984 and 1986 for Units Nos. 1 and 2, respectively. The units were previously scheduled for 1982 and 1983, respectively. The $2.72 billion consists of $2.441 billion baseline estimate, $124 million for allowances and $155 million as a reserve. To meet this cost and schedule it will be necessary to utilize selective overtime, multi shift operation, and increased work-force.

On April 28, 1980, the NRC issued a report on the results of a three-month investigation it had conducted into the adequacy of the construction and inspection procedures in the areas of quality assurance and safety for STP. The report concluded that HLP and the principal contractor for the project had failed to establish and maintain a program of quality assurance and quality control required to assure that STP will be constructed in accordance with NRC requirements. Included in the report were findings that quality control inspectors had been harassed, threatened and intimidated by construction personnel. While such acts were not found to have caused major deficiencies in any of the construction already completed, the report concluded that the potential for future significant construction deficiences existed if the quality assurance program for STP is not improved prior to proceeding to the more complex construction stages. The report also found that certain of STP's quality assurance procedures were inadequate, including those related to welder qualification, concrete placement and testing of soil densities. Based on such report, on April 30, 1980, the Director of the NRC's Office of Inspection and Enforcement (Enforcement Director) proposed that HLP be fined $100,000. The fine was paid by HLP on May 23, 1980. The NRC ordered HLP to show cause why safety-related construction activities on STP should not be stopped 90 days from the date of the order and remain stopped until such time as HLP complied with certain specified steps designed to assure the NRC that the program for quality assurance and quality control at STP meets NRC standards and that certain of the procedural deficiencies found in the report have been corrected. HLP responded fully to the Show Cause Order within the time constraint established by the NRC.

The NRC considered the informational response by HLP and conducted a public meeting August 19, 1980, in Bay City to view the responses publicly and to provide an opportunity for public input with respect to the project. Elements of the public, both in support of the nuclear project and in opposition to the nuclear project, had opportunities to express themselves. Strong project support was demonstrated from the local communities of Bay City and Palacios.

Subsequent to the public hearing, HLP submitted restart programs in three specific areas where the project had suspended safety-related work activity. These were in the areas of structural welding, pipe welding, and complex classified concrete placements. HLP and NRC agreed on limited controlled restart in all areas. Field construction in all these areas is progressing satisfactorily and project progress is accelerating.

The schedule and cost referred to previously was developed on the basis of single shift, 40-hour work weeks. As a result of the suspension of the above mentioned safety-related items, delays in critical path activities have been experienced, particularly in the area of cable tray hanger installation. It is not possible at this time to assess the magnitude, if any, of possible delays. However, there are opportunities for schedule recovery resulting from increased project manning levels, shift work, and selected overtime. As those areas previously suspended by the project regain normal productivity, alternative studies will be conducted to determine the degree of schedule recovery possible by utilizing shift work, increased manning levels, and selected overtime. It is anticipated that these studies will be completed in mid 1981.

The City of Brownsville, Texas has requested, through Central Power & Light Company, participation in the South Texas Project in the form of an undivided interest in the construction and operation of the two units currently under construction. Subsequent communications with the City of Brownsville will indicate more clearly their desires. The Austin City Council has authorized the City Manager to discuss with Brownsville the possibility of Austin selling to Brownsville the 50 MW of capacity in which they previously expressed an interest. Austin's current participation in the project is 400 MW. Austin cannot identify at this time the probability of Brownsville's entry into the project or the effect, if any, of their entry.

Sources of Fuel

Gas and Oil. The Electric Utility System has previously experienced varying degrees of curtailment of natural gas. These shortfalls in available gas have been made up by use of on-site fuel oil, and no curtailment to electric customers has been necessary or is anticipated.

The supply of natural gas from the supplier, Valero is much improved although subject to curtailment a few times a year. In such case fuel oil is used to replace the natural gas shortfall.

Certain modifications have been completed to improve the firing characteristics of existing boilers when firing in the fuel oil mode. Fuel oil burning capability was greatly increased with the operational status of Decker 2.

A number of customers of Coastal States Corporation ("Coastal States") and Lo-Vaca Corporation ("Lo-Vaca") initiated legal action to recover damages from Lo-Vaca resulting from their inability to meet the terms of their long term fixed price natural gas supply contracts. Major Coastal States and Lo-Vaca customers, and Coastal States Gas Corporation, Coastal States Gas Producing Company and Lo-Vaca, have arrived at a settlement which has been approved by all regulatory bodies.

In general, the settlement provided for the permanent separation from Coastal States Corporation of certain gas and other properties, and the formation of a new corporation (Valero Corporation) which is totally and permanently independent of Coastal States and any of their officers. The settlement includes the following provisions:

1. The board of directors was broadened to include an Austin businessman not employed or doing business with the City.
2. A customer trust fund was established to receive: (i) certain Coastal States common stock; (ii) certain Valero Corporation common stock; (iii) certain Valero Corporation preferred stock; and (iv) certain funds accruing from the gas search program.
3. A Gas Search Program was developed and funded by Coastal States Gas Corporation to dedicate certain new gas at a price discounted below market price, the cash benefits of which are to be distributed to the customers by means of a customer trust fund.

4. Coastal States Gas Corporation transferred to Valero certain Texas lignite holdings near Austin and the Fayette Power Project. These properties are available to the City, City Public Service, LCRA, and Central Power and Light, at book value if desired.

Coal. In conjunction with the development of the Fayette Power Project with LCRA, a decision was made to utilize low sulphur coal for Units No. 1 and No. 2 on the basis of economics, availability within the time constraints, and the status of sulphur removal technology.

The City has entered into a coal contract with Decker Coal Company for 50,000,000 tons of coal over a twenty-five year term. An additional coal supply contract has been executed with Atlantic Richfield Company for a fifteen year supply in the amount of approximately 27,000,000 tons. Transportation for both supplies will be by unit trains. The Decker mine is in the State of Montana and the Atlantic Richfield mine is in Wyoming.

The City of Austin and the LCRA have purchased 1,090 rotary dump railroad cars to move the coal from Montana and Wyoming to the Fayette Power Project. This reduces the transportation tariff, and places the control and management of the cars in the hands of Austin and LCRA. The railroads furnish the locomotives and are responsible for the delivery of the coal to the Fayette Power Project.

The State of Montana has imposed an ad valorem tax on coal extracted from that state. The rate of this tax varies between 20% to 30% depending upon the quality of the coal extracted. The City and ten other public and private utility operators and several coal mining entities have instituted an action against the State of Montana in a Montana State Court. The Plaintiffs are seeking to declare the Montana "Coal Severance Tax" unconstitutional based on the contentions that the Act is a discriminatory burden on interstate commerce and an improper attempt at state preemption of federal policy.

The Montana trial court and Montana Supreme Court have rendered a decision adverse to the City and the other Plaintiffs. The U.S. Supreme Court has agreed to review the Montana Supreme Court decision. It is not known when the U.S. Supreme Court will rule on this matter.

Since the imposition of this tax in 1975, Decker Coal Company, the coal company currently responsible for supplying coal from the State of Montana utilized by the Electric System in power production, has been paying this tax under protest. A portion of the costs of this tax are passed through the City.

The City and LCRA have initiated legal action against Decker Coal Company regarding the interpretation of certain contract provisions as to what is to be included in the cost of coal. The City and LCRA maintain that certain mining costs are not part of the contract. Decker has included these costs in the price of coal. The City and LCRA are paying the costs under protest and the legal action is to recover these payments from Decker.

The City, City Public Service Board at San Antonio, and LCRA have been actively pursuing access to Texas lignite reserves located on property owned by the federal government at Camp Swift approximately 35 miles from Austin. The area has been core drilled and evaluated. Procurement through the government is extremely difficult but certain legislation simplifying the procedure has been enacted and will help in the potential development of this resource. In addition to this source, certain lignite holdings belonging to Coastal States would be available to the City through the Lo-Vaca settlement. The economics of these holdings have not been evaluated; however, they are located close to the Fayette Project and are under active review.

Nuclear. The award for the nuclear steam system to Westinghouse anticipated in conjunction with their furnishing the nuclear steam system for the South Texas Project, includes a ten year contract to provide nuclear fuel for the facility. In 1973, Westinghouse announced that it would not be able to fulfill its commitments to a number of utilities throughout the United States with respect to nuclear fuel, and claimed that such contracts were no longer valid as a result of their interpretation of the "Uniform Commercial Code". The South Texas Project and a number of other electric utilities in the United States challenged that position in the courts.

Following legal action by several Westinghouse customers in a U.S. District Court in Virginia, a settlement was reached in October, 1978, between the South Texas Project and Westinghouse. Estimates indicate that the settlement will provide for the recovery of at least 76% of the value of the participant's claim against Westinghouse. This is based on the settlement provisions providing to the participants uranium, equipment and services valued in excess of $300,000,000. The settlement will provide in excess of 8 million pounds of uranium to the project. In addition, a contract for 5 million pounds of uranium has been executed with Chevron Corporation. These supplies of uranium will provide over a 10 year supply for the project.

Effect of Recent Developments Pertaining to Nuclear Power

As a result of the incident at the Three Mile Island, which resulted in the release of above-normal levels of radiation to the environment and severe damage to the reactor core, various governmental and industry bodies are studying a broad range of issues relating to the design, construction and operation of nuclear electric generating facilities, particularly those of the design and manufacture used at Three Mile Island. The City cannot predict the findings, recommendations and other results of these or any future studies and hearings; whether any recommended legislation will be adopted; or whether governmental regulations affecting nuclear electric generation will be significantly modified. The City cannot predict the effect of any of the foregoing on its Electric Utility System or the South Texas Project.

The Project Manager for the South Texas Project, Houston Lighting & Power Company, has formed a team to conduct reviews of the implications of the information learned from the Three Mile Island incident on the design of the nuclear steam system for the South Texas Project. This team is composed of representatives of the manufacturer of the nuclear steam supply system, engineering representatives of the Engineer Constructor and representatives of the Project Manager.

Regulatory Matters

The Railroad Commission of Texas, on January 5, 1973, issued an order requiring every natural gas utility subject to its jurisdiction to file a curtailment program with the Commission by February 12, 1973. Such order set forth certain priorities, similar to those contained within typical Federal Power Commission curtailment orders, for deliveries of natural gas until the Commission could approve the curtailment program of each utility. At various times, public hearings have been conducted to determine priorities for the Lo-Vaca system. By interim order dated June 21, 1973, natural gas to be used for the generation of electricity to meet residential, hospital, school, church and other human needs consumption was given a priority second only to direct usage of natural gas for the same purposes. Such favorable ranking, ahead of commercial and industrial usage, was continued to November, 1980.

On November 5, 1980, the Texas Railroad Commission commenced hearings to consider the priorities for natural gas curtailment for Valero (successor to Lo-Vaca). On February 9, 1981, the Texas Railroad Commission issued a final order implementing a new curtailment program. Under the new program, some of Austin's natural gas supply was placed in the lower category, thus increasing Austin's chance of being curtailed during spot shortages of natural gas. However, because Austin has decreased its dependence on natural gas through the use of new coal generation, the change in priority is not expected to have a significant impact on the operation of the system.

The Public Utility Commission of Texas (the "Commission") was created in 1975 by the Texas Legislature to regulate certain electric utility rates, operations, and services within the State. The City has original jurisdiction over the electric rates, operations and services of its own system within its boundaries. The Attorney General of Texas has rendered an opinion that the Commission has no appellate jurisdiction over such rates.

The Texas Public Utility Commission has previously taken testimony relating to a bifurcation in the Texas Interconnected System resulting from Central and Southwest Corporation actions relating to participation in interstate commerce. The Texas Public Utility Commission has directed the reconnection of the Texas Interconnected System as a result of testimony. The system has been restored to its previous physical arrangement.

On February 1, 1979, a U.S. District Court in Dallas ruled that the policies of several Texas utilities against connecting with any other utility that transmits power across state lines are not in violation of federal anti-trust laws. This decision has been appealed to the U.S. Court of Appeals.

Central and Southwest Corporation has pursued its objective of interconnection of its various operating companies through many forums, including the NRC, SEC, FERC and others. Currently, it appears that the issue is nearing settlement, with proposals made and accepted by the majority of the parties. Those remaining to approve the settlement are the City of Brownsville and some electric cooperatives along the Texas-Oklahoma border and the Justice Department. If their concerns can be resolved, the controversy will be settled by providing direct current transmission interconnections between utilities in Oklahoma and Texas and Louisiana and Texas. This does not create any adverse operating problems for the City of Austin, nor does it create any financial obligations for the City of Austin. It is not known at this time if the issue will be finally settled, or if so, when it will occur.

Houston Lighting & Power, acting in its capacity as project manager for the South Texas Project, filed in August, 1978, the application for an Operating License. The NRC has divided the application into two hearings: an anti-trust hearing and a safety hearing. The anti-trust hearing may not be required pending the final settlement between the parties as discussed above. The safety hearing will involve the issue of safety of the plant. Houston Lighting & Power had asked that certain aspects of the safety hearing be conducted in the winter, 1980-81, with the other aspects to be heard later. The first phase of the hearings are scheduled to begin May 12, 1981 are scheduled to continue into August, 1981.

Three of the five Federal Acts comprising the National Energy Act affect electric utilities directly. They are: The National Energy Conservation Policy Act, Power Plant and Industrial Fuel Use Act, and the Public Utilities Regulatory Policy . On the basis of current knowledge and interpretation of the acts, it appears that Austin will be able to comply with the requirements of the various acts and rules and regulations without unusual adverse impact except the additional cost and expense of additional staffing and administrative costs associated with the requirements of the various acts.

Rates

The Austin City Council approved and initiated an interim rate adjustment October 1979. Final revised electric rate design was implemented April, 1980. This was an 8.2% rate increase. The rate change was based on a complete cost of service study. The rates are seasonal cost based rates. A rate management section has been organized, staffed, trained and in place for some time. Its purpose is to monitor the performance of existing rates and design the rate changes required in the future.

The Austin City Council has approved a rate design modification that will eliminate any declining block elements in the existing rate structures. The current rate classifications will be maintained, the revenue recovery by classification will remain the same, the rate of return by classification will remain the same and the total revenue recovered from rates will remain the same. The change represents the final conclusion of a rate policy direction adopted by the City Council in 1978. It will be implemented with May 1981 billings.

Capacity Contracts

January 1, 1981 the existing capacity contract with Houston Lighting and Power Co. was increased to 800 mw from the previous 500 mw contract. The contract extends through 1987. The contract provides for a capacity payment, payment for fuel, pro rata operation and maintenance cost recovery,

recovery of losses, and insures that Austin's rate payers utilize the low cost fuels. Houston's needs will be filled from the higher cost fuel. Revenues of approximately $160,000,000, over the cost of fuel, maintenance, operation and losses is anticipated over the current term of the contract. There is no penalty in the event Austin is unable to meet all or part of the contract, however Houston is not obligated for that pro rata portion they do not receive.

The potential exists for additional capacity contracts subsequent to 1987, but it is slightly premature to pursue any such contracts at this time.

Electric Generation

Maximum demand was 849 MW on June 27, 1980. The maximum net generation to the City on that day was 15,685 MWH, and did not include sales to HLP. Gross generating on August 21, 1980, of 22,524 MWH included sales to HLP.

Certain Statistical Information Concerning the Electric System

There follows statistical information prepared by the Electric System and the City Finance Department regarding demand requirements, electric bills, and a projection of supply capacity as related to generating fuel sources. The data concerning use under the heading "Generation and Use Data" reflects certain adjustments to account for the fact that customer billings are made on a staggered cyclical basis, whereas the data on generation is on an actual fiscal year basis. In addition, the use data has been adjusted to reflect the Electric System's estimates of KWH in the "Loss and Unaccounted For" category.

Generation and Use Data

	Fiscal Year Ended									
	9-30-80		9-30-79		9-30-78		9-30-77		9-30-76	
	Average Customers	KWH	Average Customers	KWH	Average Customers	KWH	Average Customers	KWH	Average Customers	KWH
Net KWH Generated		4,138,664,000		3,269,527,000		3,256,824,000		3,074,768,000		2,810,635,000
KWH Received from T.I.S.*		125,831,000		211,901,000		419,047,000		421,363,000		424,953,000
Less: Delivered to T.I.S.*		(126,044,000)		(235,121,000)		(423,238,000)		(419,883,000)		(424,416,000)
Less: Delivered to Other Utilities (Contract)		(527,375,000)		—		—		—		—
KWH Delivered to Service Area		3,611,076,000		3,246,307,000		3,252,633,000		3,076,248,000		2,811,172,000
Energy Use (KWH):										
Residential Service	149,285	1,408,693,968	138,382	1,192,603,525	131,325	1,155,701,867	123,467	1,091,516,155	108,004	1,001,715,850
General Service	19,161	1,789,376,670	15,863	1,720,986,885	15,829	1,732,051,888	13,905	1,636,270,869	12,610	1,476,601,267
Sales to Other Utilities				23,724,000(a)						
	168,446	3,198,070,638	154,245	2,937,314,410	147,154	2,887,753,755	137,372	2,727,787,024	120,614	2,478,317,117
Public Street Lighting	2	28,560,600	2	28,458,600	2	23,125,970	2	27,021,901	2	18,400,000
City Departments	313	32,072,866	304	30,945,571	333	54,032,815	331	52,480,284	310	28,000,000
Total Retail Sales	315	60,633,466	306	59,404,171	335	77,158,785	333	79,502,185	312	46,400,000
City Utility Departments	136	88,038,755	130	78,184,698	129	60,036,460	132	57,452,689	120	52,000,000
Total Energy Use Ultimate Consumer	168,897	3,346,742,859	154,681	3,074,903,279	147,618	3,024,949,000	137,837	2,864,741,898	121,046	2,576,717,117
Loss and Unaccounted For		264,433,141		171,403,721		227,684,000		211,506,102		234,454,883
KWH Delivered to Service Area		3,611,076,000		3,246,307,300		3,252,633,000		3,076,248,000		2,811,172,000
System Peak Demand (KW)		1,153,000(b)		743,000		763,000		774,000		711,000

*T.I.S. = Texas Interconnected System

(a) This information included in F.Y. ended 9-30-80 as KWH delivered to other utilities (contract).

(b) Includes 849,000 KW peak KW demand delivered to service area plus coincidental demand delivered to other utilities of 304,000 KW.

ANALYSIS OF ELECTRIC BILLS

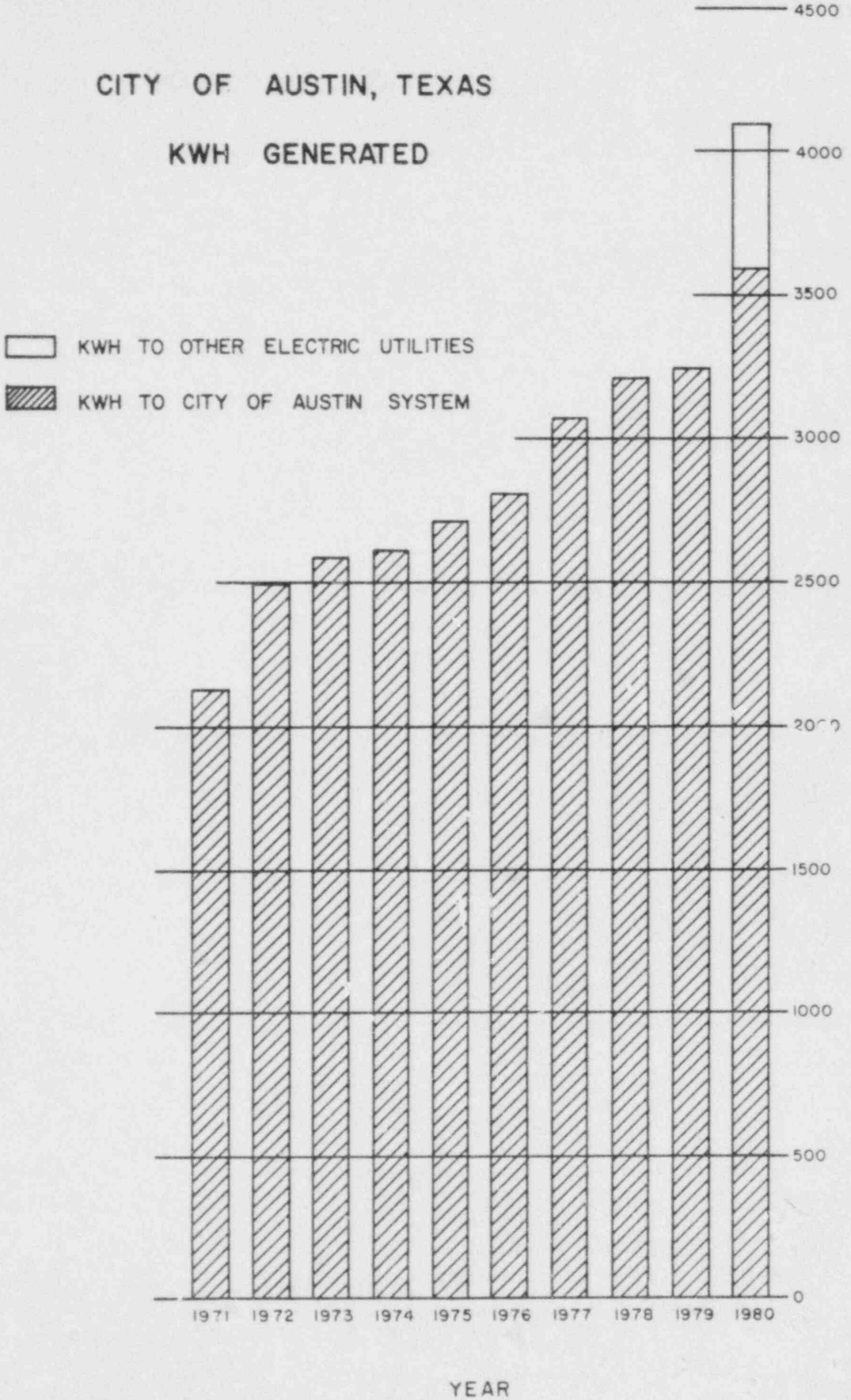
	Fiscal Year Ended				
	9-30-80	9-30-79	9-30-78	9-30-77	9-30-76
All Customers					
Average Monthly KWH Per Customer	1580	1587	1635	1731	1773
Average Monthly Bill Per Customer	$85.71	$75.81	$80.55	$77.31	$78.78
Average Monthly Revenue Per KWH	$0.05425	$0.04777	$0.04926	$0.04463	$0.04441
Residential Customers (AE and RS)					
Average Monthly KWH Per Customer	786	718	733	735	773
Average Monthly Bill Per Customer	$42.14	$34.38	$38.21	$38.58	$36.86
Average Monthly Revenue Per KWH	$0.05361	$0.04787	$0.05213	$0.05238	$0.04768
General Customers					
Average Monthly KWH Per Customer	7763	9040	9118	9806	9730
Average Monthly Bill Per Customer	$425.19	$437.22	$431.89	$401.03	$390.25
Average Monthly Revenue Per KWH	$0.05477	$0.04836	$0.04736	$0.04089	$0.04011

PROJECTED USE OF FUEL BY SOURCE

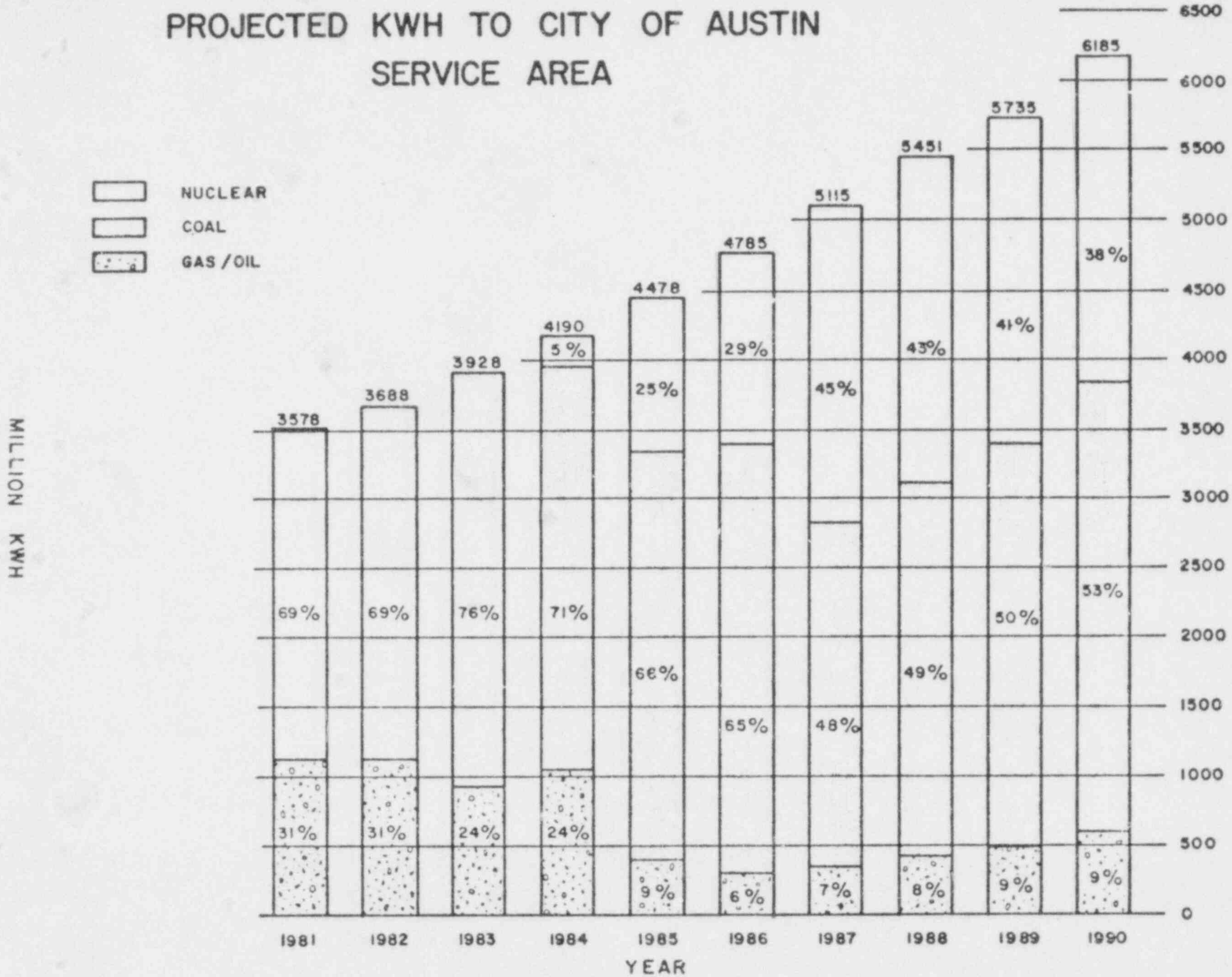
The table on page 24 illustrates the projected KWH to the Electric System and the future fuel source distribution and reflects the Electric System's generation plan to lessen dependence on natural gas and diversify fuel sources with the introduction of coal capacity in 1979 and 1980 and nuclear power from the South Texas Project, scheduled for completion in 1984 and 1986.

PROCEEDS

$27,000,000 Electric System Nuclear Revenue Bonds will be used for progress payments for the South Texas Nuclear Project.


CITY OF AUSTIN, TEXAS
KWH GENERATED
KWH TO OTHER ELECTRIC UTILITIES
KWH TO CITY OF AUSTIN SYSTEM
4500
4000
3500
3000
2500
2000
1500
1000
500
0
MILLION KWH
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
YEAR

PROJECTED KWH TO CITY OF AUSTIN SERVICE AREA



THE WATERWORKS SYSTEM

Service Area

The City supplies treated water to residential and commercial customers throughout the corporate limits of the City. In addition, the City supplies treated water to Travis County Water Control and Improvement Districts Numbers 10, 12, and 14. With respect to the City's obligations under these contracts, the City is responsible for meter reading, billing and collection functions and is paid a specific charge per customer per month. Billing is predicated upon the actual cost of services. In addition, the City sells water to six Municipal Utility Districts and has contracts for operation and maintaining the water and sewer lines of the Municipal Utility Districts. The water supply contracts between the City and the various water control and improvement districts are of thirty years duration and were entered into between 1957 and 1980.

The City has previously acquired, under the authority of Vernon's Annotated Texas Civil Statutes Article 1182c-1, the Systems and assets of Travis-Williamson Counties Water Control and Improvement District No. 1 and Travis County Water Control and Improvement Districts Nos. 4, 6, 7, 8, 5, 9, 11 and 13. The City has paid off and cancelled the bonded indebtedness of Districts Nos. 1, 4, 6, 7 and 8. The City in acquiring the Systems and assets of Districts Nos. 5, 9, 11 and 13 assumed the outstanding and unpaid bonded indebtedness of said Districts. The consideration for the conveyances made by the Districts to the City is stated in the agreements between the City and the Districts which read in part as follows: "The City of Austin hereby assumes and guarantees the payment of the face value and interest legally required to be paid on all outstanding and unpaid bonded indebtedness of the District upon presentation and surrender when due of all bonds and interest coupons." The principal and interest on these bonds are being paid from surplus revenues of the City's combined Electric, Waterworks and Sewer System.

Existing Facilities

In 1888, City leaders campaigned successfully for the first Austin Dam across the Colorado River, which was completed early in 1893. Austin has long continued its efforts for an adequate water supply.

In 1934, a $4,500,000 loan and grant was obtained from the Public Works Administration to complete the Buchanan Dam as a flood control structure. The Lower Colorado River Authority finished the dam which is 150 feet high, 11,200 feet long, and the lake it forms is thirty-two miles long and two miles wide, covering 23,000 surface acres. This Dam is the longest multiple arch dam in the world.

Since that time, a full-scale stairway of lakes has been created by the building of five additional dams, giving the area 150 miles of lakes. The Tom Miller Dam is within the City limits, and forms Lake Austin, which covers 3,000 surface acres; Mansfield Dam, the fifth largest masonry dam in the world, impounding Lake Travis, covers 42,000 acres; Marble Falls Dam creates Lake Marble Falls which spreads over 900 acres; Lake Lyndon B. Johnson, held by Alvin Wirtz Dam, has an area of 6,300 acres; Roy Inks Dam forms Lake Inks with a surface of 900 acres.

The combined storage capacity of the six lakes is around 3,300,000 acre feet of water, or more than a trillion gallons. Approximately 800,000 acre feet of this is reserved for flood control, but the estimated safe water yield of this source, after the normal flow of the river rolls on downstream, is in excess of 600 million gallons a day.

Of the six dams across the Colorado River, two form major impounding reservoirs for the control of flood water, allowing runoff at a controlled rate. U. S. G. S. records at the Austin gauging station show the following runoff for the water year (October 1 through September 30).

1958 – 3,152,000 Acre Feet	1969 – 846,900 Acre Feet
1959 – 1,181,000 Acre Feet	1970 – 2,052,000 Acre Feet
1960 – 2,555,000 Acre Feet	1971 – 690,600 Acre Feet
1961 – 1,812,000 Acre Feet	1972 – 1,128,000 Acre Feet
1962 – 1,023,000 Acre Feet	1973 – 896,400 Acre Feet
1963 – 764,200 Acre Feet	1974 – 1,463,000 Acre Feet
1964 – 529,600 Acre Feet	1975 – 3,039,300 Acre Feet
1965 – 1,068,000 Acre Feet	1976 – 992,600 Acre Feet
1966 – 1,189,000 Acre Feet	1977 – 1,956,000 Acre Feet
1967 – 743,000 Acre Feet	1978 – 885,100 Acre Feet
1968 – 2,511,000 Acre Feet	1979 – 867,200 Acre Feet
	1980 – 803,500 Acre Feet

Using the twenty years from 1961-1980 the average runoff would be 1,263,020 acre feet per year. Using the lowest year, 1964, the runoff was 529,600 acre feet, or 173 billion gallons, which is more than 6 times the amount of water used by the City for the fiscal year ended September 30, 1980. This indicates a reliable source of water supply for the present use and for future growth.

The waterworks system is also comprised of three water treatment plants (Green, Davis and Ullrich) having a combined daily capacity of 102,000,000 gallons and a short-time additional capacity of 75,000,000 gallons per day. The water treatment plants also maintain a ground storage capacity of 29,000,000 gallons and an elevated storage capacity of 52,500,000 gallons at any one time. The waterworks system includes a water distribution system having 1,999 miles of water mains of varying diameters, several distribution storage tanks, approximately 111,000 meter units, 10,000 fire hydrants and twenty booster pump stations.

The City receives its water supply from the Colorado River through the three water treatment plants. The Green plant takes water from Town Lake, which is located near the downtown area of the City. The Davis plant and the Ullrich plant both take water further upstream from Lake Austin.

The Green Plant. This plant is located east of Shoal Creek near its junction with the Colorado River and is designed for a nominal capacity of 22 mgd and a safe overload capacity of 37 mgd. An intake station on the river contains four traveling water screens and four raw water pumps. The firm pumping capacity (i.e. with one of the largest pumps out of service) is 44.3 mgd. Water is pumped through a forty-two inch line to the chemical feed building, where it is split to two parallel pretreatment units.

The Green Plant was constructed in 1924 and expanded in 1935, 1938, and 1949. Many of the facilities have outlived their useful life, and extensive modernization is required to restore this plant to a status comparable to the other two plants. Extensive engineering feasibility studies exploring the most efficient and economical method to effect this modernization are presently underway.

The Davis Plant. Located at Mount Bonnell Road and West 35th Street, the Davis Plant is rated at a nominal capacity of 60 mgd and an overload capacity of 104 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clear well storage, and raw water and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963 and 1975.

The Ullrich Plant. The Ullrich Plant is located on a site south of Red Bud Trail and Forest View Drive. Initial stage construction of the plant, completed in 1969, provides for a nominal capacity of 20 mgd and a safe overload capacity of 36 mgd. Hydraulic capacity is 40 mgd. The new pumping station at Ulrich is scheduled for completion in February, 1981.

The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, two upflow-solids contact clasifiers, six filters, chlorine disinfection, clear well reservoir, high service pumping station, and sludge handling facilities.

Consumption

Austin experienced a maximum rate of water usage during the extremely hot summer months of 1980. On July 18, a record usage of 153,000,000 gallons was consumed by the citizens of Austin. Austin also recorded its maximum year of consumption with 27,925,688,000 gallons supplied to its customers. This record exceeded the projected estimate of 26.4 billion gallons by 1.5 billion gallons.

MAJOR WATER ACCOUNTS

Fiscal Year Ending 9-30-80

Account	Consumption (In Hundreds of Gallons)	Revenue
University of Texas, Main Campus	7,336,228	$524,734
Travis County Water Control & Improvement District #10	2,683,980	285,352
Bergstrom Air Force Base	3,401,347	243,642
Williamson County Municipal Utility District #1	2,077,013	222,382
Motorola, Inc.	2,766,075	197,601
Travis County Water Control & Improvement District #12	1 386,103	142,512
City of Rollingwood	756,133	79,279
Austin State Hospital	867,310	62,632
Travis State School	854,872	61,575
State Board of Control	207,635	15,336

SANITARY SEWER AND WASTEWATER SYSTEM

Service Area

The City's sanitary sewer and wastewater system (the "Wastewater System") services the corporate limits of the City. In addition, the City has entered into contracts to operate and maintain the wastewater lines of the Williamson County Municipal Utility District Number One, the Lost Creek Municipal Utility District and Northwest Travis County Municipal Utility District Number Two. The City also supplies treated water to these utility districts.

The Wastewater System currently serves approximately 99,000 customers.

Existing Facilities

The Wastewater System is composed of three main sewage treatment plants, one sludge storage area, approximately 1,500 miles of sanitary sewer mains and lines and fifty-five lift stations with a treatment capacity of approximately 47,200,000 gallons per day. The three treatment units are the Walnut Creek Sewage Plant which began operation in 1977, the Govalle Sewage Treatment Plant constructed in 1936, the Williamson Creek Sewage Treatment Plant constructed in 1964. The Hornsby Bend Sewage Treatment Plant has been serving as a sludge storage pond area since 1956. The Walnut Creek Sewage Treatment Plant has a capacity of treating 27,000,000 gallons of sewage per day in its primary units and 18,000,000 gallons per day in its secondary units. By utilizing flow equalization tanks the secondary system is capable of functioning on a constant capacity basis twenty-four hours per day.

The Govalle Sewage Treatment Plant although initially constructed in 1936 has undergone several expansions and modernizations and now is rated at a daily capacity of 26,000,000 gallons of sewage per day. The plant uses the contact stabilization method of treating waste water. Sludge from this plant is also forwarded to the Hornsby Bend Sludge storage area.

The Williamson Creek Sewage Treatment Plant has a capacity of approximately 2,200,000 gallons per day and operates primarily as an evaporation facility where wastewater is collected into ponds and allowed to evaporate. Excess flows, up to 4,000,000 gallons per day, are pumped to Govalle wastewater treatment plant.

After treatment, wastewater is returned to the Colorado River. Sludge from the three treatment plants is piped to several sludge ponds located in the Hornsby Bend area of the City. These sludge ponds have been in use since 1956 and it is now estimated that their useful lives will not extend beyond four or five additional years. Several feasibility studies are presently underway with respect to what method of sludge disposal will be utilized after the Hornsby Bend storage ponds are no longer usable. The eventual plan chosen by the City will need approval by both the Texas Department of Water Resources and the Federal Environmental Protection Agency.

Stormwater is collected in an entirely separate gravity feed storm sewer system and is completely segregated from the sanitary sewer system. The storm sewer system is operated and maintained by the City's Department of Public Works.

Maintenance and inspection of the City's Wastewater System is accomplished by maintenance personnel employed by the City's Water and Wastewater Department.

The City believes that the structural condition of the Wastewater System is generally sound. Expenditures for operation, maintenance and repairs of the 52 lift stations and the 1,400 miles of sewer lines and mains have averaged approximately $2,500,000 per year during the last five fiscal years.

Environmental Considerations. The City is currently in general compliance with the Federal Water Pollution Control Act Amendments of 1972 and in addition is in compliance with the rules and regulations of the Texas Department of Water Resources.

ANALYSIS OF WATER AND SEWER BILLS

Fiscal Year Ended	Fiscal Year Ended 9-30-80	9-30-79	9-30-78(b)	9-30-77(b)	9-?0-76(b)
AVERAGE MONTHLY BILL PER CUSTOMER					
Urban	$ 14.09	$ 10.59	$ 12.54	$ 12.51	$ 10.14
Rural(a)	24.91	20.79	26.45	17.10	13.87
City General Government Departments	124.36	79.26	106.40	109.66	81.23
For Austin Public Schools (July and August only) Playground Use	0.00(c)	0.00(c)	0.00(c)	0.00(c)	182.20
City Utility Departments	418.06	471.93	471.97	480.55	338.81
Average Monthly Bill — Above Consumers	$ 15.78	$ 11.83	$ 13.53	$ 13.50	$ 11.00
Sales to Other Water Utilities	11,942.35	7,609.88	10,916.12	8,650.38	4,643.36
Average Monthly Bill — All Consumers	$ 16.22	$ 12.14	$ 14.80	$ 13.86	$ 11.33
AVERAGE MONTHLY USAGE IN 1,000 GALLONS					
Urban	18.28	15.92	17.58	18.85	17.31
Rural(a)	19.97	19.20	16.93	15.81	14.52
City General Government Departments	161.55	149.04	148.51	166.16	152.53
For Austin Public Schools (July and August only) Playground Use	0.00(c)	0.00(c)	0.00(c)	0.00(c)	337.61
City Utility Departments	571.90	566.22	690.27	817.68	750.58
Average Monthly Usage — Above Consumers	19.28	17.04	18.49	19.74	18.12
Sales to Other Water Utilities	11,250.44	9,447.50	10,117.95	8,061.56	7,389.89
Average Monthly Usage — All Consumers	19.70	17.35	18.82	20.35	18.68
AVERAGE REVENUE PER 1,000 GALLONS					
Urban	$ .774	$ 0.665	$ 0.656	$ 0.619	$ 0.670
Rural(a)	1.252	1.083	1.272	1.008	1.092
City General Government Departments	0.770	0.351	0.597	0.562	0.609
For Austin Public Schools (July and August only) Playground Use	0.00(c)	0.00(c)	0.00(c)	0.00(c)	0.617
City Utility Departments	.731	0.833	0.569	0.477	0.516
Average Revenue — Above Customers	$ 0.697	$ 0.695	$ 0.587	$ 0.641	$ 0.694
Sales to Other Water Utilities	1.061	0.805	0.899	0.663	0.718
Average Revenue — All Consumers	$ 0.823	$ 0.746	$ 0.630	$ 0.640	$ 0.693

(a) Includes customers in City-owned water districts.

(b) Reflects water billings only.

(c) This category included in urban and rural.

INFORMATION CONCERNING WATER SALES

	Fiscal Year Ended									
	9-30-80		9-30-79		9-30-78		9-30-77		9-30-76	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		27,911,176		23,065,443		24,667,174		23,448,383		20,254,376
Less: Sales to Other Water Utilities		540,021		453,480		485,662		703,451		537,847
THOUSAND GALLONS TO SYSTEM		27,371,155		22,611,963		24,181,512		22,744,932		19,716,529
WATER SALES:										
Urban	98,636	21,637,107	96,171	18,373,588	94,008	19,830,952	86,261	17,426,327	83,115	15,048,037
Rural	9,893	2,370,967	8,182	1,885,520	8,886	1,805,476	9,225	1,444,989	8,137	1,252,594
	108,529	24,008,074	104,353	20,259,108	102,894	21,636,428	95,486	18,871,316	91,252	16,300,631
City Departments	391	758,012	379	677,842	392	698,598	343	597,818	320	518,221
Austin Public Schools	—0—	—0—(a)	—0—	—0—(a)	—0—	—0—(a)	—0—(a)	—0—(a)	16	58,041
	391	758,012	379	677,842	392	698,598	343	597,818	336	576,262
City Utility Departments	66	452,943	72	489,214	72	596,391	64	421,018	66	364,961
TOTAL SALES TO ULTIMATE CONSUMER	108,986	25,219,029	104,804	21,426,164	103,358	22,931,417	95,893	19,890,152	91,654	17,241,854
Used by Water Department		1,330,991		507,440		559,595		2,138,190		1,853,498
Loss and Unaccounted For		821,135		678,359		690,500		716,590		621,177
THOUSAND GALLONS TO SYSTEM		27,371,155		22,611,963		24,181,512		22,744,932		19,716,529
Maximum Daily Consumption Thousand Gallons		150,660		114,088		143,044		129,032		102,152
Average Daily Consumption Thousand Gallons		76,469		63,181		67,446		64,242		55,329

(a) This category included in urban and rural.

REVENUE BOND ORDINANCE PROVISIONS

A synopsis of certain provisions of the bond ordinance authorizing the City of Austin, Texas, Utility System Revenue Bonds, Series 9, is set forth below.

Definitions. For all purposes of this ordinance and in particular for clarity with respect to the issuance of the bonds herein authorized and the pledge and appropriation of revenues for the payment of bonds similarly secured, the following definitions are provided:

(a) The term "bonds" shall mean the first lien revenue bonds authorized by this ordinance.

(b) The term "previously issued parity bonds" shall mean the outstanding and unpaid first lien revenue bonds known as CITY OF AUSTIN, TEXAS, UTILITY SYSTEM REVENUE BONDS, to wit: SERIES 1, dated April 1, 1977, and originally issued in the total principal amount of $80,000,000; SERIES 2, dated October 1, 1977, and originally issued in the total principal amount of $55,000,000; SERIES 3, dated April 1, 1978, and originally issued in the total principal amount of $78,000,000; SERIES 4, dated October 1, 1978, and originally issued in the total principal amount of $77,780,000; SERIES 5, dated March 1, 1979, and originally issued in the total principal amount of $80,000,000; SERIES 6, dated September 1, 1979, and originally issued in the total principal amount of $60,000,000; SERIES 7, dated July 1, 1980, and originally issued in the total principal amount of $45,000,000; and SERIES 8, dated January 1, 1981, and originally issued in the total principal amount of $45,000,000.

(c) The term "additional bonds" shall mean the additional parity bonds which the City reserves the right to issue under "Additional Bonds or Contractual Obligations" hereof.

(d) The term "bonds similarly secured" shall mean the bonds, previously issued parity bonds, additional bonds and contractual obligations.

(e) The term "contractual obligation" shall mean those obligations (1) issued by the City or incurred by the City payable from the net revenues of the system, and (2) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted, and (3) which by the terms of the ordinance authorizing their issuance or the incurring of the contractual obligation provide the payments to be made by the City for the retirement or payment thereof shall be on a parity with and of equal dignity with the payments for other bonds similarly secured and are to be paid from the funds established for the payment and security of the bonds similarly secured.

(f) The term "fiscal year" shall mean the twelve months' period ending September 30 of each year, provided the fiscal year may hereafter be changed once in any three calendar year period.

(g) The term "second lien bonds" shall mean the outstanding and unpaid bonds designated "CITY OF AUSTIN, TEXAS, ELECTRIC, WATERWORKS AND SEWER SYSTEM REFUNDING REVENUE BONDS, SERIES 1979," and other obligations or bonds incurred or issued on a parity with the Series 1979 bonds under and pursuant to the provisions of the ordinance authorizing the issuance of said Series 1979 bonds.

(h) The term "net revenues" shall mean the gross revenues of the System less the expense of operation and maintenance, including all salaries, labor, materials, repairs and extensions necessary to render efficient service, provided, however, that only such expenses for repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any bonds payable from the net revenues of the system, shall be deducted in determining "net revenues."

(i) The term "System" or "Systems" shall mean the City's combined Electric Light and Power, Waterworks and Sewer System, including all present and future additions, extensions, replacements and improvements thereto; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "System" shall not mean any electric light and power, waterworks or sewer facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the System and which are acquired or constructed by the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Bonds secured by and payable from a lien on and pledge of the Net Revenues, as hereinafter defined, on a parity with the Bonds, but which are secured by and payable from any other liens on and pledges of any revenues, sources or payments, including but not limited to, (i) special contract revenues or payments received from any other legal entity in connection with such facilities and/or (ii) a lien on and pledge of the Net Revenues junior and subordinate in all respects to the lien and pledge in favor of the Bonds; and such revenues, sources or payments shall not be considered as or constitute Gross Revenues of the System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such "Special Facilities Bonds."

Pledge of Revenues. The City covenants and agrees that the entire net revenues of the System are hereby irrevocably pledged for the payment and security of the principal of and interest on the bonds similarly secured as in this ordinance provided.

Rates and Charges. For the benefit of the original purchasers as well as the ultimate owners of bonds similarly secured, and in addition to all provisions and covenants in the laws of the State of Texas and in this ordinance, it is expressly stipulated that the City shall, at all times while any of the bonds similarly secured or the second lien bonds are outstanding and unpaid, maintain rates and collect charges for the facilities and services afforded by the System, as required by Article 1113, V.A.T.C.S., which will provide revenues sufficient each year to:

(a) Pay for all operation, maintenance, depreciation, replacement and betterment charges of the System;

(b) Provide net earnings in an amount equal to (i) at least 1.25 times the sums required to pay the principal of and interest on the bonds similarly secured and (ii) the sum required to be deposited in the Utility System Reserve Fund provided and established for the benefit and security of the bonds similarly secured; and

(c) Provide net earnings in an amount at least equal to the sums required to be deposited in the Interest and Redemption Fund and Reserve Fund with respect to the second lien bonds and the sums required to pay the principal of and interest on all other outstanding obligations junior and subordinate to the second lien bonds which are secured by the net revenues; and

(d) Pay all other outstanding indebtedness against said System or the revenues therefrom.

System Fund. The City covenants that it will continue to deposit, as collected, all revenues of every nature derived from the operation of the System into a separate account known as the Electric, Water and Sewer System Fund (herein called the "System Fund") heretofore established in connection with the issuance of the similarly secured bonds and the second lien bonds, which shall be kept separate and apart from all other funds of the City, and, further, that said System Fund shall be pledged and appropriated to the following uses and in the order of precedence shown:

First: To the payment of all necessary and reasonable expenses of operation and maintenance of the System as said expenses are defined by statute.

Second: To establishing and maintaining the Utility System Bond Fund and then the Utility System Reserve Fund (in that order) hereby created for the payment and security of the bonds similarly secured.

Third: For the payment of the principal of and interest on subordinate indebtedness of the System or its revenues or for any other proper City purpose now or hereafter permitted by law.

Utility System Bond Fund. The following provisions shall govern the establishment, maintenance and use of the Utility System Bond Fund: The City covenants that from the funds in the System Fund, the City shall pay into the Utility System Bond Fund during each year in which any of the bonds similarly secured are outstanding, an amount equal to one hundred per centum (100%) of the amount required to meet the principal and interest payments falling due on or before the next maturity date of the said bonds similarly secured, such payments to be made in equal monthly installments. If the revenues of the System in any month, after deductions for operation and maintenance, are then insufficient to make the required payments into the Utility System Bond Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Utility System Bond Fund in the next month. All monies paid into the Utility System Bond Fund shall be deposited in the City's depository bank, and said depository bank shall transfer the amount then to become due to the paying agent. Said money shall be continuously secured as provided by law for securing funds of the City.

Reserve Fund. The following provisions shall govern the establishment, maintenance and use of the Reserve Fund: From the funds in the System Fund, after deductions have been made for the payment of necessary and reasonable expenses of operation and maintenance of the System, and the prescribed payments into the Utility System Bond Fund, payments shall be made into a Utility System Reserve Fund heretofore established for use in meeting the requirements of principal of and interest on the bonds similarly secured in the event monies on hand in the Utility System Bond Fund are insufficient for such purpose.

The amount to be accumulated in the Utility System Reserve Fund shall be equal to the average annual requirements (on a calendar year basis) for the payment of the principal of and interest on the bonds similarly secured as determined on the date of the delivery of the last series of bonds which are bonds similarly secured as defined herein.

Immediately following the delivery of a series of bonds or the execution of a contractual obligation, which are defined as bonds similarly secured, the appropriate City officials shall determine the Required Reserve Fund Amount as well as the amount then on hand in the Utility System Reserve Fund and the amount of the difference shall be deposited in the said Reserve Fund in 60 equal payments, the initial payment to be made on or before the 15th day of the month next following the month in which such bonds are delivered or the contractual obligation is incurred.

In the event money in the said Reserve Fund is used for the purpose for which the same was established, or in the event there is not sufficient money to make the monthly payment required in the preceding paragraph, then the amount required to make up the deficiency shall be added to that required to be made in the following month or months until the Required Reserve Fund Amount is on deposit in said Fund.

The depository bank of the City is hereby designated as the custodian of the Utility System Reserve Fund and the deposits above prescribed shall be transmitted to said Fund in said Bank.

Investment of Certain Funds. The Utility System Bond Fund may be invested in such securities or in such manner as may be lawful investments for an interest and sinking fund. All money resulting from the investment of said fund shall remain a part of said fund, but may serve to reduce the amount which otherwise would be required to be deposited therein.

The Utility System Reserve Fund may be invested or reinvested from time to time in direct obligations of, or obligations unconditionally guaranteed by, the United States of America, or evidence of indebtedness of any agency or instrumentality of the United States of America, and in certificates of deposit of any bank or trust company, the deposits of which are fully secured by a pledge of securities of any of the kinds hereinabove specified, such obligations or securities to mature in not more than ten years from the date of such investment or not later than the final maturity of the bonds outstanding for which the Reserve Fund is established, whichever is shorter. Any obligations in which money is so invested shall be kept in escrow with the custodian of said Reserve Fund, and shall be promptly sold and the proceeds of sale applied to the making of payment required to be made from said Reserve Fund, whenever such payments are necessary to be made under the provisions of this Section. All money resulting from the investment of said Reserve Fund may be transferred to the System Fund as the same are received.

Further Covenants. The City further covenants and agrees by and through this ordinance as follows:

(a) That the bonds similarly secured (including the bonds herein authorized) shall be special obligations of the City, and the holders thereof shall never have the right to demand payment out of any funds raised or to be raised by taxation.

(b) That it has the lawful power to pledge the revenues supporting this issue of bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, and that the bonds similarly secured shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.

(c) That other than for the payment of the bonds similarly secured and the second lien bonds, the net revenues of the System have not been in any manner pledged to the payment of any debt or obligation of the City or the System.

Additional Bonds or Contractual Obligations. In addition to the right to issue bonds of inferior lien as authorized by the laws of this State, the City reserves the right to hereafter issue additional bonds or enter contractual obligations payable from the net revenues of the Systems which are on a parity with the bonds similarly secured. The additional bonds, when issued, or contractual obligations shall be payable from and secured by a first lien on and pledge of the net revenues of the Systems in the same manner and to the same extent as are the bonds and the previously issued parity bonds; and the bonds similarly secured and the contractual obligations shall in all respects be of equal dignity. It is provided, however, that the City will not issue any such additional bonds or other parity obligations of any nature unless and until all the following conditions have been met:

(a) The City is not in default as to any covenant, condition or obligation contained in ordinances authorizing bonds similarly secured.

(b) That the laws of the State of Texas effective at the time of the authorization of such additional bonds or the entering of the contractual obligation provide permission for the issuance of such bonds or incurring such contractual obligation.

(c) That the City has secured from a Certified Public Accountant a certificate showing that the net earnings of the Systems' preceding fiscal year or for any 12 consecutive months out of the 15 months immediately preceding the month of the adoption of the ordinance authorizing the proposed additional bonds or the incurring of the contractual obligation are equal to at least 1.25 times the maximum annual principal and interest requirements (on a calendar year basis) of all obligations payable from and secured by a first lien on the net revenues of the System which will be outstanding upon the issuance of such proposed additional bonds or the incurring of the contractual obligation.

As used in this Section, the term "net earnings" shall mean the gross revenues of the System after deducting maintenance and operation expenses, but not deducting depreciation or other expenditures which, under standard accounting practice, should be charged to capital expenditures.

(d) The additional bonds are made to mature or the principal amount of contractual obligations become due on April 1 or October 1 (or both) of each of the years in which they are scheduled to mature.

The bonds similarly secured may be refunded (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all such outstanding revenue bonds or contractual obligations are refunded, the proposed refunding bonds shall be considered as "additional bonds" under the provisions of this Section and the report required in subdivision (c) shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the bonds being refunded following their cancellation or provision being made for their payment). Contractual obligations, once incurred, may be modified under the same terms in that the report required in subdivision (c) shall give effect to the modifications to be made.

Maintenance and Operation – Insurance. That the City shall maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. So long as any bonds similarly secured are outstanding, the City agrees to maintain insurance for the benefit of the holder or holders of bonds similarly secured on the System of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business. Nothing in this ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City from doing so.

Records – Accounts – Accounting Reports. That the City hereby covenants and agrees that so long as any bonds similarly secured or any interest thereon, remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of its System separate and apart from all other records and accounts in which complete and correct entries shall be made of all transactions relating to said System, as provided by Article 1113, V.A.T.C.S., and that the holder or holders of any bonds similarly secured or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that following the close of each fiscal year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the System for such fiscal year.

(b) A balance sheet as of the end of such fiscal year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this ordinance and his recommendations for any changes or improvements in the operation, records and accounts of the System.

(d) A list of the insurance policies in force at the end of the fiscal year on the System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy's expiration date.

Expenses incurred in making the audits above referred to are to be regarded as maintenance and operation expenses and paid as such. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, and, upon request, to the original purchaser of a series of bonds similarly secured. The audits herein required shall be made within 60 days following the close of each fiscal year insofar as is possible.

Excess Revenues. All revenues in excess of those required to establish and maintain the Utility System Bond Fund and the Utility System Reserve Fund as herein required may be used for any proper City purpose now or hereafter permitted by law.

Security of Funds. All funds created by this ordinance shall be secured in the manner and to the fullest extent permitted by law for the security of public funds and the funds created by this ordinance shall be used only for the purposes herein specified.

Remedy in Event of Default. That in addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Utility System Bond Fund or the Utility System Reserve Fund as required by this ordinance or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this ordinance, the holder or holders of any of the bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in this ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

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

Bonds are Special Obligations. That the bonds are special obligations of the City payable from the pledged net revenues and the holders thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

Bonds are Negotiable Instruments. That each of the bonds herein authorized shall be deemed and construed to be a "Security", and as such a negotiable instrument, within the meaning of Article 8 of the Uniform Commercial Code.

City Manager-Director of Finance to Have Charge of Records and Bonds. That the City Manager and the Director of Finance shall be and they are hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas, and shall take and have charge and control of the bonds herein authorized pending their approval by the Attorney General and their registration by the Comptroller of Public Accounts.

Competition. That so far as it legally may, the City of Austin covenants and agrees, for the protection and security of the first lien revenue bonds and the similarly secured revenue bonds heretofore and herein authorized, and the holders thereof from time to time, that it will not grant a franchise for the operation of any competing System in the City of Austin until all first lien bonds and bonds similarly secured shall have been retired.

Ordinance to Constitute Contract. That the provisions of this ordinance shall constitute a contract between the City of Austin, Texas, and the holder or holders from time to time of the bonds similarly secured and no change, variation or alteration of any kind of the provisions of this ordinance may be made, until all of such bonds shall have been paid as to both principal and interest.

PROJECTED DEBT SERVICE COVERAGE

There follows a projection prepared by the City staff, reviewed and certified by Bovay Engineers, Inc., of Houston, Texas, with respect to future revenues and expense of the System and amounts available for payment of debt service.

Fiscal Year Ending 9-30	System Revenues			Operation and Maintenance Expense			Net Income Available For Debt Service	Total Principal and Interest Require-ments(a)(b)
	Electric	Water and Sewer	Combined Total	Electric	Water and Sewer	Combined Total		
1981	$ 255,651,282	$ 44,350,575	$ 300,001,857	$ 161,943,828	$20,644,490	$ 182,588,318	$117,413,539	$33,258,022
1982	268,349,160	45,000,000	313,349,160	172,870,265	20,918,000	193,788,265	119,560,895	69,462,370
1983	292,465,970	47,025,000	339,490,970	197,186,900	22,382,000	219,568,900	119,922,070	69,637,610
1984	320,196,000	49,141,000	369,337,000	221,906,000	23,949,000	245,[illegible]55,000	123,482,000	69,485,840
1985	332,350,000	51,352,000	383,702,000	221,400,[illegible]	25,627,000	247,027,000	136,675,000	69,518,852
1986	334,312,000	53,663,000	387,975,000	221,382,000	26,780,000	248,162,000	139,813,000	72,515,815
1987	346,936,000	56,078,000	403,014,000	232,466,000	27,985,000	260,451,000	142,563,000	77,087,363
1988	341,070,000	58,602,000	399,672,000	225,710,000	29,245,000	254,955,000	144,717,000	76,390,261
1989	383,890,000	61,239,000	445,129,000	267,690,000	30,561,000	298,251,000	146,878,000	75,692,363
1990	440,580,000	63,994,000	504,574,000	323,550,000	31,936,000	355,486,000	149,088,000	74,996,315
1991	498,990,000	66,874,000	565,864,000	381,000,000	33,373,000	414,373,000	151,491,000	74,296,434
1992	571,960,000	69,883,000	641,843,000	452,880,000	34,875,000	487,755,000	154,088,000	73,600,368
1993	665,910,000	73,028,000	738,938,000	545,580,000	36,444,000	582,024,000	156,914,000	72,949,022
1994	772,370,000	76,314,000	848,684,000	650,670,000	38,084,000	688,754,000	159,930,000	72,225,953
1995	818,71[illegible],000	79,749,000	898,461,000	689,710,000	39,798,000	729,508,000	168,953,000	[illegible]1,622,192
1996	867,835,000	83,337,000	951,172,000	731,093,000	41,589,000	772,682,000	178,490,000	70,947,848
1997	919,905,000	87,087,000	1,006,992,000	774,958,000	43,460,000	818,418,000	188,574,000	70,331,841
1998	975,099,000	71,006,000	1,046,105,000	821,456,000	45,416,000	866,872,000	179,233,000	69,601,275
1999	1,033,605,000	95,102,000	1,128,707,000	870,743,000	47,460,000	918,203,000	210,504,000	68,949,075
2000	1,095,622,000	99,381,000	1,195,003,000	922,988,000	49,595,000	972,583,000	222,420,000	68,287,355
2001	1,161,359,000	103,853,000	1,265,212,000	978,367,000	51,827,000	1,030,194,000	235,018,000	64,622,905
2002	1,231,040,000	108,527,000	1,339,567,000	1,037,069,000	54,160,000	1,091,229,000	248,338,000	59,328,500
2003	1,304,903,000	113,410,000	1,418,313,000	1,099,293,000	56,597,000	1,155,890,000	262,423,000	52,063,500
2004	1,383,197,000	118,514,000	1,501,711,000	1,165,251,000	59,144,000	1,224,395,000	277,316,000	44,224,500
2005	1,466,189,000	123,847,000	1,590,036,000	1,235,166,000	61,805,000	1,296,971,000	293,065,000	42,401,250
2006	1,554,160,000	129,420,000	1,683,580,000	1,309,276,000	64,586,000	1,373,862,000	309,718,000	17,806,000

(a) See "Debt Service Requirements" on pages 10 and 11.

(b) Amounts shown include debt service payable on October 1 of the next succeeding fiscal year.

Assumptions in Projection

1. Electric revenue and expense estimates from 1981 to 1994 are the latest projections available. These projections were made in conjunction with an on-going cost of service and rate study and from a corporate model that contains the following assumptions.

   a. The long term energy growth rate is estimated to be 5.7% per year compounded. This forecast was developed from growth trends from the past 7 years.

   b. The long term customer growth rate is projected at 3.2%.

   c. Cost projections are based on the addition and availability of two new generation units; STP Unit #1 in February, 1984, and STP Unit #2 in February, 1986.

   d. Projections are based on the economic loading of generating units. With the addition of the two units discussed in c., nuclear will be base loaded and will provide approximately 40% of the energy produced in the late 1980's. Coal will be used for mid-range loading and will provide approximately 50% of the energy. Gas/oil will be used for peaking and will provide approximately 10% of the energy.

   e. The total fuel expense for each year is based on the projected energy usage per fuel type and the projected price.

   f. The electric rate of return on rate base is projected to be approximately 6% to 7% for the period of 1981-1994.

   g. In fiscal 1981-1988, revenues include revenue from power contract for 800 MW of capacity with Houston Lighting & Power Company. Revenue from this contract accounts for $15.88 million in fiscal year 1981, $19.25 million in fiscal year 1982, $19.5 million in fiscal year 1983, $19.5 million in fiscal year 1984, $19.5 million in fiscal year 1985, $25.88 million in fiscal year 1986, $28 million in fiscal year 1987, and $7 million in fiscal year 1988. In addition, appropriate adjustments have been made in revenues and expenses for the fuel pass-through associated with the delivery of 840 million kilowatt hours per year to Houston Lighting & Power Company for calendar years 1981, 82, 83, 84, 85, 86 and 87.

   h. Electric capital requirements are based on the Department's 5-year Capital Improvements Program. Beyond fiscal year 1985, distribution and general plant are escalated from present trends and costs.

   i. Electric revenues include operating revenues and other non-operating revenue, such as interest income and miscellaneous revenue.

2. From 1995 to 2006, electric estimates are based on a 3.0% growth rate in energy sales with a 3% inflation factor. Revenues and expenses are annually compounded at 6%.

3. Water and Sewer revenue estimates are based on projected system revenue requirements through fiscal year 82, based on an existing rate study. The Water and Sewer revenue estimates anticipate a 16% rate increase in fiscal year 80, followed by 5.5% increases in fiscal year 81 and fiscal year 82. These rate increases are contingent on Council approval. Beyond fiscal year 82, revenue estimates are compounded annually at 4.5%.

4. Water and Sewer expense estimates are based on expense projections through fiscal year 1984. Expenses for fiscal year 1985 reflect estimated expenditures for new Onion Creek Wastewater Treatment Plant planned for operation in fiscal year 1985. Beyond fiscal year 1985, expense estimates assume a 4.5% increase per year plus extraneous expenses that are not patterned.

5. Electric, Water, and Sewer revenues assume certain rate increases and are calculated at levels sufficient to provide annual transfers to the City's General Fund, transfers to "pay as you go" Capital Improvements for the system, and certain additional debt service requirements.

OTHER INFORMATION

REVENUE BOND RETIREMENT FUNDS
COMPARATIVE STATEMENTS

Fiscal Year Ended	9-30-76	9-30-77	9-30-78	9-30-79*	9-30-80
Beginning Balance	$18,449,010	$19,706,389	$22,940,131	$27,435,695	$ 39,405,610
Contributions from Utility Fund	24,892,221	34,321,374	41,935,232	16,104,820	62,017,921
Provided by Refunding				30,000,000	
Total Available Funds	$43,341,231	$54,027,763	$64,875,413	$73,540,515	$101,423,531
Disbursements:					
Bond Principal	$ 8,330,000	$ 8,700,000	$ 9,050,000	$ 4,340,[illegible]0	$ 5,210,000
Bond Interest and Commission	15,304,842	22,387,632	28,389,718	29,794,905	51,648,623
Total Disbursements	$23,634,842	$31,087,632	$37,439,718	$34,134,905	$ 56,858,623
Ending Balance	$19,706,389	$22,940,131	$27,435,695	$39,405,610	$ 44,564,908
Total Revenue Bond Retirement Reserve					

* Transactions for surviving funds after advance refunding, 7-1-79.

ACCOUNTING

All City enterprise funds are on an accrual basis with expenditures and revenues accrued as incurred or earned. Utility fuel expense expended but not yet recovered is deferred. Federal grants are accrued to the extent that the expenditures have been made by the City.

AUTOMATIC ESCALATORS

Austin does not have automatic escalators in payroll nor in its retirement systems. The retirement systems may grant cost-of-living increases up to 3% for the employees and 2% for the firemen only if ecommended by the independent actuary and approved by the retirement board and the City Council.

DEFICIT FINANCING

Austin is barred by State statute and City Charter from deficit budgetary accounting.

RETIREMENT SYSTEMS

Austin operates its retirement systems, which are actuarially sound. An actuarial report (A. S. Hansen, Inc.) and an independent audit (various) are performed annually. As a requirement of the City Charter, contributions by the employees equal contributions by the City to the retirement systems. Normal retirement for the firemen is age 55 on the highest three years of the last ten. (Contributions by the employer and employee each equal 12.13%. Firemen are not covered under Social Security.) Normal retirement for all other City employees is age 62 based on the best consecutive five out of the last ten years. (Contributions by the employer and the employee are 6% each. All other City employees are also covered under Social Security.) Effective January 1, 1980, the police personnel were separated from the City's Employees' Retirement and Pension Fund. An actuarial report on the new City of Austin Police Retirement Fund is not available at this time.

A. S. Hansen, Inc.'s most recent reports on the Employees' and Firemen's Funds are shown in Appendix A.

VALUATION AND DEBT INFORMATION

1980 Taxable Assessed Valuation (100% of Market Value)(a)(b)	$6,683,849,080
City Funded Debt Payable From Ad Valorem Taxes:	
General Purpose Bonds (as of 2-28-81)	$ 130,150,000
Assumed Water District Bonds (as of 2-28-81)	2,745,805
Series 262 Bonds Now Being Issued	7,500,000
Total	$ 140,395,805
Less: Assumed Water District Bonds(c)	2,745,805
Total General Purpose Debt	$ 137,650,000
Interest and Sinking Fund (as of 2-28-81)	$ 12,887,454
Ratio Total General Purpose Debt to Taxable Assessed Valuation	2.10%

1980 Population – 345,109
Per Capita Taxable Assessed Valuation – $19,367.36
Per Capita Total Debt – $406.82
Area – 121.3 Square Miles

(a) Pursuant to authority permitted by Section 1-b, Article VIII of the State Constitution which became effective January 1, 1973, the City granted an exemption of up to $13,300 of Assessed Valuation of the residence homestead of property owners over 65 years of age. The Taxable Assessed Valuation, as shown above, does not include $135,443,896 Assessed Valuation as of 12-10-80 of properties exempted under this authority.

(b) The Legislature, pursuant to a constitutional amendment and Article 7150h, VATCS, mandated an additional property tax exemption, beginning in 1976, for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces. The exemption from taxation applies to either real or personal property with the amount of Assessed Valuation exempted ranging from $1,500 to $3,000, dependent upon the amount of disability or whether the exemption is applicable to a surviving spouse or children. The Taxable Assessed Valuation, as shown above, does not include $7,881,640 Assessed Valuation of properties exempted under this authority.

(c) Assumed Water District Bonds consist of the following: $416,000 Travis County Water Control and Improvement District No. 5 Bonds; $1,290,000 Travis County Water Control and Improvement District No. 9 Bonds; $915,000 Travis County Water Control and Improvement District No. 11 Bonds; and $160,000 Travis County Water Control and Improvement District No. 13 Bonds. The City has acquired the Systems and assets of these Districts and assumed the outstanding and unpaid bonded indebtedness of said Districts under authority of Article 1182c-1, V.A.C.S. The consideration for the conveyance made by the Districts to the City is stated in the agreements between the City and the Districts which read in part as follows: "The City of Austin hereby assumes and guarantees the payment of the face value and interest legally required to be paid on all outstanding and unpaid bonded indebtedness of the District upon presentation and surrender when due of all such bonds and interest coupons." The principal and interest on these bonds are being paid from surplus revenues of the City of Austin's combined Electric Light and Power, Waterworks and Sewer System.

DEBT AND TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on bonds within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to Austin, and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation (for all city purposes). The City operates under a Home Rule Charter which imposes a limit of $2.50 for all purposes, including General Operation expenses not to exceed $1.00.

VALUATION AND FUNDED DEBT HISTORY

Fiscal Period	Taxable Assessed Valuation	Funded Debt Outstanding at End of Year	Ratio Funded Debt to Taxable Assessed Valuation
1970-71	$1,069,251,720	$ 38,868,000	3.64%
1971-72	1,207,067,100	43,369,000	3.59%
1972-73	1,347,935,760	44,829,000	3.33%
1973-74	1,486,887,010	48,401,000	3.26%
1974-75	1,843,008,571(a)	69,137,000	3.75%
1975-76	1,995,128,178	80,368,000	4.03%
1976-77	2,539,518,553(a)	75,954,000	2.99%
1977-78	2,731,036,640	89,779,000	3.29%
1978-79	3,478,018,430(a)	107,360,000	3.09%
1979-80	3,748,483,310	115,270,000	3.08%
1980-81	6,683,849,080(a)(b)		

(a) A large amount of the increase is due to revaluation.
(b) Increased from 75% to 100% Market Value.

TAXABLE ASSESSED VALUATIONS BY CATEGORY

Classification	1980 Assessed Valuation	% of Total Assessed Valuation	1979 Assessed Valuation	% of Total Assessed Valuation	1978 Assessed Valuation	% of Total Assessed Valuation	1977 Assessed Valuation	% of Total Assessed Valuation
Real:								
Land	$1,435,911,250	21.48%	$ 716,528,770	19.11%	$ 740,503,670	21.29%	$ 565,690,730	20.71%
Improvements	$4,255,876,680	63.67%	2,237,807,040	59.70%	2,067,253,180	59.44%	1,590,679,870	58.25%
Total Real	$5,691,787,930	85.15%	$2,954,335,810	78.81%	$2,807,756,850	80.73%	$2,156,370,600	78.96%
Personal Property:								
Inventories	$ 982,058,640	14.70%	$ 615,232,470	16.41%	$ 501,917,570	14.43%	$ 428,446,810	15.69%
Personal Automobiles, Trucks and Trailers	—0—	—0—	172,190,280	4.59%	158,802,360	4.57%	136,031,500	4.98%
House Trailers	—0—	—0—	—0—	—0—	3,861,890	.11%	5,037,840	18%
Boats	4,495,240	.07%	3,491,840	.10%	3,195,880	.09%	2,901,340	.11%
Airplanes	5,507,270	.08%	3,232,910	.09%	2,483,880	.07%	2,248,550	.08%
Total Personal Property	$ 992,061,150	14.85%	$ 794,147,500	21.19%	$ 670,261,580	19.27%	$ 574,666,040	21.04%
Total Assessed Valuation	$6,683,849,080	100.00%	$3,748,483,310	100.00%	$3,478,018,430	100.00%	$2,731,036,640	100.00%

ESTIMATED OVERLAPPING FUNDED DEBT PAYABLE FROM AD VALOREM TAXES

(As of 2-28-81)

Taxing Jurisdiction	Total Funded Debt	% Applicable	Overlapping Funded Debt
City of Austin	$137,650,000	100.00%	$137,650,000
Austin Independent School District	82,560,000	92.54%	76,401,024
Del Valle Independent School District	1,750,000	18.78%	328,650
Eanes Independent School District	11,669,000	0.17%	19,837
Round Rock Independent School District	39,046,000	0.11%	42,951
Travis County	19,656,000	84.34%	16,577,870
Williamson County	–0–	.01%	–0–
Williamson County Municipal Utility District No. 1	5,305,000	.01%	531
Total Overlapping Funded Debt			$231,020,863
Ratio Overlapping Funded Debt to Taxable Assessed Valuation			3.46%

Per Capita Overlapping Funded Debt – $669.41

TAX DATA

(Year Ending 9-30)

Tax Year	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
1970-71	$1.29	$.95	$.34	$13,793,227	95.99%	99.47%
1971-72	1.29	.95	.34	15,571,166	95.57%	98.53%
1972-73	1.27	.93	.34	17,118,897	96.73%	99.57%
1973-74	1.27	.93	.34	18,881,428	95.03%	97.14%
1974-75	1.19	.87	.32	21,930,412	95.14%	99.31%
1975-76	1.27	.95	.32	25,338,313	93.35%	96.79%
1976-77	1.27	.95	.32	31,993,873	95.81%	100.11%
1977-78	1.24	.92	.32	33,864,852	96.40%	99.72%
1978-79	.96	.68	.28	33,389,039	96.89%	99.93%
1979-80	.96	.68	.28	35,985,460	96.38%	99.03%
1980-81	.57	.38	.19	38,097,940	In process of collection	

Property within the City is assessed as of January 1 of each year; taxes become due October 1 of the same year; and become delinquent on February 1 of the following year. Penalty and interest, however, are not added until March 1. Split payments are not permitted. Discounts are not allowed.

MUNICIPAL SALES TAX

At an election held on September 30, 1967, the citizens of Austin voted a 1% retail sales and use tax to become effective on January 1, 1968. This tax provides a substantial additional revenue source, and strengthens the overall financial position of the General Fund of the City. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax to the City of Austin monthly. Revenue from this source has been:

Fiscal Year Ending 9-30	Revenue	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita*
1970	$ 4,054,923	35.02%	$0.4269	$16.10
1971	4,746,038	34.03%	.4439	18.17
1972	5,528,042	35.50%	.4580	20.18
1973	6,568,190	38.37%	.4873	22.93
1974	7,259,279	38.45%	.4882	24.73
1975	7,905,395	36.05%	.4289	26.32
1976	9,165,643	36.17%	.4594	29.75
1977	11,491,263	35.92%	.4561	35.70
1978	13,530,924	40.16%	.4980	40.75
1979	15,277,674	45.75%	.4392	44.74
1980	17,783,812	49.42%	.4744	50.31

*Based on population of City of Austin as reported in the Statistical Abstract, City of Austin and Travis County, 1978, published by the COA Planning Department.

TOP TEN TAXPAYERS

Name of Taxpayer	Nature of Property	1980 Assessed Valuation	% of Total Assessed Valuation
International Business Machine Corporation	Manufacturing and Leasing	$197,517,767	2.96%
Southwestern Bell Telephone Company	Telephone Utility	178,546,502	2.67%
Texas Instruments, Inc.	Manufacturing	77,494,301	1.16%
Motorola Corporation	Manufacturing	70,127,048	1.05%
Austin National Bank	Bank	32,935,998	.49%
Southern Union Gas Company	Gas Utility	30,940,244	.46%
Capital National Bank	Bank	28,356,751	.42%
H. E. Butt Grocery	Retail	27,097,405	.41%
City National Bank	Bank	24,188,239	.36%
American National Bank	Bank	22,159,494	.33%
		$689,363,749	10.31%

RATINGS

Applications for contract ratings on this issue have been made to Moody's Investors Service, Inc. and Standard & Poor's Corporation. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

TAX EXEMPTION

The delivery of the Bonds is subject to an opinion of Dumas, Huguenin, Boothman & Morrow, Bond Counsel to the City ("Bond Counsel"), to the effect that interest on the Bonds is exempt from all present Federal income taxes under existing statutes, rulings, regulations and court decisions. The laws, regulations, court decisions and administrative regulations and rulings upon which the conclusion stated in Bond Counsel's opinion will be based are subject to change by the Congress, the Treasury Department and later judicial and administrative decisions.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a) (2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS IN TEXAS

The Bonds are legal investments for sinking funds of Texas counties, cities and towns. They are eligible to secure Texas state and school district funds, and constitute legal investments for insurance companies in the State of Texas. No review has been made of the laws of the states other than Texas to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the unqualified approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds is exempt from Federal income taxation under existing statutes, regulations, rulings and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds or the coupons appertaining thereto, will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the bond resolution. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will be printed on the Bonds.

AUTHENTICITY OF FINANCIAL INFORMATION

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of th[illegible]mptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISORS

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company may submit a bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Purchaser will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and that the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The City will furnish the Purchaser, as a part of the transcript of proceedings, a certified copy of a resolution of the City Council as of the date of the sale of the Bonds which will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Purchaser.

CAROLE KEETON MCCLELLAN
Mayor

ATTEST:

GRACE MONROE
City Clerk

Hansen

A. S. Hansen, Inc. First International Building, Suite 2020 · Dallas, Texas 75270 · Telephone 214-748-0501

November 28, 1980

City of Austin Employees' Retirement and Pension Fund

The following information with respect to the above referenced plan is provided at the request of the City of Austin.

1. Date of last actuarial valuation

   January 1, 1980

2. Actuarial cost method used

   Entry-age normal with frozen initial liability

3. Normal cost due January 1, 1980

   $5,835,902

4. Amortization of past service costs for most recent year.

   Total employer and employee contribution for 1979 (including contributions by and on behalf of police personnel) were $8,630,387 of which $2,071,655 was applied toward the past service cost.

5. Period over which past service costs are being amortized.

   The City and employee contribute at a fixed percentage of salary. Past service costs are currently being amortized over a period of approximately 16 years.

6. Interest on past service costs, if not being amortized.

   Not applicable.

7. Unfunded past service costs as of January 1, 1980

   $19,409,482

8. Actuarially computed value of vested benefits as of December 31, 1979

Active employees	$ 39,614,117
Retired and Terminated Vested Employees	20,765,985
TOTAL	60,380,102

9. Method of recognizing actuarial gains or losses including realized and unrealized gains and losses on securities.

   The actuarial gains or losses including realized gains and losses on securities are not calculated separately, but are used to reduce or increase the future normal costs. These actuarial gains or losses are automatically spread over future years.

   The assets used in the valuation are equal to the book value. Therefore, unrealized gains and losses on securities are not recognized in the valuation.

10. Any changes in actuarial assumptions or cost method from the previous year and the approximate effect thereof.

    None

Please do not hesitate to contact me if you have any further questions in this matter.

Yours truly,

A. S. HANSEN, INC.

Charles E Dean

Charles E. Dean
Fellow of the Society of Actuaries

CED/lca

Hansen

A. S. Hansen, Inc. First International Building, Suite 2020 · Dallas, Texas 75270 · Telephone 214-748-0501

November 13, 1980

As requested by the City of Austin, we are pleased to provide the following information with regard to the Firemen's Relief and Retirement Fund of Austin, Texas:

1. Date of last actuarial valuation

   January 1, 1980

2. Actuarial cost method used

   Entry-age-normal with frozen-initial liability

3. Normal cost due January 1, 1980

   $1,439,112

4. Amortization of past service costs for most recent year

   Total employer and employee contributions for 1979 were $1,886,025 of which $732,085 was applied toward the past service costs.

5. Period over which past service costs are being amortized

   The city and employees each contribute 12.13% of the member's compensation to the fund.

   This contribution rate is sufficient to meet the accruing normal cost and amortize past service costs over a period of approximately 26 years.

6. Interest on past service costs, if not being amortized

   Not applicable

1930 Hansen 1980

Our 50th Anniversary

7. Unfunded past service costs as of January 1, 1980

   $4,903,650

8. Actuarially computed value of vested benefits in excess of the book value of fund assets as of December 31, 1979

Vested Liability	$24,162,542
Assets	17,658,915
Excess	6,503,627

9. Book value of assets as of December 31, 1979

   $17,658,915

10. Method recognizing actuarial gains or losses including realized and unrealized gains and losses on securities.

    The actuarial gains or losses are not calculated separately, but are used to reduce or increase the future normal costs. These actuarial gains or losses are automatically spread over future years.

11. Any changes in actuarial assumptions or cost methods from the previous year and approximate effect thereof.

    None

If we can be of further assistance, please call me.

Yours very truly,

A. S. HANSEN, INC.

Charles E. Dean

Charles E. Dean
Fellow of the Society of Actuaries

CED:lca

GENERAL INFORMATION REGARDING CITY AND ITS ECONOMY

General Description

The City of Austin is situated in Travis County in Southeast Central Texas on both sides of a great bend in the Colorado River near its emergence from the vast Texas hill country of the Edwards Plateau in the midst of farm and ranch lands and the highland lake region.

In early 1835, a community of several families began to develop on the north bank of the Colorado River. The community selected the name of Waterloo. In 1838, the Republic of Texas, acting through the Texas Congress authorized a commission to inspect the town of Waterloo for the site of a permanent capital.

In October, 1839, the national offices of the Republic of Texas were moved to the City, and in 1839 the City was designated as the permanent capital of the State of Texas. The new capital city was called Austin because Stephen F. Austin had previously established a colony here. The City was officially incorporated in December, 1839. As the State capital, the City is headquarters for all legislative, executive, and state agencies, judicial operations and administrative offices. The City is also the county seat of Travis County.

The average normal temperature in Austin is 68.3 with a normal range in winter of 42-62 and in summer from 73-94. Austin is blessed with 300 annual days of sunshine and only 24 annual days with temperatures below freezing. Average annual rainfall is 32.49 inches. The altitude is 455 feet beside Town Lake and 1,000 feet in the hills of Northwest Austin.

Population

The City's metropolitan area in 1980 had a population of 514,757 as estimated by the City's Chamber of Commerce.

The following table presents population trends of the City, the State and the United States since 1940.

	Austin		Texas		United States	
Year	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
1940	87,930	+65.5%	6,414,824	+10.1%	132,165,000	+0.7%
1950	132,459	+50.6	7,711,194	+20.2	151,326,000	+1.4
1960	186,545	+40.9	9,579,677	+24.2	179,323,000	+1.7
1970	253,539	+35.9	11,196,730	+ 1.8	203,212,000	+1.3
1975	302,500(a)	+ 1.7	12,237,000	+ 1.8	13,051,000	+0.9
1976	308,087(a)	+ 2.1	12,487,000	+ 2.0	214,669,000	+0.8
1977	321,900(a)	+ 4.2	12,608,908	+ 1.0	216,383,000	+0.8
1978	332,086(a)	+ 3.0	12,917,534	+ 2.4	218,059,000	+0.8
1979	341,504(a)	+ 2.8	13,427,800	+ 3.9	219,500,000	+0.7
1980	345,109	+ 1.1	N.A.		222,110,000	+1.2

SOURCE: United States Department of Commerce, Bureau of the Census

(a) Department of Planning, City of Austin estimates.

Industry and Business

There are approximately 500 manufacturing firms in the City supporting payrolls of over $290 million annually. Over $815 million annual value is added by manufactured products.

Industries of long standing include Elgin Butler Brick Company, in Austin since 1873, the 50-year-old Adams Extract Company and Hart Graphics and Office Centers, Inc. (formerly The Steck Company), printers, organized 1912. The largest companies in the Austin SMSA are Glastron Boat Company, International Business Machines, Inc., Texas Instruments, Tracor, Inc., Woodward, Inc., and Motorola, Inc.

IBM Austin is an information systems division location and is responsible for developing and manufacturing office systems, application terminal systems, data entry systems, and circuit packaging. Operations began in 1967 with a work force of approximately 300 which has grown to a present level of approximately 5,000 employees. Expansion completed in 1977 provides 2.4 million square feet of manufacturing and development space. IBM is constructing a new building to house its circuit packaging operations. Expected to be completed in early 1981, the facility will provide space for increased production of electronic circuits used in IBM text- and word-processing equipment.

Texas Instruments Inc., located on a 466-acre site eleven miles northwest of the Texas State Capitol, employs approximately 1,200. Current expansion is underway to create additional capacity. Motorola, Inc. began production in a major integrated circuit assembly plant in 1974. Current employment is about 4,000, and long range plans anticipate an eventual total of around 6,000. Tracor, Inc. is also located within Austin's city limits. The physical plant facilities cover 450,000 square feet situated on 100 acres. This high technology electrical equipment company employs approximately 1,700. Industries located in Austin also include metals, chemicals, petroleum, printing supplies, candy, ironworks, aluminum, caskets, aircraft equipment, leather, clothing, concrete, boots, pipeline construction, castings, foods, fishing supplies, air conditioning, furniture, valve manufacturing, nuclear and scientific research, boat manufacturing and plastics.

Austin is the State Capital of Texas. Located here are over 120 state and 62 federal agencies with aggregate annual salaries over $1 billion.

Austin is an association center. Regional as well as 289 state and national offices are located in the City. Proximity to State offices and a central State location are factors which encourage association companies to locate their headquarters in the City.

Austin is third in the State in number of conventions held and delegates attending. During 1979, 1,001 conventions were held and drew over 254,225 delegates who spent more than $27.2 million in Austin. Tourism and the visitor industry now bring in more than $165 million annually into Austin's economy.

The City Coliseum, with 6,900 square feet of floor space, will seat gatherings of 4,000 people. The $3.5 million Auditorium has 110,000 square feet of floor space, and has facilities to seat 5,518 people, or exhibit space covering 80,000 square feet. More than an estimated $21.6 million was placed in Austin's ever expanding income. The tourism industry now exceeds $165 million annually. Austin is the shopping center for a 20-county trade area, with a population of over 941,056 with an annual buying income of over $5.5 billion.

Bergstrom Air Force Base, headquarters of the 12th Air Force, is a major installation. More than 6,100 personnel are stationed at this installation bringing in $88.5 million into Austin's economy.

Employment Characteristics

As of August 31, 1980, the Austin Metropolitan area had 10,500 unemployed out of a total labor force of 257,750 for an actual rate of 4.1%, compared to 5.8% for the State and 7.5% for the

United States. The following tables set forth employment by type and broad industrial sources for the years indicated, for the Austin SMSA:

EMPLOYMENT CLASSIFICATIONS IN THE AUSTIN METROPOLITAN STATISTICAL AREA (a)

Industrial Classification	1974	1975	1976	1977	1978	1979	1980	February 1981
Manufacturing	14,850	15,300	17,200	22,750	25,850	28,850	30,550	30,550
Durable Goods	10,550	10,850	12,600	16,950	19,950	22,750	24,250	24,350
Non-Durable Goods	4,300	4,450	4,600	5,[illegible]00	5,900	6,100	6,300	6,200
Government	62,900	67,000	69,000	73,800	76,500	79,650	80,950	83,650
Federal	6,800	7,300	7,700	7,900	8,150	8,350	7,850	9,550
State	40,250	42,750	44,050	45,250	45,900	47,300	47,200	49,150
Local	15,850	16,950	17,250	20,650	22,450	24,000	25,900	24,950
Trade	32,550	35,100	35,850	41,950	45,700	48,700	48,400	51,650
Wholesale	4,750	5,150	5,250	6,250	7,100	7,400	7,400	8,450
Retail	27,800	29,950	30,600	35,700	38,600	41,300	41,000	43,200
Services	34,300	35,800	37,800	44,400	49,000	52,850	54,650	42,800
Business and Personal	10,550	11,300	12,350	14,300	15,928	17,358	18,200	17,300
Medical and Professional	14,400	15,000	15,750	18,200	20,272	22,092	22,750	25,500
Finance, Insurance and Real Estate	9,350	9,500	9,700	11,900	12,800	13,400	13,700	14,450
Contract Construction	11,300	9,600	8,750	11,350	12,550	13,100	13,300	13,700
Transportation and Utilities	5,500	5,500	5,550	6,200	6,600	7,050	7,200	7,150
Mining and Agriculture	300	450	500	450	550	550	1,100	600
Totals	161,750	168,750	174,650	200,900	216,750	230,750	236,150	244,550

SOURCE: Texas Employment Commission. All data are calendar year averages and by place of employment.

(a) Austin SMSA includes Travis and Hays Counties.

Agriculture and Natural Resources

The ten counties in the area surrounding Austin, which is primarily agricultural country, combine farm and livestock industries grossing in excess of $55 million annually. Chief crops are cotton, corn and small grains. Turkey and poultry production has become increasingly important.

There are extensive deposits of limestone just outside the City. This supply of raw material contributed to the development of an industry of national recognition in 1928, when Texas Quarries was organized and started production of Cordova Shell and Cordova Cream limestone as building material. Granite Mountain, near Marble Falls (some 50 miles from Austin), together with other sources, furnished the Sunset Red granite used in the Texas State Capitol Building and other state buildings. Another natural resource of the Austin Hills is native cedar. Clays and talcs exist in commercial quantity for use as insecticide carriers, tile manufacturing and dinnerware.

Transportation

Rail facilities are furnished by the Missouri-Kansas-Texas, Missouri Pacific, and Southern Pacific. Amtrak brought passenger trains back to Austin in January, 1973, as one stop on the Mexico City-Kansas City route. Air transportation is furnished by Braniff, Texas International, Continental Airways, Delta, Eagle, Eastern, Southwest, U.S. Air, Chaparral, and American Airlines (June 11, 1981) with 58 daily arrivals and departures. Bus service is furnished by Greyhound, Continental, Kerrville and Arrow, with 45 arrivals and departures per day.

Growth Indices

Year	Utility Connections: Electric	Water	Gas	Telephone	Building Permits: Taxable	Federal, State and Municipal	Total	Postal Receipts
1970	92,449	72,923	73,831	206,477	$116,352,700	$ 17,877,138	$134,229,838	$12,378,374
1971	99,648	76,778	74,195	226,720	159,056,589	43,406,689	202,463,278	15,385,884
1972	110,884	79,935	79,318	247,304	204,383,230	35,848,065	240,231,295	17,405,311
1973	115,106	83,767	82,239	268,620	195,418,800	44,245,040	239,663,840	18,592,117
1974	119,423	89,065	84,304	289,723	135,792,100	127,098,561	262,890,661	21,924,804
1975	123,148	91,673	86,470	310,063	93,318,700	54,655,772	147,974,472	24,306,710
1976	124,495	91,900	88,919	335,825	150,073,500	52,884,707	202,918,207	28,123,536
1977	136,866	98,736	91,984	358,694	204,821,520	23,272,911	228,094,431	32,000,000
1978	145,491	101,689	95,693	380,410	337,333,700	11,856,812	349,190,512	36,346,775
1979	150,211	105,924	99,406	401,956	422,967,800	24,487,794	447,455,594	42,494,077
Increase	63%	45%	35%	95%	264%	37%	233%	243%

SOURCE: Community Profile, compiled by Chamber of Commerce.

	Ten-Year Economic Growth — Austin: 1969	1979	% Increase 1969-1979	1 Year % Increase 1978-1979
Assessed Value of Taxable Property	$896,007,140	$3,664,710,150	+309.0	+ 5.4
Labor Force	127,300	248,500	+ 95.2	+ 2.5
Population (City) (as of 4/79)	244,074	341,504	+ 39.9	+ 3.0
Population (County) (as of 4/79)	385,960	409,915	+ 43.3	+ 3.4
Building Permits	4,613	7,646	+ 65.7	+ 7.7
Value of Building Permits	$150,972,872	$ 447,455,594	+196.4	+28.1
Motor Vehicles	139,823	311,424	+122.7	+ 6.6
Water Connections	72,420	105,211	+ 46.3	+ 4.3
Electric Connections	92,239	150,211	+ 62.8	+ 8.0
Gas Connections	71,064	99,406	+ 40.0	+ 3.9
Telephone Connections	190,234	401,956	+111.3	+ 5.7
Bank Deposits	$676,546,082	$2,367,481,000	+250.0	+14.3
Postal Receipts	$ 11,509,740	$ 42,494,077	+269.2	+16.9
Manufacturing Employment	11,665	27,950	+139.6	+ 5.1
Effective Buying Income (County)	$826,805,000	$2,775,095,000	+235.6	+27.3
Retail Sales (County)	$479,680,000	$1,615,267,000	+236.7	+13.0
Air Passengers	536,087	1,821,689	+239.8	+16.7

Education

Ranging from the elementary grades to university graduate study the finest schools are available in Austin, including The University of Texas, St. Edward's University, Huston-Tillotson College, Concordia Lutheran College, St. Stephen's School, Austin Presbyterian Theological Seminary and Episcopal Theological Seminary of the Southwest.

The City's public school system had a total enrollment of 55,352 in the fall of 1980. The physical plant of the system includes seventy-five campus buildings.

Austin Community College, under the auspices of the Austin Independent School District, opened for classes in September, 1973 and now has more than 20,000 students at twenty-six locations.

University of Texas

The University of Texas, the South's leading university, has an enrollment of more than 46,000 (fall, 1980) and ranks fourth in size among the nation's institutions of higher learning.

The Main University includes sixteen colleges and schools, a Division of Extension with a statewide program, and more than fifty research and public service units. Its facilities are housed in more than 110 buildings. The more than thirty organized research laboratories at the University include the Cell Research Institute, Genetics Foundation, Center for Plasma Physics and Thermonuclear Research, Linguistics Research Center, Applied Research Laboratory, Center for Relativity Theory, Clayton Foundation Biochemical Institute, Biological Sciences Curriculum Study Project, Geomagnetics and Electrical Geoscience Research Laboratory, and Electrical Engineering Research Laboratory.

The University's General Library, with 4,000,000 volumes, is the largest library in the region.

Among points of interest at the University which are open to the public are the Art Museum, Texas Memorial Museum, Humanities Research Center, the Academic Center, and the Lyndon B. Johnson Library.

Memorial Stadium, where the Longhorns play their home football games, seats 81,000. Opened in 1974, Disch Falk Baseball Field seats 5,000 and is considered one of the top college baseball stadiums in the nation. The Special Events Center is used for basketball and other athletic events and for a variety of cultural and entertainment programs. Seating, depending on type of event, ranges from 3,000 to 18,000. The Texas Olympic Swimming Center is one of the finest facilities of its kind in the world.

Banking

The nineteen banks in the City and year of their establishment are: The American National Bank, 1890; The Austin National Bank, 1890; Bank of Austin, 1957; The Capital National Bank, 1934; Citizens National Bank, 1961; City National Bank, 1936; Community National Bank, 1968; First State Bank, 1968; University State Bank, 1969; North Austin State Bank, 1959; Texas State Bank, 1945; Travis Bank and Trust, 1969; Chase National Bank, 1972; Bank of the Hills, 1972; National Bank of Texas, 1974; Oak Hill National Bank, 1974; National Bank of Commerce, 1976; Western National Bank, 1976; Republic National Bank, 1977; Security National Bank, 1979.

Combined Bank Statistics

Year	Deposits	Year	Deposits	Year	Deposits
1970	$ 785,518,073	1973	$1,209,602,324	1977	$1,855,068,000
1971	966,171,154	1974	1,359,514,955	1978	2,046,580,000
1972	1,115,220,566	1975	1,491,707,000	1979	2,367,481,000
		1976	1,594,289,813	1980	2,465,984,000
				Increase	155%

Other Information

Austin plays host to a variety of literary and cultural activities. Among these include: The LBJ Library, The Elisabet Ney Museum, and The O. Henry Museum.

LBJ Library

The Lyndon B. Johnson Library contains the papers of the 36th President of the U.S. plus exhibits and memorabilia of the activities and national programs of the 1960's and aspects of LBJ's 40 years in public service.

Elisabet Ney Museum

Elisabet Ney came to Texas from Germany bringing with her a great sculptor's talent and achievement. Her studio is preserved in Austin and offers a view of 19th century sculpture and architecture in the working world of this very interesting woman. The City of Austin is engaged in a major remodeling of the Artists Studio in response to increasing visitor interest.

O. Henry Museum

This Victorian cottage once the home of the famous short story writer has been preserved along with some of his possessions and 19th century memorabilia since 1934. The home of America's favorite short story writer has been placed on the National Registry of Historic Sites.

Recreational Facilities

Austin abounds in parks and recreational facilities. Some 50 well equipped playgrounds are scattered throughout the city, in addition to 33 swimming pools, six large park areas and athletic facilities. The city has set aside 1,142 acres along the scenic hills of Lake Austin for future park development.

Zilker Park, located on the Colorado River, has 391 acres of tree-shaded groves, complete with barbecue pits, picnic tables and the famous Barton Springs swimming pool.

Summary

Austin is an especially outstanding location for high technology manufacturing, research, or administrative operations – combining a right-to-work productive labor supply, the South's largest and nation's fourth largest University, receptive local government, moderate taxes, one of the nation's lowest urban living costs, excellent airline schedules to the nation's major cities, and superlative living conditions, with clear front-door lakes, scenic wooded hills, clean air, plus metropolitan entertainment and cultural amenities.

Source: *Community Profile*, compiled by Chamber of Commerce.

MONTHLY ELECTRIC RATES

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

PART 1. That the monthly rates and charges for sales made and services rendered by any part of the Electric Light and Power Works and System of the City of Austin be, and the same are hereby, established, levied, fixed and prescribed as follows:

RESIDENTIAL TYPE SERVICE

Multiple Fuels

Application:

This rate is applicable to electric service required by residential customers in single-family dwellings, mobile homes, town houses or individually metered apartment units when that electricity provided by the City of Austin is used in conjunction with other forms of energy.

This rate is applicable when a portion of a residence or household unit is used for nonresidential purposes only as defined by subsection 45-16.1(i) of the Austin City Code.

This rate is further applicable to any church, synagogue or other public place which is used primarily for the purpose of conducting group religious worship services. This rate is *not* applicable for service to any dormitory, school, lodge, gymnasium, meeting hall or any other indoor or outdoor facility except such facility which is used primarily for group religious worship services.

Electric service of one standard character will be delivered to one point on customer's premises and measured through one meter.

Character of Service:

Alternating current, 60 cycles, single phase, (or three phase) service in accordance with the installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E01 and E02):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	$3.25	$3.25
Energy Charge	* .90¢ per KWH all KWH	* .90¢ per KWH all KWH
Capacity Charge	NONE	2.2¢ per KWH all KWH

* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

RESIDENTIAL TYPE SERVICE

Single Fuel

Application:

This rate is applicable to electric service required by residential customers in single-family dwellings, mobile homes, town houses or individually metered apartment units when that electricity provided by the City of Austin is the only source of energy used on the premises.

This rate is applicable when a portion of a residence or household unit is used for non-residential purposes only as defined by subsection 45-16.1(i) of the Austin City Code.

This rate is further applicable to any church, synagogue or other public place which is used for the purpose of conducting group religious worship services. This rate is *not* applicable for service to any dormitory, school, lodge, gymnasium, meeting hall or any other indoor or outdoor facility except such facility which is used primarily by the public for group religious worship services.

Individually metered apartment units must contain an individual air conditioning system, heating system and water heater which serves only that apartment.

A gas meter, butane tank or other fixed fuel source available to supply the customer's premises would disqualify the residence from this rate until such source is removed.

Use of a portable gas supply for use only with gas grills or gas started fireplaces would not disqualify a customer from this rate.

Electric service of one standard character is delivered to one point of service on the customer's premises and is measured through one meter.

Character of Service:

Alternating current, 60 cycles, single phase, (or three phase) service in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E03 and E04):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	$3.75	$3.75
Energy Charge	* .85¢ per KWH all KWH	* .85¢ per KWH all KWH
Capacity Charge	NONE	1.9¢ per KWH all KWH

* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

GENERAL SERVICE

Multiple Fuels

Application:

This rate is applicable to electric service required by any customer to whom no other specific rate applies and when the electricity provided by the City of Austin is used in conjunction with other forms of energy.

Electric service of one standard character will be delivered to one point of service on the customer's premises and is measured through one meter.

Character of Service:

Alternating current, 60 cycles, single phase or three phase in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E07 and E08):

Applicable to a customer whose demand for power meets or exceeds 30 kilowatts per month for any two months within the most recent six summer billing months and whose KWH billed in any month within the last twelve (12) months exceeded 10,000 KWH or as determined by the City of Austin. This rate shall be applied for a term of not less than one (1) year (twelve months) following the month in which both criteria were met. If a customer has made significant changes in his connected load which would prevent that customer from meeting or exceeding 30 kilowatts in any summer billing month and if such change has been certified by the Electric Utility, the City of Austin may waive the one year requirement.

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	**$5.00	**$5.00
Energy Charge	* 1.65¢ per KWH all KWH	* 1.65¢ per KWH all KWH
Capacity Charge	$3.50 per KW all KW	$4.40 per KW all KW

The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

Rate (E05 and E06):

Applicable to a customer whose demand for power does not meet or exceed 30 kilowatts per month for any two months within the most recent six summer billing months and whose KWH billed does not exceed 10,000 KWH in any month within the last twelve (12) months or as determined by the City of Austin.

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	**$5.00	**$5.00
Energy Charge	* 1.65¢ per KWH all KWH	* 1.65¢ per KWH all KWH
Capacity Charge	NONE	2.2¢ per KWH all KWH

* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

** Plus an additional $15.00 per month for customers whose KWH billed in any month within the last 12 months exceeded 10,000 KWH.

GENERAL SERVICE

Single Fuel

Application:

This rate is applicable to electric service required by any customer to whom no other specific rate applies and where the electricity provided by the City of Austin is the only source of energy used on the premises. The primary use of this energy must be for space comfort conditioning.

Electric service of one standard character will be delivered to one point of service on the customer's premises and is measured through one meter.

Character of Service:

Alternating current, 60 cycles, single phase or three phase in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E11 and E12):

Applicable to a customer whose demand for power meets or exceeds 30 kilowatts per month for any two months within the most recent six summer billing months and whose KWH billed exceeds 10,000 KWH in any month within the last twelve (12) months or as determined by the City of Austin. This rate shall be applied for a term of not less than one year (twelve months) following the month in which both criteria were met. If a customer has made significant changes in his connected load which would prevent that customer from meeting or exceeding 30 kilowatts in any summer billing month and if such change has been certified by the Electric Utility, the City of Austin may waive the one year requirement.

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	**$6.50	**$6.50
Energy Charge	* 1.65¢ per KWH all KWH	* 1.65¢ per KWH all KWH
Capacity Charge	$2.20 per KW all KW	$5.20 per KW all KW

The kilowatt (KW) for the current billing month shall be the maximum indicated, or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

Rate (E09 and E10):

Applicable to a customer whose demand for power does not meet or exceed 30 kilowatts per month for any two months within the most recent six summer billing months and whose KWH billed does not exceed 10,000 KWH in any month within the last twelve (12) months or as determined by the City of Austin.

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	**$6.50	**$6.50
Energy Charge	* 1.65¢ per KWH all KWH	* 1.65¢ per KWH all KWH
Capacity Charge	NONE	2.2¢ per KWH all KW

*Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

**Plus an additional $15.00 per month for customers whose KWH billed any month within the last 12 months exceeded 10,000 KWH.

PRIMARY SERVICE

Multiple Fuels

Application:

This rate is applicable to electric service required by any customer who receives service at 12,500 volts or higher and whose demand for power does not meet or exceed 3,000 kilowatts for any two months within the previous twelve months.

This customer shall furnish, install, own, maintain and operate all facilities and equipment on the customer's side of the point of delivery.

The electric service provided by the City of Austin is used in conjunction with other forms of energy.

Electric service of one standard character will be delivered to one point on the customer's premises and measured through one meter.

Character of Service:

Alternating current, 60 cycles, three phase 12,500 volts or higher in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E13):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	$130.00	$130.00
Energy Charge	* 1.55¢ per KWH all KWH	* 1.55¢ per KWH all KWH
Capacity Charge	$ 3.70 per KW all KW	$ 4.10 per KW all KW

The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

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* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

PRIMARY SERVICE

Single Fuel

Application:

This rate is applicable to electric service required by any customer who receives service at 12,500 volts or higher and whose demand for power does not meet or exceed 3,000 kilowatts for any two months within the previous twelve months.

The electric service provided by the City of Austin must be the only source of energy used on the premises.

This customer shall furnish, install, own, maintain and operate all facilities and equipment on the customer's side of the point of delivery.

Electric service of one standard character will be delivered to one point on the customer's premises and measured through one meter.

Character of Service:

Alternating current, 60 cycles, three phase, 12,500 volts or higher in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E14):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	$130.00	$130.00
Energy Charge	* 1.55¢ per KWH all KWH	* 1.55¢ per KWH all KWH
Capacity Charge	$ 2.20 per KW all KW	$ 5.10 per KW all KW

The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

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* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

LARGE PRIMARY SERVICE

Application:

This rate is applicable to electric service required by any customer, except the Texas State Capitol Complex, who receives service at 12,500 volts or higher and whose demand for power meets or exceeds 3,000 kilowatts for any two months within the previous twelve months.

The customer shall furnish, install, own, maintain and operate all facilities and equipment on the customer's side of the point of delivery.

This rate shall be applied for a term of not less than one year (twelve months).

Electric service of one standard character will be delivered to one point of service on the customer's premises and is measured through one meter.

Character of Service:

Alternating current, 60 cycles, three phase, 12,500 volts or higher in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E15):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	$350.00	$350.00
Energy Charge	* 1.45¢ per KWH all KWH	* 1.45¢ per KWH all KWH
Capacity Charge	$3.50 per KW all KW	$5.10 per KW all KW

The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

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* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

LARGE PRIMARY SERVICE

State Capitol Complex

Application:

This rate is applicable to electric service required by the Texas State Capitol Complex, which receives service at 12,500 volts or higher and whose demand for power meets or exceeds 3,000 kilowatts for any two months within the previous twelve months.

The customer shall furnish, install, own, maintain and operate all facilities and equipment on the customer's side of the point of delivery.

This rate shall be applied for a term of not less than one year (twelve months).

Electric service of one standard character will be delivered to one point of service on the customer's premises and is measured through one meter.

Character of Service:

Alternating current, 60 cycles, three phase, 12,500 volts or higher in accordance with the Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E21):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	$350.00	$350.00
Energy Charge	* 1.45¢ per KWH all KWH	1.45¢ per KWH all KWH
Capacity Charge	$2.50 per KW all KW	$4.00 per KW all KW

The kilowatt (KW) for the current billing month shall be the maximum indicated or recorded by metering equipment installed by the City of Austin. When the power factor is less than 85%, kilowatt (KW) shall be determined by multiplying the indicated KW by 85% and dividing by such lower peak power factor.

* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

WATER AND WASTEWATER

Application:

This rate is applicable to all electric service required for the operation of water pumping and sewage disposal systems owned, operated and maintained by the City of Austin.

Character of Service:

Alternating current, single phase or three phase, in accordance with the installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E16):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	$25.00	$25.00
Energy Charge	* .90¢ per KWH all KWH	* .90¢ per KWH all KWH
Capacity Charge	NONE	1.6¢ per KWH all KWH

* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

STREET LIGHTING AND TRAFFIC SIGNALS

Application:

This rate is applicable to all electric service for the illumination and operation of traffic signals on all dedicated public streets, highways and expressways or thoroughfares within the city limits of Austin operated and maintained by the City of Austin.

Character of Service:

Alternating current, 60 cycles, single phase.

Rate (E18):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	$68,500.00 per Account	$68,500.00 per Account
Energy Charge	*1.0¢ per KWH all KWH	*1.0 ¢ per KWH all KWH
Capacity Charge	NONE	.50¢ per KWH all KWH

* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

OTHER CITY

Application

This rate is applicable to all electric service required for municipal buildings, parks and other municipally owned and operated establishments within the City of Austin.

Character of Service:

Alternating current, 60 cycles, single phase or three phase in accordance with Installation Rules and Standards for Electric Service prescribed by the City of Austin from time to time.

Rate (E17 and E19):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	$10.00 per meter	$10.00 per meter
Energy Charge	* .90¢ per KWH all KWH	* .90 per KWH all KWH
Capacity Charge	NONE	1.3 ¢ per KWH all KWH

* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

NIGHTWATCHMAN:

Application:

Applicable to private outdoor overhead lighting installed, owned, operated, and maintained by the City of Austin.

Rate (ENW):

	Winter Billing Months of November through April	Summer Billing Months of May through October
Customer Charge	**$3.30 per Light	**$3.30 per Light
Energy Charge	* 1.0¢ per KWH all KWH	* 1.0¢ per KWH all KWH
Demand Charge	NONE	.50¢ per KWH all KWH

* Plus an adjustment for fuel cost calculated according to the formula set forth in Part 2 of this ordinance.

** Plus $1.50 per month, per pole, for all poles.

PART 2. The fuel clause adjustment provided for in this ordinance shall be calculated according to the following formula:

FUEL CHARGE

Application:

Applicable to all City of Austin electric rates for which a fuel charge is prescribed.

Fuel Charge Formula:

The fuel charge can be expressed by the following formula:

$$\text{Fuel Cost/KWH} = \left\{\frac{F}{S}\right\} + \left\{\frac{E\text{-}A}{S}\right\}$$

Where F is the estimated cost of fuels, including refunds and the cost or revenues of purchased or sold power for the calendar month

S is the estimated sales of KWH for the month

E is the actual cost of fuels, including refunds and the cost of revenues of purchased or sold electric energy for the second preceding calendar month

A is the actual cost recovered in the second preceding calendar month.

The fuel charge formula is intended to recover the actual cost of fuel adjusted for any purchase or sale of electrical energy. The intent is to avoid any over – or under – recovery of costs associated with fuel.

PART 3. Bills computed under this ordinance are due when rendered. Each bill shall have set forth thereon a date falling between twenty-seven and twenty-nine days after the date of the bill. Bills paid after the specified date shall have added thereto a penalty equal to five percent (5%) of the bill.

PART 4. The rates and charges provided for in this ordinance shall become effective on all bills rendered on or after May 1, 1981.

PART 5. Service rendered under this rate ordinance shall be provided pursuant to the rules and regulations passed by the City Council which were effective on April 1, 1978, and amended on October 9, 1978, which are hereby expressly ratified and which is attached hereto as Exhibit "A" and incorporated by reference herein, and pursuant to such further rules and regulations prescribed by the City of Austin from time to time.

PART 6. The single fuel rates listed above for all classes of service are to be merged with the multiple fuel rates in the applicable class of service. This merger is to be completed on or by April 1, 1983.

PART 7. The Electric Utility Account "Recoverable Fuel Costs" as of April 1, 1980 shall be adjusted as follows:

(a) The balance of the "Recoverable Fuel Costs" account that has not been billed to customers as of April 1, 1980, shall be reduced by the balance as of April 1, 1980 in the Electric Utility Account "Contingent Fuel Cost Adjustment Reserve" which was established pursuant to Ordinance 730118-C.

(b) A new Electric Utility Account "LoVaca/Valero Securities Trust Investment" shall be established. The value of this account shall be recorded as the value of the assets in the LoVaca/Valero Securities Trust held by Mercantile National Bank of Dallas, Texas (Trustee), as of April 1, 1980 multiplied by the City of Austin's percentage share in the components of the LoVaca/Valero Securities Trust. The balance remaining in the "Recoverable Fuel Costs" account after the calculation in Part 7(a) shall be reduced as of April 1, 1980 by the amount in the "LoVaca/Valero Securities Trust Investment" account.

(c) If after the calculations in Part 7(a) and Part 7(b), there is a balance remaining in the "Recoverable Fuel Costs" account as of April 1, 1980, then this balance shall be recoverable from future revenue of the Electric Utility System prior to December 31, 1988, by a surcharge in the fuel adjustment portion of the customers' bills from April 1, 1980 to December 31, 1988. This surcharge shall be calculated by dividing the balance in the "Recoverable Fuel Costs" account by the projected kilowatt hours to be billed over the remaining months ending December 31, 1988. This calculation shall be adjusted annually as of April 1 of each year to account for differences in projected kilowatt hour billings and actual kilowatt hour billings. If the amount to be billed after such calculations is less than .003 cents a kilowatt hour, then no charge shall be made to customers until the twelve months beginning April 1, 1988.

(d) If after the calculations in Part 7(a) and Part 7(b), there is no balance in the "Recoverable Fuel Costs" account as of April 1, 1980, then only after distributions received by the City of Austin from the LoVaca/Valero Securities Trust equal the amount recorded in the "LoVaca/Valero Securities Trust Investment" account on April 1, 1980, then the City of Austin shall rebate to ratepayers such amounts in excess of the "LoVaca/Valero Securities Trust Investment" account. Such rebates shall be made to ratepayers connected at the time such rebates are made. The rebates shall be distributed over the next twelve (12) month period beginning April 1 following the receipt by the City of Austin of the distribution from the Securities Trust Trustee. The rebates shall be calculated by dividing the amount to be distributed by the projected kilowatt hours to be billed over the twelve (12) month period of the rebate. The rebate shall be in the form of a credit to the fuel adjustment calculation.

(e) The City of Austin shall credit against the "LoVaca/Valero Securities Trust Investment" account the annual distributions from the Trustee. At such time that the distributions equal the value of the LoVaca/Valero Securities Trust Investment Account balance, then any distribution in excess of that amount shall be used first to reduce the remaining balance in the "Recoverable Fuel Costs" account. If there is no balance in the "Recoverable Fuel Costs" account, then the distribution from the Trustee shall be rebated to ratepayers connected at the time such rebates are made and shall be made over a twelve (12) month period beginning April 1 following the receipt by the City of Austin of the distribution from the Securities Trust Trustee. The rebates shall be calculated by dividing the amount to be distributed by the projected kilowatt hours to be billed over the twelve (12) month period of the rebate. The rebate shall be in the form of a credit to the fuel adjustment calculation.

PART 8. That all ordinances, resolutions, and orders heretofore passed, adopted, and made, or any part of same, affecting rates and charges for sales made or services rendered by the Electric Light and Power Works and System of the City of Austin, which are in conflict with this ordinance, shall be, and the same are hereby, in all things repealed.

PART 9. The paragraphs, sentences and clauses of this ordinance are severable and should any paragraph, sentence, phrase, or section of this ordinance be declared unconstitutional by the lawful decree of any court of competent jurisdiction, such unconstitutionality shall not affect the remaining paragraphs, sentences, phrases, or sections of this ordinance.

PART 10. This ordinance shall become effective ten (10) days following the date of its passage as provided by the Charter of the City of Austin.

MONTHLY WATER AND SEWER RATES

Effective October 1, 1980, the Austin City Council raised all water and sewer rates 5.5%. This increase is reflected in the rates below.

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

PART 1. That the monthly rates and charges for sales made or services rendered by the Water System and the Wastewater System of the City of Austin are hereby established, levied, fixed and prescribed as follows:

A. *Water Rates – Application:* These rates are applicable to all sales or service of water within and outside the corporate limits of the City of Austin.

Monthly Water Use		Rate per 1,000 gallons Inside City	Outside City
gallons		$	$
First	2,000	Minimum Charge	
Next	28,000	0.91	1.36
Next	970,000	0.75	1.12
All over	1,000,000	0.75	1.12

B. *Water – Minimum Monthly Charge – Application:* These rates are applicable to all sales or service for the first 2,000 gallons or less monthly.

Minimum Monthly Charge: For the first 2,000 gallons or less monthly.

Meter Size	Inside City	Outside City
inches	$	$
⅝	2.75	4.13
¾	3.03	4.55
1	3.99	5.98
1¼	4.40	6.60
1½	5.23	7.85
2	7.71	11.56
3	24.76	37.15
4	30.27	45.41
6	46.78	70.17
8 or larger	63.29	94.93

C. *Private Fire Protection Charges – Application:* Charges on an annual basis for private fire protection service based on the size of the service are as follows:

Private Fire Protection Charges:

Size of Service	Annual Charge Inside City	Outside City
inches	$	$
4	57.51	87.04
6	127.44	191.06
8	226.92	340.37
10 or over	354.36	531.54

D. *In-City — Wastewater Service Charges — Application:* These rates are applicable (1) to all customers within the corporate limits of the City of Austin whose premises are connected to the wastewater sewer service of the City of Austin and who have metered water connections, and (2) to all water customers whose premises are not connected to the wastewater sewer service of the City of Austin if wastewater service has been made available to the customer for a period of time exceeding three years.

Monthly Water Use gallons		
First	2,000	Minimum charge $3.17 per month
Next	28,000	@ $0.89 per 1,000 gallons
Next	970,000	@ $0.62 per 1,000 gallons
All over	1,000,000	@ $0.62 per 1,000 gallons

E. *Out of City — Wastewater Service Charges - Application:* These charges are applicable to wastewater service customers outside the corporate limits of the City of Austin which have metered water connections:

Monthly Water Use gallons		
First	2,000	Minimum charge $4.75 per month
Next	28,000	@ $1.33 per 1,000 gallons
Next	970,000	@ $0.93 per 1,000 gallons
All over	1,000,000	@ $0.93 per 1,000 gallons

F. *Methods of Computation — Application:* Computations outlined herein are applicable to the rates specified in D and E above. Bills will be computed on the basis of average use for December, January and February billing periods, or the current month for March through November bills, whichever is less. Charges based on average use would be billed each month throughout the year, unless water use for that month is less than the computed average. Measured sewage volume, acceptable to the City, may also be used as a basis of determining volume.

Where residential accounts do not have an acceptable history of winter water use, charges for the period March through November shall be billed on the current month's water usage, or a charge based on a water usage of 7,000 gallons per month, whichever is less.

Where accounts other than residential do not have an acceptable history of winter water use, charges for the period March through November shall be based on monthly water use unless sewage volume can be determined.

G. Wastewater service shall be subject to the provisions of the City of Austin Industrial Waste Ordinance and any conflict between this rate ordinance and the Industrial Waste Ordinance shall be resolved in favor of the Industrial Waste Ordinance.

PART 2. The rates and charges provided for in this ordinance shall become effective on all bills rendered on or after October 1, 1979.

PART 3. Bills computed under this ordinance are due when rendered. Each bill shall have set forth thereon a date falling between twenty-seven and twenty-nine days after the date of the bill. Bills paid after the specified date shall have added thereto a penalty equal to five percent (5%) of the bill. Provided, however, this provision shall become effective on all bills rendered after October 1, 1979.