NEW HORIZONS

CENTRAL POWER AND LIGHT COMPANY ANNUAL REPORT 1989

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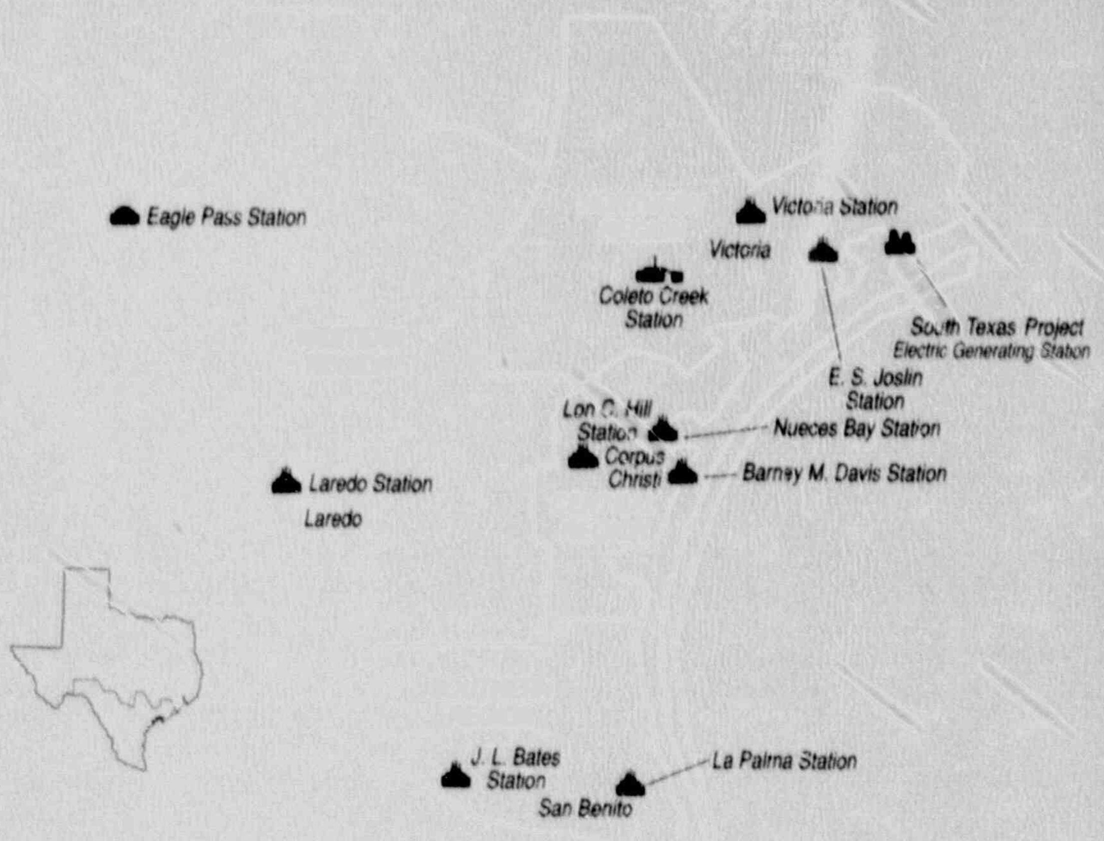
Central Power and Light Company supplies electric service to a 44,000-square-mile area that reaches into 44 counties of South Texas. The Company is a subsidiary of Central and South West Corporation, a registered holding company. At the end of 1989, Central Power and Light Company served 549,301 customers in 226 communities and the surrounding area. The Company also supplies, at wholesale, a part or all of the electric requirements of five rural electric cooperatives and two municipal electric systems. The territory served by the Company has a population of approximately 1.9 million. Principal executive offices are located at 539 N. Carancahua Street, Corpus Christi, Texas. Telephone: (512) 881-5300.



Financial Summary

CENTRAL POWER AND LIGHT COMPANY

SUMMARY OF FINANCIAL AND OPERATING STATISTICS

	1989	1988	% CHANGE
FINANCIAL STATISTICS (Thousands)			
Operating Revenues	**$ 836,585**	$ 790,432	6
Fuel and Purchased Power	**336,380**	343,629	(2)
Other Operating Expenses	**233,128**	250,016	(7)
Taxes, Other Than Federal Income	**43,196**	45,430	(5)
Federal Income Taxes	**62,275**	28,979	115
Operating Income	**161,606**	122,378	32
Net Income	**147,781**	156,819	(6)
OPERATING STATISTICS			
Kilowatt-hour Sales (Thousands)	**15,306,774**	14,617,583	5
System Maximum Demand (Kilowatts)	**3,145,000**	3,013,000	4
Electric Customers (Year-end)	**549,301**	539,896	2
Average Kilowatt-hour Sales Per Residential Customer	**11,46[illegible]**	10,925	5
Average Residential Rate Per Kilowatt-hour	**5.93¢**	5.97¢	(1)

About the Cover

The 1989 Central Power and Light Company Annual Report cover features the South Texas Project Electric Generating Station, Texas' first fully operating nuclear power plant will give the Company a diverse and stable fuel supply well into the next millennium. Settlement of CPL's rate case will allow it to concentrate on what it does best — provide reliable electric service at the lowest reasonable rate. As the Company faces the "New Horizons" of the 1990s, it realizes that many new issues lie ahead. Fortunately, it can draw on nearly three-quarters of a century of experience to face with confidence the dawning of a new era.

Contents

President and Chief Executive Officer Robert Carey and his predecessor, Thomas V. Shockley III, inspect a control room at the South Texas Project Electric Generating Station. Carey succeeded Shockley Jan. 1, 1990.

Presidents' Letter

On the threshold of a new decade, Central Power and Light Company is poised to meet the growing energy demands of South Texas.

In 1989 the second unit of the South Texas Project Electric Generating Station went into commercial operation. The successful operation of both units gives the Company a diverse and stable fuel supply.

During 1989 fuel expenses were about $29 million less than they would have been without STP. In 1990 these fuel savings are expected to range from $55-$65 million.

We are optimistic that the Public Utility Commission of Texas will approve a rate case settlement signed in February 1990 by the Company and most of the intervenors in the rate case. The two-step, $264 million rate increase would be fully implemented in 1991 and will stabilize rates through 1994.

Stockholder earnings were down in 1989 due to the lack of rate relief associated with STP. However, 1989 earnings were improved by $24 million due to recording deferred accounting on Unit 2 based on a recommendation from the PUC administrative law judge.

When you look at all the other aspects of the Company's operations, you will see that we otherwise had an outstanding year. We continue to make great strides toward excellence in customer service.

Good fences may make good neighbors, but we are tearing down barriers between ourselves and those we serve to build a stronger relationship. We implemented several customer service programs in '89 aimed at helping disadvantaged South Texans. Our involvement in the adult literacy campaign also expanded during the past year.

The vital resource in serving customers is the CPL employee. It is essential that every employee convey our commitment to superior customer service. We are continuing to emphasize training as a means of instilling this philosophy and will continue emphasizing superior service in our daily activities. Our success rests with our ability to view ourselves as the customers see us.

A positive image will help retain customers in an increasingly competitive market while limiting inevitable criticism when rates rise. In McAllen the city government has expressed an interest in buying our facilities to create a municipal system. It is our strong belief that this effort would not best serve the customers in the area, and we will resist any loss of our customer base. CPL has served South Texas for almost 75 years. We have the expertise and resources that could not be purchased in a system takeover.

We can assure all our customers of just and reasonable rates, which we will keep competitive. Our rates consistently have been among the lowest of all investor owned electric companies in Texas. Our proposed rate will be competitive with other utilities in the state.

As we look toward the new horizons of the next decade, we fully realize the difficulties that lie ahead. The obstacles before us call to mind the adage: "You not only have to do things right, you have to do the right thing."

We spend a great deal of effort to make sure that our employees are given the opportunity to get the job done right. Reorganization in 1988 streamlined our Company. Our employee-customer ratio of 4.3 to 1,000 is excellent.

We also will have to ensure the investments we make are sound and will earn a return. Fuel is a major cost in doing business, and the completion of STP means we will be using the least expensive fuel source available.

Another extremely important area in managing expense is the cost of debt, which determines a portion of kilowatt-hour cost. This past year, we went through several refinancings that will help reduce the cost of electricity for the next quarter century.

Our new marketing strategy has been shaped not just to sell kilowatt-hours, but to offer business solutions. It is tailored to customers so that we do everything we can to help fit their business needs.

While we view the 1990s with optimism, it is tempered with the realization that there are still many hurdles ahead. However, we have taken steps to weather these difficult times. We remain confident that the actions our Company has taken this past year will ensure its growth and prosperity in the future.

Robert R. Carey

Robert R. Carey
President and Chief Executive Officer,
Central Power and Light Company

T. V. Shockley, III

T. V. Shockley, III
Senior Vice President,
Central and South West Corp.
President and Chief Executive Officer,
Central and South West Services, Inc.

Full commercial operation of the South Texas Project Electric Generating Station during 1989 and probable settlement of the Company's retail rate case early in 1990 mean more than just good news for Central Power and Light Company. These accomplishments allow CPL to refocus attention on what it has done best for 73 years — provide reliable, reasonably priced electric service.

"If you're not serving the customer, you'd better be serving someone who is."

This advice for the 1990s applies to every industry. However, among electric utilities the message has added significance. Companies ignoring this counsel may find themselves out of business in the next century, while utilities whose employees rank customer service as the first order of business can look forward to growth and prosperity. CPL employees, from front-line offices across South Texas to the home office, recognize that providing excellence in customer service must be more than a slogan.

In the 1990s, CPL will strive to:

- **make excellence the standard by which CPL people perform their jobs every day.**
- **provide reliable electric service at the lowest reasonable cost.**
- **ensure a fair return to stockholders on their investment.**

The following pages describe Company programs begun in 1989 to meet our customer service goals, and recount the year's operating results. The report includes profiles of several CPL customers, South Texans who attest to our commitment to excellence.

Operating Results

The past year saw the culmination of STP construction and extensive work to include the nuclear power station's construction costs in rate base. All indications are that 1990 will show substantially improved operating results now that these major tasks essentially are complete.

CPL's 1989 total revenues increased by 6%. Base revenues increased by 11%, primarily due to a 4.7% increase in kilowatt-hour sales and the implementation of interim rates in September. Fuel revenues decreased by less than 1% due to reduced fuel cost.

Average revenue per kilowatt-hour from residential customers decreased from 5.97 to 5.93 cents during the year due to lower fuel costs. Average annual residential usage increased from 10,925 kilowatt-hours to 11,461, an increase of 5%. The number of residential customers at year-end increased by 1.8% to 467,672.

In the commercial category, which tracks economic growth, total revenue went up 4%. Usage per commercial customer increased by 3% from 1988.

Industrial revenues increased by 3%, and kilowatt-hour sales increased by 8%. New loads at OxyChem and American Chrome and Chemical helped offset minor energy sales losses due to cogeneration.

Net income decreased from $156.8 million in 1988 to $147.8 million in 1989. The decrease is attributable primarily to the unrecovered costs of STP while the Company's rate case was in progress.

Refinancing of Company bonds during 1989 will save CPL and its customers millions. Series Z was issued in December to finance tender offers for Series V First Mortgage Bonds and Series 1985

[illegible]

Farmer — [illegible]

"Reliability is vital on the farm . . ."

[illegible]

Debentures. Additionally, the interest rate on the Series 1984-A pollution control bonds was lowered. As a result of these measures it is estimated the Company will achieve an after-tax savings of approximately $2 million per year for the next quarter century.

Customer Service Programs

CPL employees prove daily they can be relied upon to help a neighbor in need. The Company enhanced its reputation as a responsible corporate citizen in 1989 by initiating or expanding customer service programs that make life a little easier for its South Texas neighbors.

In the summer of 1989, *Neighbor to Neighbor* began providing assistance to poverty-level customers who face financial emergencies. The program, which helps pay residential energy bills — electric or gas — was established through an initial contribution of $100,000 from CPL stockholders. Customers can pledge contributions to the fund through their monthly bills or make one-time contributions. By the end of 1989 more than 3,700 customers and employees had elected to make monthly contributions to *Neighbor to Neighbor*. Local social service agencies supervise and distribute the fund, and all applicants are referred to those agencies. One hundred percent of the fund is used for those in need.

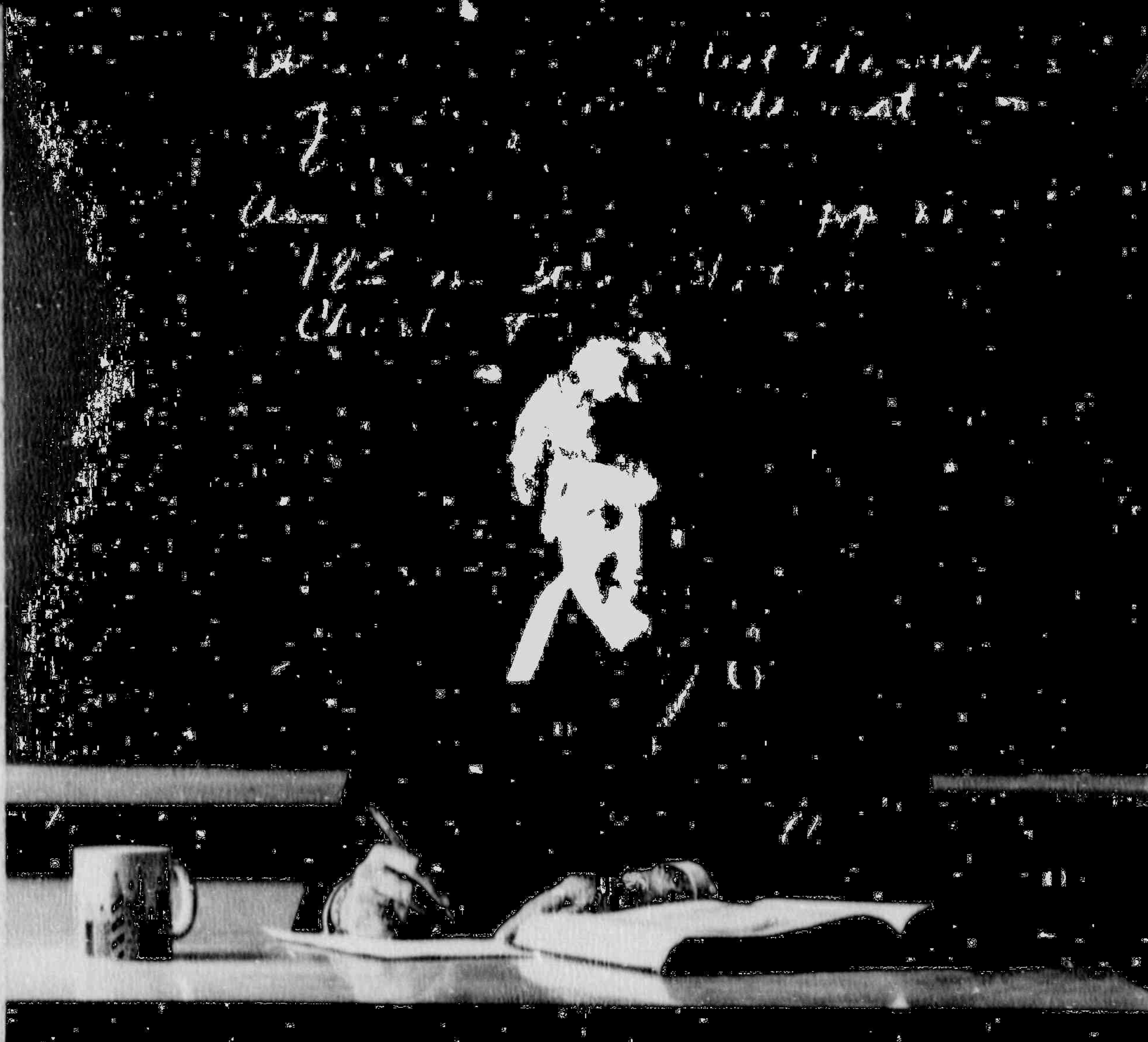
The *Gatekeeper* program started in the spring of 1989. *Gatekeeper* provides a support system for vulnerable senior citizens, mostly people with no relatives or close friends to look after them. The program teaches employees who have contact with the public to recognize when people may need assistance. After noting a trouble sign, an employee informs a regional coordinator who contacts the appropriate area community service agency. That agency then calls the customer to see if it can help.

Another new service helpful to elderly and disabled is our *Third Party Notification* program. Residential customers who sign up for the program designate a third party who can be notified if service is about to be disconnected for non-payment. The third party — a relative, neighbor or friend — is under no financial obligation to pay the bill. The third party simply reminds the customer that the bill needs to be paid, or notifies CPL if a problem exists.

Our *Convenient Payment Plan* assists seniors who live on a fixed income. The program addresses their concern that pension or Social Security checks might not arrive in time to allow them to pay by the electric bill due date. Customers who sign up for Convenient Payment can choose the due date of their bills to more closely correspond with the arrival of their checks.

In 1988 CPL became a corporate sponsor of an *Adult Literacy* program in Corpus Christi. During 1989 the Company made contributions to literacy programs throughout our service territory and provided public awareness advertisements seeking tutors and students for the literacy agencies. Company employees also volunteered to serve as tutors in the programs.

The *Gatekeeper* program provides support to the senior community.



Mary Williams

Assistant Principal and Teacher
Hamlin Middle School — Corpus Christi

"CPL is 'awesome' . . ."

We were very fortunate to be paired with CPL for the Adopt-A-School program. Since 1988 over 250 CPL employees — from the chief executive officer to servicemen and meter readers — have made more than 1,800 presentations to over 10,000 of our sixth-, seventh- and eighth-grade students.

We've learned how electricity is made from different types of fuel sources, including nuclear. We've also learned all about electrical safety, energy efficiency in homes and businesses, corporate communications and public speaking, the free enterprise system, and even the importance of voting.

I think Adopt-A-School adds excitement to our students' lives. I definitely believe that it adds a large measure of what the business community — especially CPL — means to the community our students live in.

CPL's participation in the Adopt-A-School program generally goes way beyond what other corporate sponsors offer a school system. The value of the educational information our students have received from CPL has been "awesome" to paraphrase our kids' summation of the program. I honestly believe our eighth-grade students know more about the South Texas Project than their parents do.

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Packard Electric operates a twin plant program in South Texas

Building Basic Economic Strength

Maquiladoras have worked economic magic along the Texas-Mexico border. Twin plants, which have facilities on both sides of the Rio Grande to take advantage of Mexico's labor market and U.S. technical and managerial expertise, have revitalized the border economy. This burgeoning industry helped make the border communities CPL serves the fastest growing area in the state during 1989.

CPL's Area Development group aided several manufacturers in establishing maquiladoras and other plants in our service area. These efforts support a fundamental Company objective: to encourage economic growth throughout South Texas.

More than 50 companies opened new plants or expanded facilities during 1989. Here are a few highlights:

- Fruit of the Loom broke ground for a new textile mill in Harlingen. When the plant opens in the fall of 1990 it will represent 4 megawatts of connected load. The mill projects a total work force of 2,400 employees in five years.
- Formosa Plastics announced it will spend approximately $1.7 billion to expand its facility at Point Comfort. A total of 1,500 full-time jobs will result from the expansion.
- De Dietrich began construction of a 105,000-square-foot plant near Corpus Christi to build glass-lined pressure vessels for sale to the chemical industry. The president of the French manufacturing firm cited abundant, reliable and relatively low-priced electricity as one of the key factors in determining the location of the $8 million plant.
- Maverick Arms, a subsidiary of O. F. Mossberg & Sons, Inc., opened a "reverse" maquiladora plant in Eagle Pass — parts are made in Mexico and assembled in the U.S. The shotgun manufacturer has announced it will double its facility size and work force during 1990.

Other industries that have expressed an interest in locating in South Texas include aerospace firms, medical product companies, and plastics manufacturers.

Construction of Naval Station Ingleside, homeport for the *USS Wisconsin* and support vessels, remains on schedule. Navy personnel, civil service employees and their families began moving to the station area just outside of Corpus Christi during 1989. Homeport will generate more than 8,700 new jobs and an annual payroll of $170 million.

Tourism represents the largest and most competitive industry in Texas — annual statewide expenditures run about $18 billion. Winter visitors to South Texas pump about $190 million into the Rio Grande Valley economy each year. During the peak season the Valley's population increases by approximately 80,000 visitors. A three-county area in the Valley has more than 500 mobile home parks with 66,000 spaces to house Winter Texans.

Ruben De Leon
Chief of Police — Alamo

"Lighting the way . . .

Alamo is a growing little town of about 8,000 people. During the winter months we get a large influx of Winter Texans that swells our city's population to somewhere over 15,000 [illegible]. They come because of the community's beauty, the weather and because Alamo has one of the lowest crime rates in the state.

We've upgraded our police force, computerized our equipment and trained our people. Alamo police officers get more training than any other law enforcement officers in South Texas.

During the past couple of years I would say there has been about a 50 percent increase in security and street lighting in Alamo. That has definitely helped cut down on crime — especially residential burglaries. CPL has helped lead the way for the increased lighting, and they are to be commended for what they have done for our community.

CPL employees also have been at the forefront in supporting our neighborhood crime watch. That's helped us a great deal in our efforts against narcotics.

Exciting oil discoveries took place in four South Texas counties during 1989. New directional, or "horizontal," drilling techniques have led to reopening of the Austin chalk formation. Oil industry analysts are calling the Pearsall field in Frio, Zavala, Dimmit and LaSalle counties "another Spindletop." Some of the wells are capable of producing up to 5,000 barrels per day.

Agriculture remains a mainstay of the South Texas economy, despite a summer drought and December freeze that destroyed much of the 1989 citrus crop in the Rio Grande Valley. Food processing has almost unlimited potential in South Texas. Approximately 94% of the varied agricultural products grown here are processed elsewhere, but that percentage will decline with new textile and other processing plants planned for completion in the new decade.

Rate Case Settlement

A settlement of regulatory issues concerning STP was signed by CPL, most of the intervening parties in the Company's rate case and the Public Utility Commission of Texas General Counsel in February 1990. The settlement benefits all parties — the Company, customers and South Texas.

The agreement includes a $264 million base revenue increase. It consists of: an interim increase of $39 million, with a $32 million decrease in fuel, for a net interim increase of $7 million that became effective in August 1989; a $105 million (13%) increase to go into effect in March 1990; and a $120 million (13%) increase to go into effect in January 1991. The increase represents a 29% systemwide increase in rates. Base rates would be held stable through 1994 except for specified unusual circumstances. Changes in the fuel portion of the bill would continue to be adjusted to track fuel costs, after review and approval by the PUC.

Settlement allows CPL to recover costs of construction and operation of STP as well as other costs while accelerating continued rate hearings. Additional settlement benefits include: earlier completion of lengthy, expensive rate hearings and legal proceedings; the end of additional deferred charges on STP; and greater cooperation in efforts to strengthen the South Texas economy.

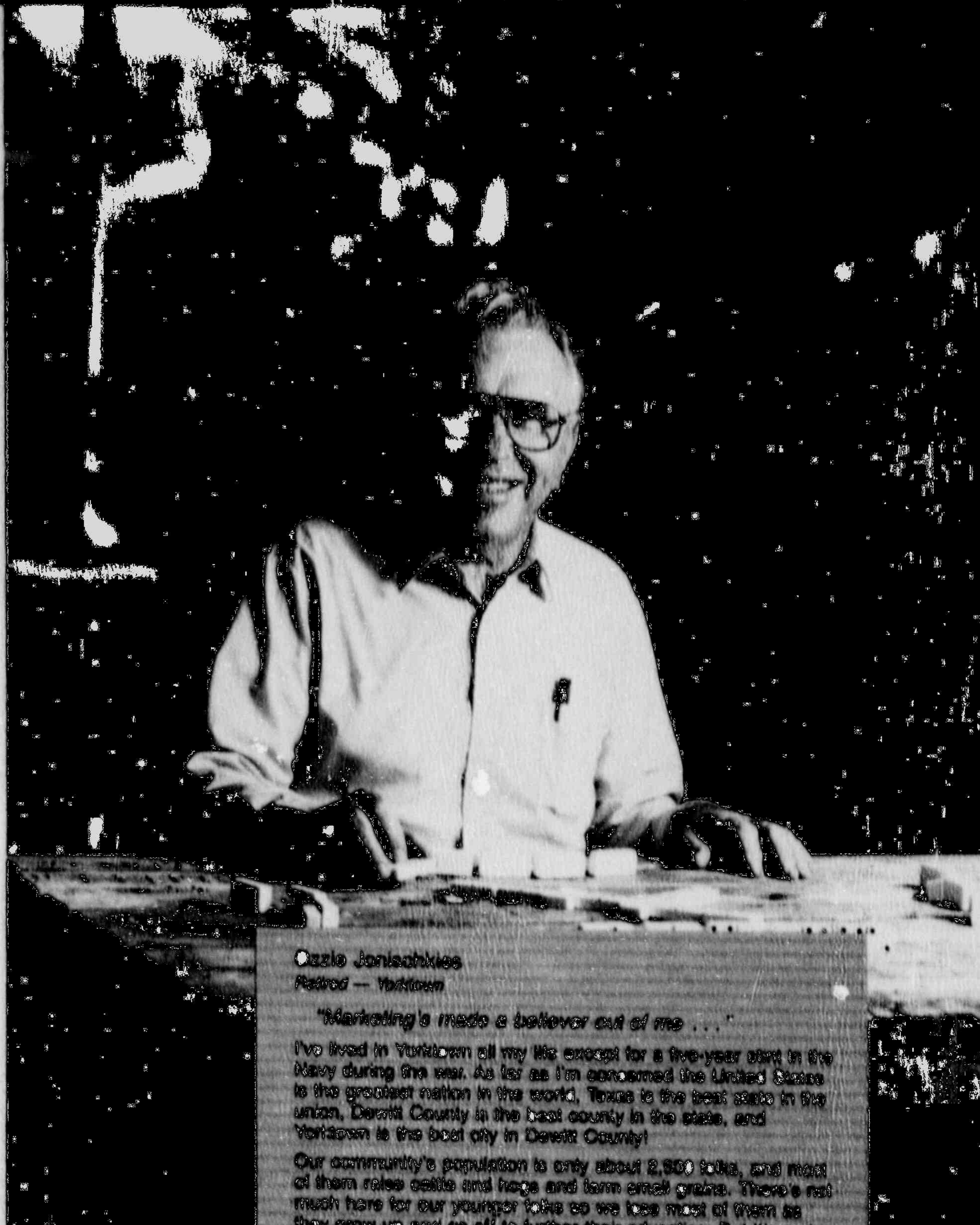
In general, the settlement moves major customer groups closer to equalized rates of return, while limiting the impact on customers who use small amounts of electricity. The settlement contains an Economy Residential Service rate for residential customers who use less than 500 kilowatt-hours of electricity per month. This addresses concerns that low-use customers will be able to receive essential service at an affordable price.

An abbreviated proceeding related to the $120 million second step of the settlement will have to be filed in 1990. However, less opposition, delay and regulatory expense is anticipated to be associated with these hearings.

The settlement followed months of negotiations that proceeded during the rate case hearings. CPL filed its rate case Feb. 15, 1989, asking for a first-step increase in retail base rates of $155 million annually, with additional increases projected for three consecutive years. Hearings in the prudence docket, the first of several phases of the rate case, began May 22. Hearings in that phase, which concentrated on the prudence of construction expenditures and management decisions associated with building STP, lasted more than six months. The prudence docket itself began four years ago, with extensive testimony and discovery materials being provided to intervenors.

On April 19, 1989, CPL was granted deferred accounting on STP Unit 1. The PUC order allowed the Company to capitalize, or defer, operating and maintenance costs, taxes, depreciation and carrying costs from the time Unit 1 went into commercial operation until new rates are put in effect or until Feb. 15, 1990. The Company has requested an extension of this date. CPL also requested deferred accounting for Unit 2, and a favorable ruling was received from the administrative law judge in February. The settlement provides full deferrals for both units until the first phase of the rate increase is effective, and deferral of Unit 2 carrying costs until step two of the rate increase is in effect.

In mid-June the Commission allowed CPL a $39 million interim rate increase. When put into effect on Aug. 28 the increase represented the first rise in Company rates in six years. From 1983-89 residential customers' electricity bills decreased 26%, primarily because of reduced fuel costs. The interim increase was accompanied by a $32 million decrease in the fuel factor portion of customers' bills, resulting in a net average rate increase of less than 1%. However, the increase did allow CPL to improve its cash flow and earnings while waiting for a decision on the permanent rate request.



Ozzie Janischkies
Retired — Yorktown

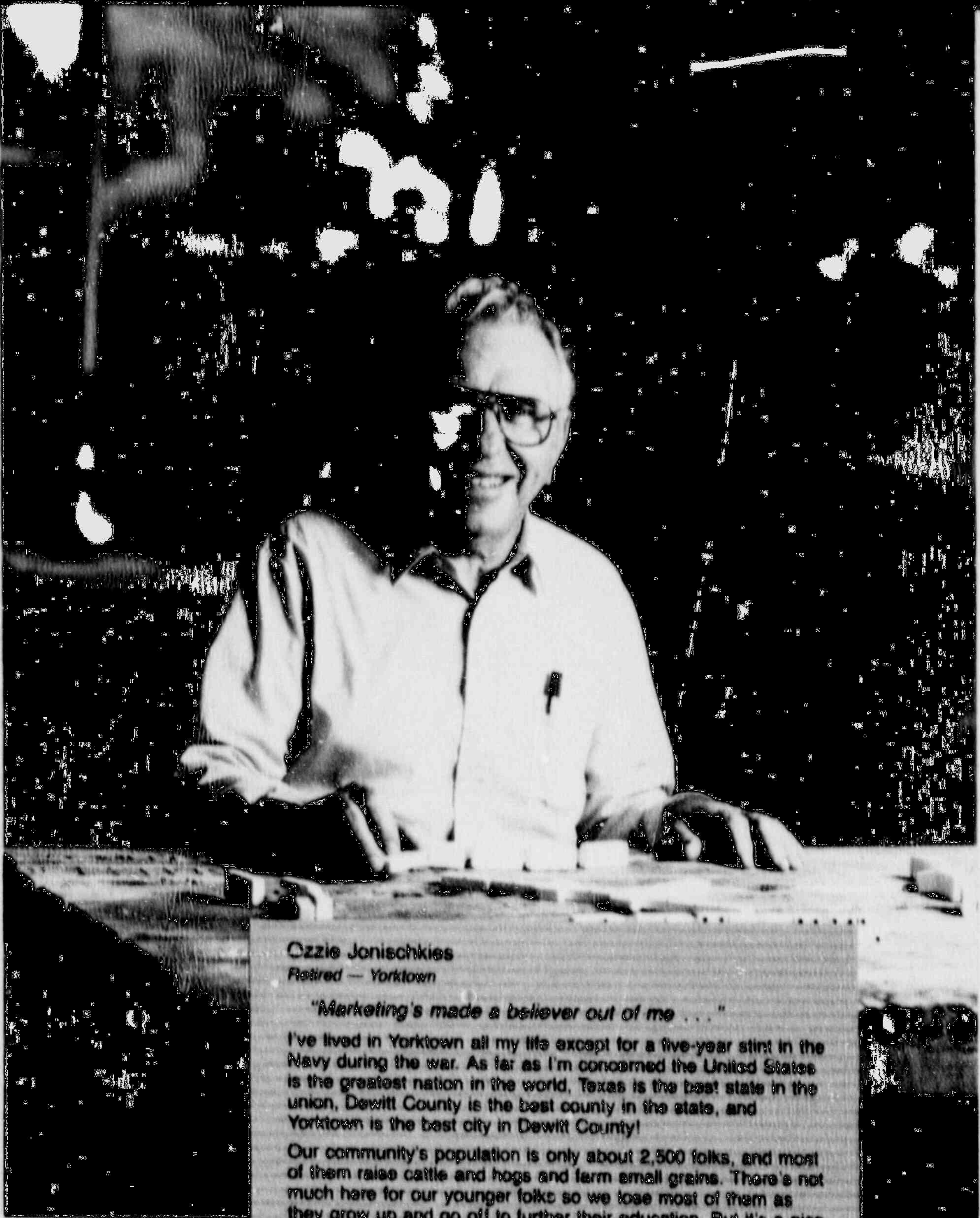
"Marketing's made a believer out of me . . ."

I've lived in Yorktown all my life except for a five-year stint in the Navy during the war. As far as I'm concerned the United States is the greatest nation in the world, Texas is the best state in the union, Dewitt County is the best county in the state, and Yorktown is the best city in Dewitt County!

Our community's population is only about 2,300 folks, and most of them raise cattle and hogs and farm small grains. There's not much here for our younger folks so we lose most of them as they grow up and go off to further their education. But it's a nice, friendly and congenial community.

I was in the lumber and construction business for 36 years. I guess I built about 200 to 300 homes in and around Yorktown. Most of the homes I built were all-electric. People just seem to prefer the convenience, safety and reliability of all-electric homes.

I'm 72 years old and may not build another new home in my lifetime. But whenever either my heating or cooling unit fails I'm putting in a new heat pump. CPL's marketing programs about Good Cents homes and electric heat pumps have made a believer out of me!



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Powering South Texas' Future

Construction of CPL's most significant investment ever, the South Texas Project Electric Generating Station, concluded with commercial operation of Unit 2 during 1989. Texas' first nuclear power station offers great promise and possibilities for CPL's service area. The Company owns 25.2% of the twin-unit plant. STP will help stabilize fuel prices and availability, and add to the economic strength of the service area.

The Nuclear Regulatory Commission paved the way for commercial operation of Unit 2 by granting its full-power operating license March 28, 1989. The manager declared the unit in commercial operation June 19, on schedule with the constructor's time line set in 1982. Unit 1 began commercial operation in August 1988.

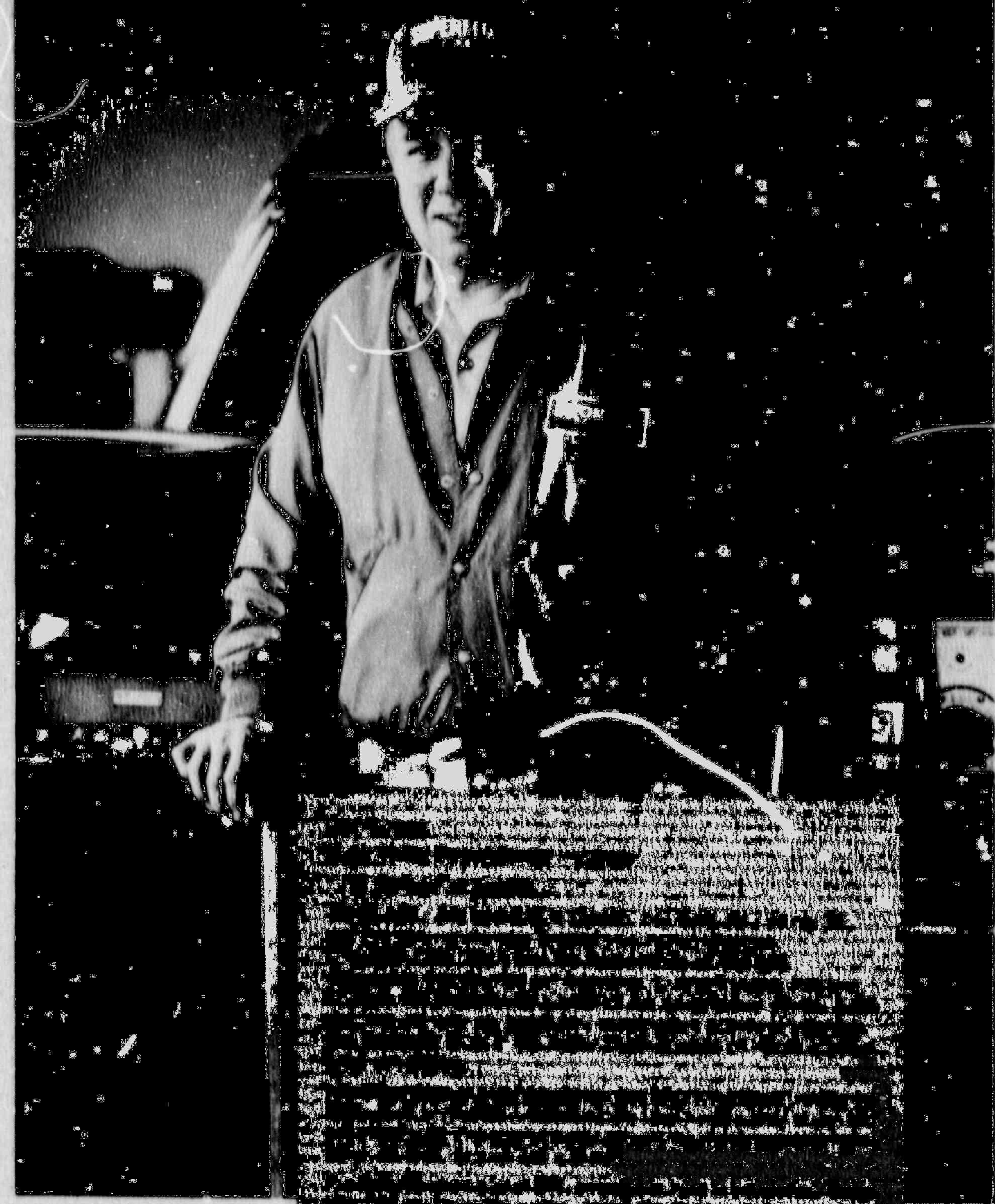
Typical of new power stations, both of the STP units experienced a few "bugs in the system" during the first year of operation. Most of the problems have been worked out, and STP's excellent operating results in 1989 helped prove the prudence of investing in the 2,500-megawatt power station. The state-of-the-art plant's operational costs have run measurably less than those for the average nuclear plant in the country.

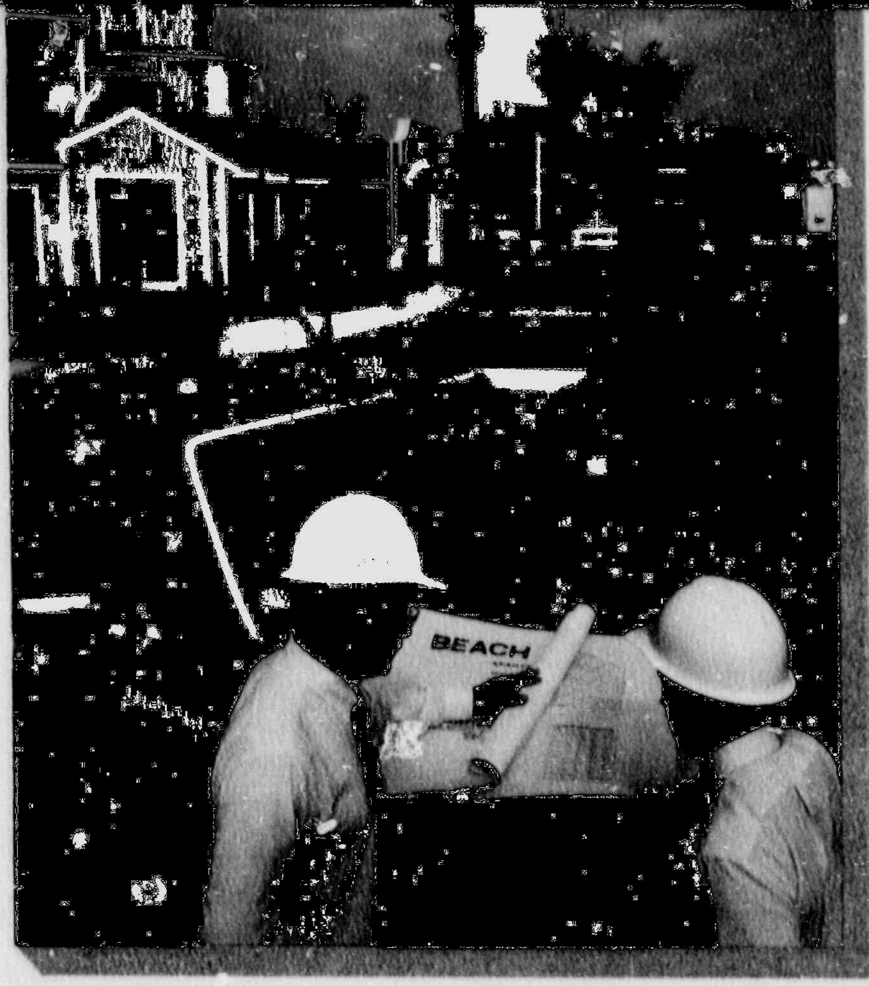
In August during Unit 1's first refueling, inspection of the plant demonstrated that the water chemistry used has been successful in minimizing the buildup of various materials in the steam generators. This will lead to longer life for major components of the units and may possibly extend the entire plant's operating life.

One of the key determinations made during 1989 was the decision to extend the unit's refueling cycles to 18 months rather than 12. A longer fuel cycle means a higher capacity factor for the plant, and more benefits to customers from lower-cost nuclear energy. Making the transition to the longer cycle will take two to three years.

Incorporating STP construction costs into CPL's rate base will raise rates. However, even after including STP in rate base, South Texans will pay electric rates near the average for service in the state. STP will provide the power for long-term economic growth. Nuclear power gives the Company greater flexibility in responding to fluctuations in fuel prices. The total benefits from the facility outweigh any temporary negative impact from higher rates.

The lighting of One Shoreline Plaza towers in 1989 dramatically brightened Corpus Christi's night skyline.





Energy efficient Good ¢ents apartments and homes are being constructed throughout South Texas.

Marketing to Meet Needs

CPL's Marketing Department underwent extensive reorganization during 1989. The Company re-evaluated all of its existing marketing programs to meet heightened competition and reflect a market-led operating philosophy. Under the projected dynamics of the utility industry in the '90s — more competition from other energy suppliers, perhaps accompanied by diluted regulation — marketing efforts will be required to be more pro-active. Two basic criteria will direct marketing during the new decade. Do CPL programs provide solutions to customers' needs? Will marketing programs benefit customers and the Company?

A primary example of a marketing strategy that meets these goals is the CPL Good ¢ents program. Good ¢ents targets the residential construction market, encouraging builders and home buyers to consider the advantages of energy efficient housing. While promoting energy conservation and saving customers money on their utility bills, the program also supports the Company goal of improved system load factors and lower overall costs per kilowatt hour.

South Texas builders constructed almost 1,000 CPL-certified Good ¢ents homes during 1989. Other program highlights were:

- Construction of Good ¢ents apartment buildings throughout the service area, including a 200-unit complex in Corpus Christi.
- The 1989 Corpus Christi Parade of Homes, a tour of 15 homes that attracted more than 6,000 visitors, exclusively featured Good ¢ents homes. The 1990 tour also has committed to display only Good ¢ents-certified homes.

Through the Commercial Floodlight Program, the Company installed more than 3,700 lights during 1989. These lights represent 2 megawatts of off-peak load.

Ensuring Efficient, Effective Results

Hundreds of CPL employees never work with the public. Yet these employees, whose "customers" are co-workers in the field, also have adopted a commitment to providing excellent and efficient service.

For example, severe weather in February and December of 1989 tested communications and cooperation between power stations, the Company's Energy Control Center and service employees in the regions. On Dec. 22, CPL recorded a peak load demand of 3,145 megawatts, a new record. The total energy demand for the day also reached a record high of 67,235 megawatt-hours.

During the cold snap some Texas utilities could not meet their demand, which led to power shortages on Dec. 23 across the interconnected electric utility network. However, aware of the forecast for severe cold weather, CPL had all of the Company's

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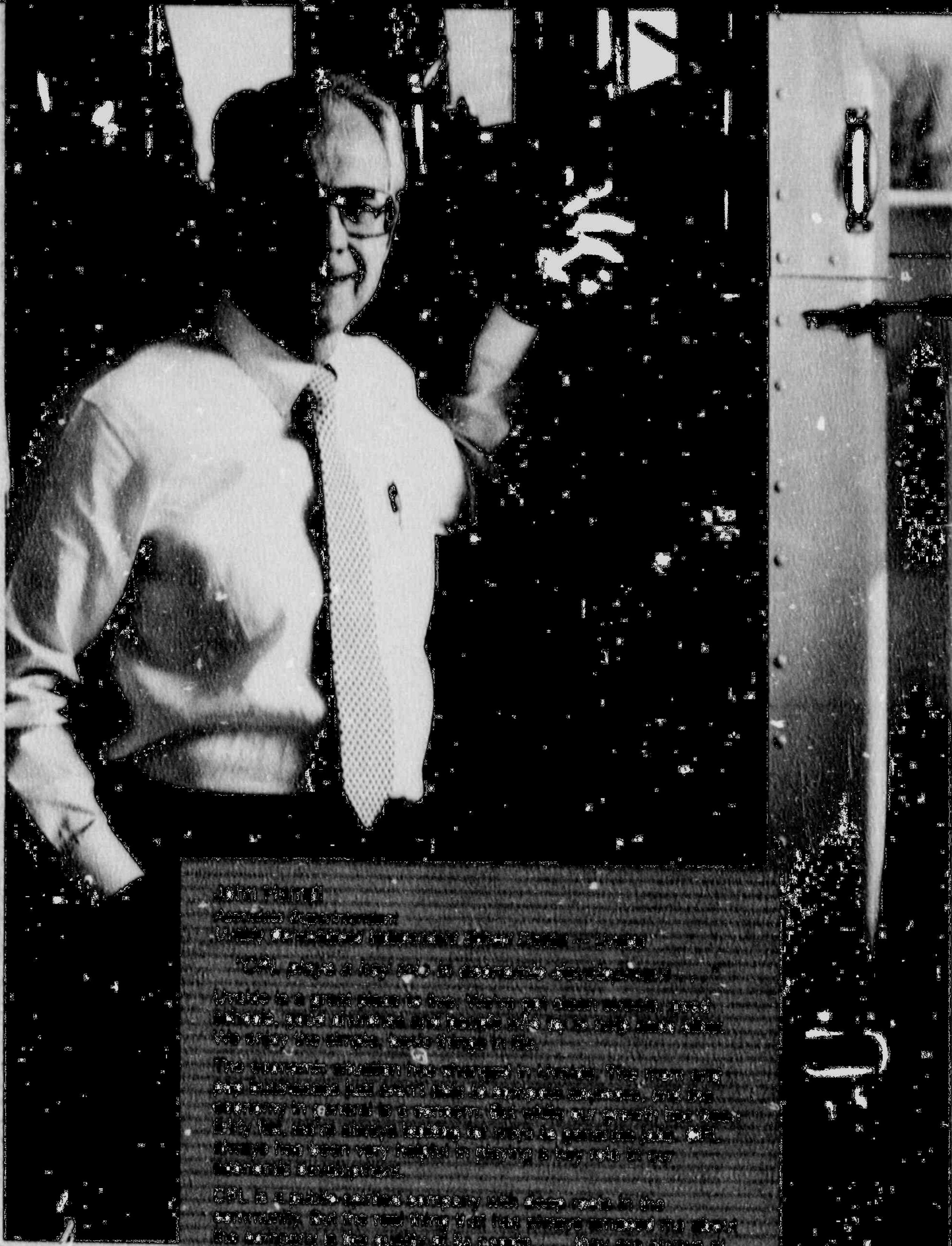

John [illegible]
[illegible] Superintendent
Utility Operations, [illegible] Power Station — Uvalde

"CPL plays a key role in economic development . . ."

Uvalde is a great place to live. We've got clean streets, good schools, good churches and people who try to help each other. We enjoy the simple, basic things in life.

The economic situation has changed in Uvalde. The mom and pop businesses just aren't able to compete anymore, and the economy in general is a concern. But while our growth has been [illegible], we're always looking for ways to generate jobs. CPL always has been very helpful in playing a key role in our economic development.

CPL is a public-spirited company with deep roots in the community. But the real thing that has always amazed me about the company is the quality of its people. . . . They are always at the forefront and ready to go!

I admire CPL and the volunteer fire department. If I ever had to go to war, I'd want one of those two groups going with me. They're always there when you need something.

I served as mayor of Uvalde for a couple of terms, and that's when I first realized that day or night — whenever you needed them — you could depend on CPL people. I don't ever worry about having a problem with electric service. That gives you a good and comfortable feeling.

available generating units and service employees ready to meet the anticipated demand.

While the Company has no near-term need for added capacity, there are long-range plans to re-power some older generating units. This will involve the installation of new gas turbines and heat recovery steam generators to supply steam to the existing steam turbines. These state-of-the-art modifications will dramatically improve the units' efficiency as well as supply needed capacity for growth the rest of this century.

To adapt the older generating units to meet the complex operating requirements of the Company's electrical system, CPL continues to install boiler and turbine digital controls. The modifications enhance operating efficiency by allowing the units to run on automatic controls at lighter loads as well as normal loads and to respond more quickly to emergency generation needs. Additionally, these controls improve the units' heat rates, a primary measure of how efficiently we operate our power stations. CPL stands in the forefront of our industry in this application of digital control systems.

Rigorous maintenance and improved technology ensures efficient operation of CPL generating units.

Environmental Awareness

Protecting our environment has long been a priority with the Company.

As a good corporate citizen, CPL seeks the latest methods to minimize and recycle the wastes it generates. CPL once paid to dispose of spent solvents in incinerators. Now these spent solvents will be recycled by blending them into fuel stock for manufacturing facilities, such as cement kilns. Contaminated oil is being detoxified, and the value of the oil is being recovered by using it as a fuel stock. This has reduced waste disposal costs as well as conserved resources.

Our Environmental Services Department conducts continuing studies that will keep Company standards ahead of increasingly stringent environmental regulations.

CPL enhances the area's natural resources through its support of the Gulf Coast Conservation Association/CPL Marine Development Center. To date 50 million redfish fingerlings have been released into Texas bays and estuaries. The center recently received an award from the Gulf of Mexico Initiative recognizing its positive impact on area sport fishing and tourism.

John Harrell
Associate Superintendent
Uvalde Consolidated Independent School District — Uvalde

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Forecasting Fuel Needs

A decade ago natural gas supplied 99.5% of the Company's fuel needs. Today coal and uranium account for approximately 50% of CPL's fuel sources. While gas prices continue to have a great impact on the cost of service to customers, the addition of STP to the generating system greatly reduces vulnerability to volatile price and supply conditions in the natural gas market.

Late in 1989, CPL initiated development of a Fuel Procurement Plan designed to direct fuel purchases through 1999. The plan outlines how the Company will purchase fuel supplies in the future, gauging current and perceived market situations. Although the volatility of the gas market makes planning these purchases an inexact science, the Company believes the market will tighten, and gas suppliers will become increasingly reluctant to dedicate reserves to their customers. Firm gas purchases with flexible terms will be more difficult to negotiate. The Company's specific plan outlines a prudent course of action for the new decade that will meet both regulatory and reliability requirements. It also provides opportunities for economical spot purchases.

Fuel savings during 1989 resulted in two refunds to customers. CPL refunded $30.6 million to customers in April and $20.5 million in October.

Servicemen and linemen now receive certification in their work.

A Foundation for Excellence: CPL Employees

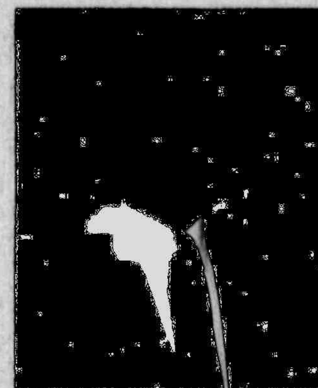
To ensure customer satisfaction the most fundamental requirement is qualified, courteous employees. Customer service starts with people who know how to do their jobs, take satisfaction in their work, and have pride in the Company. Training for employees during 1989 focused on supporting and developing CPL people.

Lineman and serviceman certification during 1989 set the standard in the industry for this type of training. Following reorganization of the Company and implementation of an early retirement program in 1987-88, certification of servicemen and linemen became a top priority. The program ensures that servicemen and linemen know how to do their jobs safely and efficiently. Training and tests include hands-on work with supervisors at the Company's training facility and classroom study at work locations.

Human relations training for all customer service representatives — CPL's most visible, personal contact with customers — also was conducted during the year. This training will continue for new employees, and refresher courses will maintain employees' customer service skills.

A Management Development Program implemented in 1989 seeks to build a foundation for the Company's future. Managing in the electric utility industry is not expected to get any easier in the '90s, but will be more complicated as competition increases and regulation becomes more complex. Attracting and keeping competent, skilled workers and supervisors will require enhanced training and incentives, and CPL is addressing these issues.


Borchelt


Carey


Shamblin

Board of Directors

Robert R. Carey
President and Chief Executive Officer, Central Power and Light Company, Corpus Christi

M. L. Borchelt
Chairman and Chief Executive Officer, Central and South West Corporation, Dallas

W. R. Farquhar, Jr.
Retired General Manager, Lavaca-Navidad River Authority, Edna

Ruben M. Garcia
President or principal of several firms engaged in construction and land development, Laredo

Clayton R. Kirk
Vice President, Central Power and Light Company, Corpus Christi

Robert A. McAllen
Robert A. McAllen Investments, Weslaco

Jim L. Peterson
President and CEO, Whataburger, Inc., Corpus Christi

Herbert C. Petry, Jr.
Attorney, Carrizo Springs

H. Lee Richards
President, Hygeia Dairy, Harlingen

B. W. Teague
Vice President, Central Power and Light Company, Corpus Christi

Richard P. Verret
Vice President, Central Power and Light Company, Corpus Christi

Dale E. Ward
Vice President and Chief Engineering Officer, Central Power and Light Company, Corpus Christi

Officers

Robert R. Carey
President and Chief Executive Officer

P. Richard Shamblin
Vice President

B. W. Teague
Vice President

Richard P. Verret
Vice President

Clayton R. Kirk
Vice President

Dale E. Ward
Vice President and Chief Engineering Officer

Ronald L. Kellett
Controller

Mary E. Sullivan
Treasurer

C. Wayne Stice
Secretary

Mary E. Hunt
Assistant Secretary

Marilyn J. Beebe
Assistant Secretary

T. V. Shockley III resigned as President and CEO and Director effective January 1, 1990, to assume duties as President and Chief Executive Officer of Central and South West Services, Inc., and Senior Vice President of Central and South West Corp.

Robert L. Range retired as Executive Vice President and Director February 1, 1990.

John W. Crutchfield retired as Director April 13, 1989.

Gerald W. Tucker resigned as Controller January 12, 1990.

Ronald L. Kellett resigned as Director April 13, 1989, to assume duties as Assistant to the Vice President of Operations of the Company. On January 12, 1990, he assumed the duties of Controller.


Ward


Hunt


Garcia


Teague


Verret


Kirk

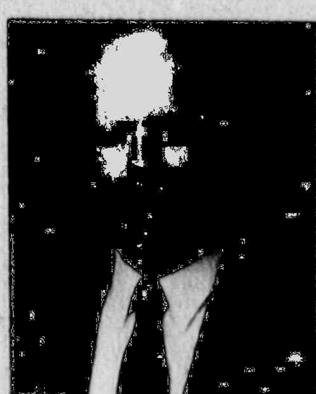

Kellett


Sullivan


Stice


Beebe


Petry


Farquhar


McAllen


Richards


Peterson

Financial Review

REPORT OF MANAGEMENT

Management is responsible for the preparation, integrity and objectivity of the financial statements of Central Power and Light Company as well as all other information contained in this Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

The Company maintains an adequate system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles and that the assets of the Company are properly safeguarded. The system of internal controls is documented, evaluated and tested by the Company's internal auditors on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived. No material internal control weaknesses have been reported to management.

Arthur Andersen & Co. was engaged to audit the financial statements of the Company and issue a report thereon. Their audit was conducted in accordance with generally accepted auditing standards. Such standards require a review of internal controls, examination of selected transactions and other procedures sufficient to provide reasonable assurance that the financial statements neither are misleading nor contain material errors. The Report of Independent Public Accountants does not limit the responsibility of management for information contained in the financial statements and elsewhere in the Annual Report.

Robert R. Carey
President and Chief Executive Officer

P. Richard Shamblin
Vice President, Finance

Ronald L. Kellett
Controller

REPORT OF AUDIT COMMITTEE

The Audit Committee of the Board of Directors is composed of six outside directors. The members of the Audit Committee are: H. C. Petry, Jr., Chairman, Jim L. Peterson, Ruben M. Garcia, W. R. Farquhar, Jr., Robert A. McAllen and H. Lee Richards. The Committee held three meetings during 1989.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, the Committee recommends to the Board of Directors, subject to shareholder approval, the selection of the Company's independent public accountants. The Audit Committee discusses with the internal auditors and the independent public accountants the overall scope and specific plans for their respective audits. The Committee also discusses the Company's financial statements and the adequacy of internal controls. The Committee meets regularly with the Company's internal auditors and independent public accountants to discuss the results of their audits, their evaluations of internal controls, and the overall quality of the Company's financial reporting. The meetings are designed to facilitate any private communication with the Committee desired by the internal auditors or independent public accountants.

H. C. Petry, Jr.
Chairman, Audit Committee

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and
Board of Directors of
Central Power and Light Company:

We have audited the accompanying balance sheets and statements of capitalization of Central Power and Light Company (a Texas corporation and wholly owned subsidiary of Central and South West Corporation) as of December 31, 1989 and 1988, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Power and Light Company as of December 31, 1989 and 1988, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Dallas, Texas
February 21, 1990

Arthur Andersen & Co.

Statements Of Income

CENTRAL POWER AND LIGHT COMPANY

For the Years Ended December 31	1989	1988	1987
		(thousands)	
Electric Operating Revenues			
Residential	$312,850	$295,167	$273,223
Commercial	254,304	244,082	231,004
Industrial	184,871	180,345	198,481
Sales for resale	47,356	35,458	30,034
Other	37,204	35,380	35,522
	836,585	790,432	768,264
Operating Expenses and Taxes			
Fuel	319,821	324,698	303,867
Purchased power	16,559	18,931	13,440
Other operating	182,528	136,181	124,276
Maintenance	61,435	42,338	40,891
Depreciation and amortization	113,738	71,497	55,115
Deferred STP costs	(124,573)	—	—
Taxes, other than Federal income	43,196	45,430	38,177
Federal income taxes	62,275	28,979	50,063
	674,979	668,054	625,829
Operating Income	161,606	122,378	142,435
Other Income and Deductions			
Allowance for equity funds used during construction	24,923	98,424	103,340
Deferred STP carrying costs	84,590	2,581	—
Other	3,451	331	825
	112,964	101,336	104,165
Income Before Interest Charges	274,570	223,714	246,600
Interest Charges			
Interest on long-term debt	129,535	122,356	108,038
Interest on short-term debt and other	12,422	7,087	12,172
Allowance for borrowed funds used during construction	(15,168)	(62,548)	(65,537)
	126,789	66,895	54,673
Net Income	147,781	156,819	191,927
Preferred Stock Dividends	24,558	21,525	15,820
Net Income for Common Stock	$123,223	$135,294	$176,107

Statements Of Retained Earnings

CENTRAL POWER AND LIGHT COMPANY

For the Years Ended December 31	1989	1988	1987
		(thousands)	
Retained Earnings at Beginning of Year	$720,956	$585,662	$459,555
Net Income for Common Stock	123,223	135,294	176,107
Deduct: Common Stock Dividends	50,000	—	50,000
Retained Earnings at End of Year	$794,179	$720,956	$585,662

The accompanying notes to financial statements are an integral part of these statements.

Balance Sheets

CENTRAL POWER AND LIGHT COMPANY

As of December 31	1989	1988
	(thousands)	
ASSETS		
Electric Utility Plant		
Production	$3,000,358	$2,292,798
Transmission	309,125	304,133
Distribution	611,152	579,562
General	204,463	193,327
Construction work in progress	52,052	682,716
Nuclear fuel	121,709	117,101
	4,298,859	4,169,637
Less - Accumulated Depreciation	769,880	658,015
	3,528,979	3,511,622
Current Assets		
Cash and temporary cash investments	1,839	1,790
Advances to affiliates	—	52,205
Accounts receivable	32,398	14,282
Materials and supplies, at average cost	36,203	23,042
Fuel inventory, at average cost	31,801	25,046
Prepayments and other	7,859	12,162
	110,100	128,527
Deferred Charges and Other Assets		
Deferred STP costs	209,163	2,581
Other	47,913	27,702
	257,076	30,283
	3,896,155	3,670,432
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock, $25 par value, authorized 12,000,000 shares, issued and outstanding 6,755,535 shares	168,888	168,888
Paid-in capital	405,000	405,000
Retained earnings	794,179	720,956
Total Common Stock Equity	1,368,067	1,294,844
Preferred stock		
Not subject to mandatory redemption	250,351	250,368
Subject to mandatory redemption	47,272	46,966
Long-term debt	1,331,544	1,325,977
Total Capitalization	2,997,234	2,918,155
Current Liabilities		
Long-term debt due within twelve months	158	11,149
Advances from affiliates	46,606	—
Accounts payable	58,358	40,929
Fuel refund due customers	—	19,964
Customer deposits	8,895	8,992
Accrued taxes	5,680	3,880
Accrued interest	24,676	33,012
Other	18,492	15,601
	162,865	133,527
Deferred Credits		
Unbilled customer accounts sold	40,252	39,175
Income taxes	507,905	386,057
Investment tax credits	187,899	193,518
	736,056	618,750
	$3,896,155	$3,670,432

The accompanying notes to financial statements are an integral part of these statements.

Statements of Cash Flows

CENTRAL POWER AND LIGHT COMPANY

For the Years Ended December 31	1989	1988	1987
		(thousands)	
OPERATING ACTIVITIES			
Net Income	**$147,781**	$156,819	$191,927
Non-cash Items Included in Net Income			
Depreciation and amortization	**130,396**	82,569	61,752
Deferred income taxes	**128,740**	39,826	28,923
Deferred investment tax credits	**(5,619)**	(1,576)	14,301
Allowance for equity funds used during construction	**(24,923)**	(98,424)	(103,340)
Deferred plant costs	**(209,163)**	(2,581)	—
Changes in Assets and Liabilities			
Accounts receivable	**(18,116)**	584	1,800
Fuel refund due customers	**(21,063)**	(224)	(17,161)
Fuel inventory	**(6,755)**	1,993	(7,464)
Accounts payable	**17,429**	(3,380)	5,289
Accrued taxes	**1,789**	(19,970)	(1,359)
Other	**(41,129)**	(36,239)	47,295
	99,377	119,397	221,963
INVESTING ACTIVITIES			
Construction expenditures	**(101,631)**	(168,250)	(275,846)
Allowance for borrowed funds used during construction	**(15,168)**	(62,548)	(65,537)
	(116,799)	(230,798)	(341,383)
FINANCING ACTIVITIES			
Proceeds From Issuance of			
Long-term debt	**150,000**	150,000	100,000
Preferred stock	—	85,000	—
Retirement of long-term debt	**(11,149)**	(12,140)	(131)
Reacquisition of long-term debt	**(150,361)**	—	(17,915)
Proceeds from pollution control bonds held in trust	**4,746**	5,175	58,462
Change in short-term debt	**46,606**	(42,430)	42,430
Payment of dividends	**(74,576)**	(20,946)	(65,820)
	(34,734)	164,659	117,026
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(52,156)**	53,258	(2,394)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**53,995**	737	3,131
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,839**	$ 53,995	$ 737

The accompanying notes to financial statements are an integral part of these statements.

Statements of Capitalization

CENTRAL POWER AND LIGHT COMPANY

As of December 31			1989	1988
			(thousands)	
COMMON STOCK EQUITY			**$1,368,067**	$1,294,844
PREFERRED STOCK				
Cumulative $100 par value, authorized 3,035,000 shares				
Series	**Number of Shares Outstanding**	**Current Redemption Price**		
Not subject to mandatory redemption				
4.00%	100,000	$105.75	**10,000**	10,000
4.20%	75,000	103.75	**7,500**	7,500
7.12%	260,000	101.00	**26,000**	26,000
8.72%	500,000	102.91	**50,000**	50,000
Auction	750,000	100.00	**75,000**	75,000
Auction	425,000	100.00	**42,500**	42,500
Auction	425,000	100.00	**42,500**	42,500
Issuance expense			**(3,149)**	(3,132)
			250,351	250,368
Subject to mandatory redemption				
10.05%	500,000	104.76	**50,000**	50,000
Issuance expense			**(792)**	(792)
Unamortized redemption costs			**(1,936)**	(2,242)
			47,272	46,966
LONG-TERM DEBT				
First mortgage bonds				
Series J, 6⅝%, due January 1, 1998			**28,000**	28,000
Series K, 8¼%, due January 1, 2000			**25,000**	25,000
Series L, 7%, due February 1, 2001			**36,000**	36,000
Series M, 8%, due November 1, 2003			**46,000**	46,000
Series N, 9⅝%, due June 1, 2004			**40,000**	40,000
Series O, 8¾%, due October 1, 2007			**75,000**	75,000
Series P, 8⅞%, due September 1, 2008			**75,000**	75,000
Series T, 7½%, due December 15, 2014			**111,700**	111,700
Series U, 9¼%, due July 1, 2015			**81,700**	81,700
Series V, 11⅝%, due August 1, 2015			**17,342**	85,000
Series W, 8¼%, due May 1, 1996			**200,000**	200,000
Series X, 9¼%, due November 1, 1994			**100,000**	100,000
Series Y, 9¼%, due June 1, 1998			**150,000**	150,000
Series Z, 9⅝%, due December 1, 2019			**150,000**	—
Debentures				
Series 1985, 12%, due September 1, 2015			**16,909**	85,000
Installment sales agreements - Pollution control bonds				
7⅛%, due June 1, 2004			**9,825**	9,825
6%, due November 1, 2007			**34,235**	34,235
7⅞%, due September 15, 2014			**6,330**	6,330
10⅛%, due October 15, 2014			**139,200**	139,200
7⅛%, due December 1, 2016 (net of $4,745,000 held by trustee in 1988)			**60,000**	55,255
Notes payable, 6½%, due December 8, 1995			**1,191**	1,349
Unamortized discount			**(18,318)**	(18,980)
Unamortized costs of reacquired debt			**(53,570)**	(39,637)
			1,331,544	1,325,977
TOTAL CAPITALIZATION			**$2,997,234**	$2,916,155

The accompanying notes to financial statements are an integral part of these statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Central Power and Light Company (Company or CPL) follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Company, as a member of the Central and South West System (CSW System), engages in transactions and coordinates its activities and operations with other members of the CSW System. The significant accounting policies are summarized below:

Electric Utility Plant. Electric utility plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, overhead items and allowances for borrowed and equity funds used during construction.

Allowance for Funds Used During Construction. The allowance for funds used during construction (AFUDC) is the result of an accounting procedure whereby amounts, based upon the level of construction work in progress (CWIP), representing the interest on borrowed funds and a return on equity capital used to finance construction, are reflected as credits on the statements of income and charges to CWIP. AFUDC does not represent a current source of cash funds. Under established regulatory rate practices, a return on and recovery of such costs is permitted in determining the rates charged for utility services. The gross composite rates averaged 11.8%, 11.8% and 11.9% for the years 1989, 1988 and 1987. The tax effect applicable to the debt component is recorded as a charge to deferred income tax expense. The Company excludes from the calculation of AFUDC that portion of CWIP included in its rate base for rate-making purposes.

Depreciation. For financial reporting purposes, provisions for depreciation of electric utility plant are computed using the straight-line method, generally at individual rates applied to the various classes of depreciable property. The annual composite rates averaged 3.12%, 3.13% and 3.55% for the years 1989, 1988 and 1987.

Nuclear Decommissioning. The Company's portion of the estimated cost of decommissioning the South Texas Project (STP) nuclear power plant is $138 million in 1989 dollars. This cost estimate will be reviewed and updated periodically. The Company is requesting recovery of decomissioning expenses over the life of STP in its retail rate filing. The funds received from customers applicable to decommissioning will be paid to an irrevocable external trust. The Company will begin recognizing this cost upon the receipt of an order by the Public Utility Commission of Texas (Texas Commission) authorizing the recovery from its customers.

Electric Revenues and Fuel. Revenues are generally recorded at the time billings are made to customers on a cycle-billing basis, and the cost of fuel is charged to expense as consumed. The Company recovers fuel costs applicable to sales to its wholesale customers, regulated by the FERC, through an automatic fuel adjustment clause.

Under rules established by the Texas Commission, the Company recovers fuel costs as a fixed component of base rates. The difference between fuel revenues billed and fuel expense incurred is recorded as an addition to or a reduction of revenues, with a corresponding entry to accounts receivable or fuel refund due customers, as appropriate. Over-recoveries of fuel are to be refunded to customers; under-recoveries may be billed to customers after Texas Commission approval.

The cost of nuclear fuel is amortized to fuel expense based on a ratio of the estimated Btu's used and available to generate electric energy, and includes a provision for the disposal of spent nuclear fuel.

Unbilled Customer Accounts Sold. The Company sells accounts receivable, without recourse, to CSW Credit, Inc., a wholly owned subsidiary of Central and South West Corporation (CSW), the Company's parent. In February 1987, the Company began selling receivables for electric service provided but not yet billed to customers.

Statements of Cash Flows. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 95, *Statement of Cash Flows*, for the year ended December 31, 1988, and has restated the year ended December 31, 1987, for consistency. For purposes of the statement of cash flows, the Company considers highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Accordingly, the temporary cash investments and advances to affiliates are considered cash equivalents.

The following amounts of interest (net of amounts capitalized) and income taxes were paid (received) for each of the three years ended December 31.

	1989	1988	1987
		(thousands)	
Interest	$127,961	$ 73,942	$ 44,106
Income Taxes	(56,360)	14,895	4,168

New Accounting Standard. In December 1987, the Financial Accounting Standards Board (FASB) issued SFAS No. 96, Accounting for Income Taxes. The standard requires a change in the accounting and reporting for income taxes from a deferral method to a liability approach, and will be adopted by the CSW System no later than 1992. The change on the balance sheet will result in increases to the accumulated deferred income tax liability, to a regulatory obligation and to a regulatory asset. The adoption of this standard will not have a material effect on the results of operations.

Reclassification. Certain financial statement items for prior years have been reclassified in order to conform to the 1989 presentation.

2. FEDERAL INCOME TAXES

The Company, together with other members of the CSW System, files a consolidated Federal income tax return. Details of Federal income taxes are as follows:

	1989	1988	1987
		(thousands)	
Included in Operating Expenses and Taxes			
Current	$(60,000)	$ (8,728)	$ 6,873
Deferred income taxes			
Deferred STP costs	70,462	633	—
Depreciation differences	42,334	27,653	8,606
Deferred fuel	6,892	1,556	(6,588)
AFUDC - borrowed	5,157	21,146	25,409
Reacquired debt costs	4,722	(960)	(258)
Unbilled revenues	(4,270)	(5,512)	(8,799)
Other	2,597	(5,233)	10,519
	127,894	39,283	28,889
Deferred investment tax credits			
Provision	372	(701)	20,349
Amortization	(5,991)	(875)	(6,048)
	(5,619)	(1,576)	14,301
	62,275	28,979	50,063
Included in Other Income and Deductions			
Current	1,536	614	(1,822)
Deferred	(792)	543	34
	744	1,157	(1,788)
	$63,019	$30,136	$48,275

Taxes deferred in prior years are credited to income when book deductions exceed the related tax deductions. The deferred investment tax credits (ITC) are included in income over the lives of the related properties.

Total income taxes differ from the amounts computed by applying the statutory Federal income tax rates to income before taxes. The reasons for the differences are as follows:

(dollars in thousands)	1989	%	1988	%	1987	%
Tax at statutory rates	**$71,672**	34.0	$63,565	34.0	$96,081	40.0
Differences						
AFUDC-equity	**(8,474)**	(4.0)	(33,464)	(17.9)	(41,336)	(17.2)
Amortization of ITC	**(5,991)**	(2.8)	(875)	(0.5)	(6,048)	(2.5)
Other	**5,812**	2.7	910	0.5	(422)	(0.2)
	$63,019	29.9	$30,136	16.1	$48,275	20.1

At December 31, 1989, the cumulative net amount of income tax timing differences for which deferred taxes had not been provided and the related tax effect amounted to approximately $34,160,000 and $11,614,000.

3. LONG-TERM DEBT

The mortgage indenture, as amended and supplemented, securing first mortgage bonds issued by the Company constitutes a direct first mortgage lien on substantially all electric utility plant.

Annual Requirements. The annual sinking fund requirements are generally 1% of first mortgage bonds outstanding. These requirements may be satisfied by the application of net expenditures for bondable property in an amount equal to 166⅔% of the annual requirements.

At December 31, 1989, the annual sinking fund requirements exclusive of maturities, and the annual aggregate maturities including sinking fund requirements, of long-term debt for each of the next five years are as follows:

	Annual Sinking Fund Requirements	Annual Aggregate Maturities
	(thousands)	
1990	$9,423	$ 9,777
1991	9,250	9,629
1992	9,250	9,655
1993	9,250	10,401
1994	9,250	110,429

Limitations on Dividends. The mortgage indenture of the Company, as amended and supplemented, contains certain restrictions on the payment of common stock dividends. In accordance with provisions of certain of the Company's supplemental indentures, the Securities and Exchange Commission (SEC) has entered an order permitting the payment of dividends not otherwise permitted under the Company's most restrictive supplemental indentures. The SEC's order requires that any dividends paid out of amounts that would otherwise be restricted are limited to net income earned in the twelve months immediately preceding payment of the dividends. At December 31, 1989, $720,956,000 of retained earnings were not available for payment of cash dividends.

Reacquired Long-Term Debt. In December 1989, the Company issued $150 million of 9⅜%, Series Z, First Mortgage Bonds, due December 1, 2019. The proceeds from this issue were used to reacquire $68 million of 11⅝%, Series V, First Mortgage Bonds and $68 million of 12%, Series 1985 Debentures. The Company also fixed the interest rate on its adjustable rate pollution control bonds, collateralized by Series T First Mortgage Bonds, at 7½% for the remaining 25 year term of the bonds. The premium and related reacquisition costs of long-term debt are classified as a reduction to long-term debt on the balance sheet and are being amortized over 10 to 30 years.

4. PREFERRED STOCK

The dividends on the Company's $160 million auction preferred stocks are adjusted every 49 days, based on current market rates. The dividend rates averaged 7.77% and 6.43% during 1989 and 1988.

The Company's 10.05% Series, $100 par value preferred stock requires a mandatory sinking fund sufficient to retire 35,250 shares in each twelve-month period beginning February 1, 1990 and ending January 1, 2001, and a specified number of shares in each twelve-month period thereafter. The sinking fund redemption price is $100 per share.

Each series of the preferred stock, with the exception of the 10.05% Series, is redeemable at the option of the Company upon 30 days notice at the current redemption price per share. Redemption prices of the 8.72% and 10.05% Series decline at specified intervals in future years. The 10.05% Series is not redeemable until 1994. The Company's three issues of auction preferred stock totaling $160 million may also be redeemed on any dividend payment date at par.

5. SHORT-TERM FINANCING

The Company, together with other members of the CSW System, has established a System money pool to coordinate short-term borrowings and to make borrowings outside the money pool through the issuance of commercial paper and from banks. The CSW System maintains bank lines of credit aggregating $241,000,000, including the Company's lines of credit. These lines of credit generally require an annual fee. Short-term cash surpluses transferred to the money pool receive interest income in accordance with the money pool arrangement.

6. BENEFIT PLANS

The Company, together with other members of the CSW System, participates in a non-contributory defined benefit pension plan covering substantially all its employees. Benefits are based on employees' years of service, age at retirement and compensation. The CSW System's funding policy is based on actuarially determined contributions, taking into account amounts deductible for income tax purposes and minimum contributions required by the Employee Retirement Income Security Act of 1974, as amended.

The components of net pension cost are as follows:

	1989	1988	1987
		(thousands)	
Service cost	**$3,973**	$4,518	$4,802
Interest cost on projected benefit obligation	**12,527**	11,031	9,794
Actual return on plan assets	**(19,993)**	(14,431)	(7,235)
Net amortization and deferral	**10,380**	5,498	(2,590)
	$6,887	$6,616	$4,771
Assumptions:			
Discount rate	**8.3%**	8.3%	7.5%
Long-term compensation increase	**6.2**	6.2	6.2
Return on plan assets	**8.5**	8.5	8.5

As of December 31, 1989 and 1988, the plan's net assets exceeded the total actuarial present value of accumulated benefit obligations.

In addition to the pension plan, the Company also participates, with other members of the CSW System, in medical and death benefit plans for substantially all active employees and employees who retire from the CSW System. The Company's cost of providing those benefits was $9,515,000 in 1989, covering 2,288 active employees and 1,233 retirees; in 1988 the cost was $6,886,000, covering 2,290 active employees and 1,338 retirees; and in 1987 the cost was $6,646,000, covering 2,602 active employees and 1,019 retirees.

7. JOINTLY OWNED ELECTRIC UTILITY PLANT

The Company has entered into a participation agreement with three non-affiliated entities covering the joint ownership and operation of STP consisting of two nuclear generating units. (Reference is made to Note 8.) The Company also has a joint ownership agreement with other members of the CSW System and non-affiliated entities to provide for the joint ownership and operation of the 666 megawatt, coal-fired Oklaunion Power Station Unit No. 1 (Oklaunion) and its related facilities. Each participant bears its share of project costs. The statements of income reflect the Company's portion of the operating costs of the plants. At December 31, 1989, the Company's participation in the jointly owned plants is shown below:

	South Texas Project	Oklaunion
	(dollars in thousands)	
Plant in service	$2,281,902	$36,137
Accumulated depreciation	$ 68,481	$ 3,537
Plant capacity - mw	2,500	666
Participation	25.2%	7.8%
Share of capacity - mw	630	52

8. LITIGATION AND REGULATORY PROCEEDINGS

SOUTH TEXAS PROJECT.

Introduction. CPL owns 25.2% of STP, which is located near Bay City, Texas. In addition to CPL's share, Houston Lighting & Power Company (HLP), the project manager, owns 30.8%; the City of San Antonio (San Antonio) owns 28.0%; and the City of Austin (Austin) owns 16.0%.

Project Cost and Schedule. The Texas Commission has issued final orders confirming August 25, 1988, and June 19, 1989, respectively, as the dates that Unit 1 and Unit 2 were in commercial operation in accordance with its rules. CPL's cost of STP at December 31, 1989 was $2,282 million including AFUDC of $881 million.

Rate Case Settlement. On February 8, 1990, CPL requested the Texas Commission to approve a Stipulated Agreement (Settlement) to settle all issues in dockets currently before the Texas Commission involving CPL's investment in STP. These dockets include: (1) CPL's request for a retail rate increase to reflect its investment in STP in rate base (See Retail Rate Filing), (2) the prudence and efficiency of the construction of STP and CPL's prudence in participating in the project (See Prudence Review), (3) CPL's request for deferred accounting treatment on its investment in STP Unit 2, and (4) the extension of deferred accounting treatment on STP Unit 1 (See Deferred Accounting). The Settlement has been entered into by CPL, the Texas Commission Staff (Staff) and nine of the other fourteen intervenors in the STP dockets representing a significant majority of CPL's customers, which include the major cities in CPL's service territory, industrial customers and others. Certain intervenors including one industrial customer, a coalition of low-income ratepayers, South Texas Cotton Ginners, the Office of Public Utility Counsel (OPUC) and Texas State Agencies have declined to enter into the Settlement, and oppose it.

The Settlement would allow CPL to increase base rates in March 1990 by $105 million on a total company basis, in addition to the $39 million of interim rates placed into effect in September 1989. Fuel revenues were decreased $32 million annually when the interim rates were placed into effect. CPL would file for an additional base rate increase of $120 million on a total company basis to become effective on January 1, 1991. Staff and the signing intervenors agree to support this filing as part of the Settlement. CPL's base rates would then be frozen through 1994, subject to certain force majeure events including double-digit inflation, major tax increases, extraordinary increases in operating expenses or serious declines in operating revenues. Generally, force majeure provisions would not apply unless annual revenues or expenses have changed by more than $25 million. After 1994, CPL may file for increases in base rates as needed. However, any increases in base rates in excess of 5% annually would be reduced by the excess, subject to maximum deductions of $25 million for 1995-1996 and $10 million for 1997-1999. The fuel portion of customers' bills will continue to be adjusted after review and approval by the Texas Commission.

The Settlement would fully resolve all issues pertaining to the reasonable original cost of STP Units 1 and 2 and to the appropriate amounts for inclusion in rate base. The original cost of STP would be included in rate base if the Settlement is approved by the Texas Commission.

The Settlement also provides for operating expenses and carrying costs on STP Unit 1 to be deferred until the first rate increase is placed into effect. CPL would defer costs on STP Unit 2 from June 19, 1989, the commercial operation date, until the effective date of the second rate increase when it would be reflected in rates. Deferred accounting, from the commercial operation date until the first rate increase becomes effective, would include both operating expenses and carrying costs on CPL's investment in Unit 2. After the first rate increase becomes effective, CPL would only defer carrying costs on its investment in STP Unit 2.

Additionally, the Settlement provides for the Texas Commission to allow an accounting procedure which defers interest charges for STP to the extent of actual interest costs incurred during the deferral periods. This accounting procedure would allow CPL to recognize approximately $95 million in 1990 as income attributable to 1988 and 1989. Accounting rules do not allow the deferral of equity costs to be reported as income until such costs are collected from customers. CPL would forego recovery of equity carrying costs not recognized for financial reporting. Such accounting procedure cannot be adopted for financial reporting purposes until an order is received approving the Settlement.

The Settlement calls for the use of a ratemaking technique called Mirror CWIP. Mirror CWIP assumes that CWIP included in rate base was a temporary loan from customers which would be repaid after the plant was placed in service. The temporary loan is repaid through lower rates over a time period which approximates the period during which it was collected through higher rates. Consequently, CPL would capitalize $360 million of carrying costs as original construction costs and establish a liability to customers for a like amount to be amortized to income from 1991 through 1995.

Since all parties have not agreed to the Settlement, hearings in CPL's retail rate filing will continue. The Administrative Law Judge (ALJ) then may ask for hearings on the Settlement before sending a recommendation to the Texas Commission. The Texas Commission must issue an order approving the Settlement before it becomes effective. The Texas Commission will have until the fourth quarter of 1990 to issue an order on the Settlement under current statutory time limits. However, the Company anticipates receiving a final order before the end of the statutory period. If the Settlement does not proceed, continuation of hearings in the rate filing would culminate in a final order in the same time frame.

The Staff and intervenors entering into the Settlement have petitioned the Texas Commission to allow CPL to place Settlement rates in effect in March 1990, on an interim basis subject to refund, until the regulatory process is completed. Hearings on the need to place Settlement rates in effect on an interim basis will be conducted in early March. The ALJ will make a recommendation on the interim rate request in mid-March, to allow the Texas Commission to issue an order on the request before the end of March 1990.

The approval of interim rates on a timely basis is a vital element of the Settlement, as well as final approval by the Texas Commission. Intervenors not entering into the Settlement are expected to use all legal means at their disposal to disrupt the Settlement process in order to gain additional concessions from CPL. Although management cannot predict whether the Settlement will ultimately be approved by the Texas Commission, every effort will be used to obtain such approval. Management believes that the Settlement is in the best interests of both CPL's ratepayers and investors.

Notes to Financial Statements

Retail Rate Filing. CPL filed in February 1989 with all incorporated cities it serves that have retained original jurisdiction and with the Texas Commission for an increase in its retail rates (Docket No. 8646). The request reflects the commercial operation of STP Unit 1. The filing includes a four-step phase-in plan over nine years. CPL's total STP investment would be included in rates after the implementation of the fourth step. In the first year, rates would increase by 16%, or $125 million, net of $29 million in reduced fuel costs. CPL then would seek permission to increase rates in each of the following three years by 10%, 10% and 5%, respectively, based on current estimates. Under present sales forecasts, rates would be unchanged for the remaining five years. Costs deferred under the plan would be recovered over the last six years.

Brown & Root Settlement. As the result of the settlement of litigation filed in December 1981, each of the STP owners received a pro rata share of $750 million from Brown & Root, Inc. (Brown & Root), the former architect-engineer and constructor of the project, payable in quarterly payments over seven years, without interest. CPL elected to receive $146.8 million, the present value of its share of the settlement, in December 1985. This amount was recorded as a reduction in the cost of STP.

Prudence Review

Texas Commission Proceedings. In 1985, the Texas Commission hired Lubow, McKay, Stevens & Lewis (Lubow) to review the prudence and efficiency of the construction of STP. In June 1986, Lubow submitted a report to the Texas Commission, covering the period from 1973 through January 1983. Lubow claims in its report that $1.1 billion to $1.3 billion of direct costs were spent imprudently on STP by all owners. According to Lubow's report, these amounts do not include AFUDC or rate effects that, Lubow concluded, substantially offset each other. The amounts also do not take into account the proceeds from the Brown & Root settlement. The report recommends that the Texas Commission decline to review the merits of the Brown & Root settlement and concluded "that it was not unreasonable for the STP owners to settle the litigation on the terms they did."

In 1986, the Texas Commission opened Docket No. 6668 for the purpose of determining the prudence and efficiency of planning, management and construction of STP. The accounting treatment of the Brown & Root settlement proceeds will also be determined in this docket.

In June 1989, Ernst & Young (E&Y), previously Ernst & Whinney, which was appointed by the Texas Commission to review HLP's prudence related to STP, issued its report relating to the prudence of management and the reasonableness of costs associated with STP. The report concluded that there were 37 months of unreasonable delays associated with Unit 1 and 22 months of unreasonable delays associated with Unit 2.

The E&Y report found total project costs of $1.565 billion to be unreasonable. These costs included the effects of delays and AFUDC of $1.218 billion, computed on HLP's AFUDC rate. The total unreasonable costs are net of the $502 million that E&Y determined to be the proceeds received from the Brown & Root settlement of litigation with STP owners.

E&Y reported that unreasonable activities, consisting mainly of mismanagement during the Brown & Root era of construction and the unnecessary expenditures during the transition to a new architect-engineer and constructor, cost the project $460 million, including associated AFUDC and net of an allocation of $206 million of the Brown & Root settlement. The report further stated the unreasonable delays cost the project $1.105 billion in fixed costs and escalation, including associated AFUDC and net of an allocation of $296 million of the Brown & Root settlement.

The report's final phase was a revenue requirements analysis which quantified the rate effects resulting from unreasonable activities and unreasonable schedule delays. The revenue requirements analysis of unreasonable schedule delays indicated that the delays did not ultimately increase costs to HLP's ratepayers. Rather, the results showed that the benefits of delay exceeded the costs of delay and consequently there is no disallowance for delay costs. Although the report further stated that the benefits of the delay more than offset the unreasonable activity-related costs, E&Y did not recommend offsetting the benefits of the delay against the unreasonable activity costs for ratemaking purposes.

In August 1989, CPL requested that E&Y calculate the effect of its recommendation on CPL. As a result, E&Y filed a response to that request in October 1989 which stated that $113 million of CPL's investment in STP Units 1 and 2 should be excluded from rate base. CPL has filed testimony, as discussed below, indicating that its ratepayers were not harmed by the delay.

In January 1989, the Texas Commission appointed Resource Management International, Inc. (RMI), to review CPL's management decisions regarding STP. In June 1989, RMI issued its review of events during the 1973-1982 period in which it found, with one exception, no reasonable basis for disputing the prudence of CPL's management conduct. This exception concerned CPL's prudence in its evaluation of the continued viability of its participation in STP due to a lack of timely analysis of announced budget increases and schedule extensions. RMI did not associate any increased STP cost to such conduct.

Intervenor Testimony. In August 1988, OPUC filed testimony in Docket No. 6668 calling for a disallowance of certain costs of STP after taking into account the settlement with Brown & Root. In October 1988, OPUC supplemented its prior testimony asserting that $1.050 billion or 42% of its estimated cost of CPL's share of STP should be deemed unreasonable and excluded from any rates charged by CPL. OPUC indicated that it did not consider the reasonableness of the costs incurred subsequent to the replacement of the former architect-engineer and that the recommendations contained in the testimony are preliminary and subject to change based upon final costs and commercial operation dates for STP Units 1 and 2.

In September 1988, a group of cities served by CPL filed a consultant's report in Docket No. 6668 with the Texas Commission. The report, after taking into account the settlement with Brown & Root, recommends a disallowance of $1.105 billion, or 53% of its estimated cost of CPL's share of STP.

CPL Testimony. CPL filed in February 1989 in Docket No. 6668 and in its retail rate filing with the Texas Commission an extensive report prepared by the Nielsen-Wurster Group, Inc. (Nielsen-Wurster). The report, done at the request of CPL's counsel, reviews all aspects of the reasonableness of project planning, design, construction, start-up and licensing of STP. Unit 1 was examined from pre-construction through the commercial operation date; Unit 2 was examined from pre-construction through September 1987. The report reviews all phases of the development of STP to determine the cause of schedule delays and increased costs related to any unreasonable performance. The report quantifies for all of STP a total of $1.043 billion of unreasonable costs, including AFUDC at CPL's rates, before giving effect to the Brown & Root settlement.

The report finds that of the 94.4 months of delay from the initial date of scheduled commercial operation, 64.9 months was unavoidable and uncontrollable delay due to regulatory matters, industry environment and other circumstances. The remaining 29.5 months delay results in total foreseeable costs due to unreasonable decision making or performance of $767 million. The report also finds $276 million of non-delay costs attributable to unreasonable performance.

The report finds that CPL was prudent in its activities as a member of the STP Management Committee. The report also concludes that Brown & Root, as architect-engineer and constructor, was responsible for $814 million of the unreasonable costs and that HLP, as project manager, was responsible for the remaining $229 million of unreasonable costs. The report concludes that the 1985 Brown & Root settlement of the STP litigation reasonably compensated the STP owners for Brown & Root's performance failures.

CPL filed additional testimony in Dockets No. 6668 and No. 8646 of Morris H. Jacobs, a principal of E&Y, previously Arthur Young & Company. Jacobs used the Nielsen-Wurster findings to determine if any adjustments to STP costs were necessary. Jacobs concluded that, based on an economic analysis of the net present value of revenue requirements, the pre-1983 project delays did not harm CPL's ratepayers. Further as to post-1983 delay costs and the unreasonable non-delay costs found by the Nielsen-Wurster report, Jacobs concluded that the proceeds received from the Brown & Root settlement exceeded the unreasonable expenditures and that no adjustment to STP costs is necessary.

CPL previously filed a report in February 1988 in Docket No. 6668 prepared by Drs. Dyer and Ashley of the University of Texas. This report was supplemented in February 1989 and additionally was filed in Docket No. 8646. The report reviewed aspects of CPL's management decision and monitoring activities regarding STP. Dyer and Ashley reviewed CPL's activities based on the use of appropriate corporate objectives and information available at the time decisions were made. The report concluded that CPL's management decision making and processes related to STP were reasonable and prudent.

Deferred Accounting. In April 1989, CPL was granted deferred accounting on STP Unit 1 by the Texas Commission. The Texas Commission's order allows CPL to defer operating and maintenance costs, taxes, depreciation and carrying costs, including an equity return, for Unit 1. The equity return cannot be reported as income during the deferral period under generally accepted accounting principles. CPL can defer Unit 1 costs from the time it went into commercial operation until February 15, 1990. CPL has requested Texas Commission approval to continue to defer STP Unit 1 costs after February 15, 1990, until rates reflecting STP Unit 1 become effective.

Deferred accounting has an immediate positive effect on net income, but cash earnings will not increase until new rates go into effect reflecting STP in service. The Texas Commission will determine during CPL's rate case the extent that such costs are prudent, reasonable and necessary and can be charged to customers. The Texas Commission will also determine the period over which costs can be recovered.

CPL requested in its retail rate filing that the Texas Commission grant deferred accounting on STP Unit 2 in the same manner allowed for STP Unit 1. In August 1989, the ALJ in CPL's retail rate filing granted a motion by CPL to sever deferred accounting on STP Unit 2 from the retail rate case into a separate phase of the proceeding. Hearings were held in December 1989. On February 8, 1990, the ALJ issued an interim order allowing CPL to defer carrying costs and operating expenses for STP Unit 2 from the date the unit was placed in service until the date rates which reflect STP Unit 2 are in effect.

The following amounts were deferred pursuant to these orders in 1989 and are reflected in the statement of income:

	STP Unit 1	STP Unit 2
	(thousands)	
Operating expenses	$100,394	$ 24,179
Carrying costs	71,788	12,802
	172,182	36,981
Federal income taxes	58,542	12,574
Net income	$113,640	$ 24,407

Deferred STP Unit 1 costs of $28 million attributable to the period from August 25, 1988, when STP Unit 1 went into commercial operation, through December 31, 1988 were included in 1989 net income for common stock.

CPL recorded equity carrying costs for regulatory purposes of $120 million, net of tax, for STP Unit 1 and $24 million, net of tax, for STP Unit 2 which are not reported in the statement of income.

In July 1989, OPUC and the Texas State Agencies filed appeals in the district court of the Texas Commission's final order approving deferred accounting for STP Unit 1. These appeals are still pending before the district court. OPUC, Texas State Agencies and Coastal Refining and Marketing, Inc. have filed appeals to the Texas Commission of the ALJ interim order allowing deferred accounting for STP Unit 2.

If orders granting deferred accounting on STP Units 1 and 2 are ultimately reversed upon appeal, the Company would experience a significant adverse effect on the results of operations. Management believes that the deferred accounting orders will be upheld.

Viability Review. In March 1985, Docket No. 6184 was initiated for the purpose of gathering evidence concerning the economic viability of STP Unit 2. Initial hearings were held in January 1987, and final phase hearings were held in October 1987. This docket was dismissed in June 1989.

HLP Suit. CPL and CSW were served in January 1988 a petition (Petition), which HLP filed in Dallas County in the 101st Judicial District, asking the Court for authority to add CPL, CSW and San Antonio as parties to a suit (Austin Suit) between HLP and Austin. The Court granted HLP's motion. The Austin Suit was filed in January 1983 and the status is discussed below. The Court, in a subsequent hearing, severed for a separate trial HLP's lawsuit against CPL, CSW and San Antonio. HLP also has filed another original petition in Matagorda County against CPL, CSW and San Antonio requesting the same relief as requested in the Austin Suit, which remains pending subject to a plea in abatement. No other action has occurred in the Matagorda County lawsuit.

HLP has asserted in the Petition that if it is liable to Austin for any damages in the Austin Suit, HLP is entitled to contribution or indemnity from CPL, CSW and San Antonio because all the activities complained of were decisions or activities of the STP Management Committee, which had members from all STP participants, rather than HLP's sole decisions as project manager, or that HLP was acting as an agent for the other participants and, therefore, all participants are liable for the actions complained of by Austin. HLP has alleged that CSW is a proper party to this suit because it participated through control of and direction of CPL in all major STP decisions. Management believes that HLP does not have a sustainable claim for contribution or indemnity against CSW or CPL.

HLP also is seeking a declaratory judgment construing the STP Participation Agreement to the effect that HLP, as project manager, has no liability to Austin, San Antonio, CPL or CSW for its actions relating to any matter complained of in the Austin Suit. HLP also has requested the Court to direct implementation of alternative methods of dispute resolution as authorized by Texas law, such as non-binding arbitration, in order to settle the disputes related to STP.

In March 1988, pursuant to the STP Participation Agreement, CPL and San Antonio called for binding arbitration of the disputes with HLP. The arbitration call stated that HLP as project manager has breached its duties and obligations to the other STP participants and is liable to CPL and San Antonio for damages and that CPL and San Antonio have no liability to HLP for any portion of the damages alleged against HLP by Austin. Also on that date, CPL filed with the district court its response to the Petition. In that response, which was filed subject to arbitration, CPL requested the Court to abate both of HLP's petitions until the conclusion of arbitration, limit all action to the arbitration procedure and compel arbitration in accordance with the STP Participation Agreement in the event HLP refuses to arbitrate. Subject to its request for abatement, CPL has counterclaimed against HLP for damages in an unspecified amount related to HLP's breach of duties and obligations pursuant to the STP Participation Agreement, requested that all relief sought against CPL and CSW in the Petition be denied, requested that the Court enter a declaratory judgment construing the STP Participation Agreement and declare HLP liable to CPL for breaches thereunder and stated that CSW is not a proper party to the action.

In April 1988, HLP filed a brief contending that CSW's and CPL's request for arbitration is improper because the issues raised and the relief sought by CSW and CPL are not subject to arbitration under the STP Participation Agreement.

In December 1989, because of the result reached in the district court in the Austin Suit, HLP filed a motion for summary judgement alleging that the doctrine of collateral estoppel and related doctrines precluded any recovery by CPL against HLP. The Court has not ruled on this motion.

Austin Suit. Originally in January 1983, Austin filed suit against HLP and its parent company, Houston Industries Incorporated (HII), alleging that HLP had misrepresented the capabilities of the original architect-engineer and constructor of the project and had failed to properly perform its duties as project manager.

In July 1989, a state district court jury found for HLP and HII in the Austin Suit. Austin appealed the decision of the state district court jury and other pre-trial decisions of the trial judge to the Dallas Court of Appeals in January 1990. Management cannot predict what effect these decisions and appeal will have on the various actions between CPL and HLP.

Summary. Although management cannot predict the outcome of the various STP proceedings, management believes that CPL's participation in STP and its performance have been prudent and its investment in STP is recoverable through rates or from HLP. However, if any significant costs of STP are not recovered, there would be a material adverse effect on CPL's results of operations.

9. COMMITMENTS AND CONTINGENT LIABILITIES

It is estimated that the Company will spend approximately $110,000,000 for construction purposes in 1990 (including AFUDC of $2,300,000).

Nuclear Insurance. In connection with the licensing and operation of the STP, the owners have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the Nuclear Regulatory Commission (NRC), in accordance with the financial protection requirements of the Price-Anderson Act.

The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities is in effect until August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $7.541 billion per incident. The owners of STP are insured for their share of this liability through a combination of private insurance and a mandatory industry-wide program for self-insurance. The maximum amount that each licensee may be assessed under the industry-wide program of self-insurance following a nuclear incident at an insured facility is $66.15 million (which amount may be adjusted for inflation) for each licensed reactor, but not more than $10 million per reactor for each nuclear incident in any one year. The Company and each of the other STP owners are subject to such assessments, which the Company and the other owners have agreed will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors.

NRC nuclear property insurance regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition and can be maintained in that condition so as to prevent any significant risk to the public health or safety. Further, NRC regulations require that any remaining insurance proceeds be used first to complete any decontamination operations that may be ordered by the NRC. On November 6, 1989, the NRC published a notice of proposed rulemaking which would, among other changes, eliminate from nuclear property insurance regulations the requirement that post-accident insurance proceeds be paid to a special trustee.

The owners of STP currently maintain on-site property damage insurance in the amount of $1.585 billion provided by American Nuclear Insurers and Nuclear Electric Insurance Limited (NEIL). Policies of insurance issued by NEIL stipulate that policy proceeds must be used first to pay decontamination and clean-up costs, before being used to cover direct losses to property. The Company and HLP are members of NEIL and are subject to annual assessments, which could amount to approximately $9 million for the current policy year, November 15, 1989, to November 15, 1990, in the event that property losses as a result of a covered accident at a nuclear facility of any NEIL insured exceeds the accumulated funds available to NEIL. The Company and the other owners of STP have entered into an agreement that provides for the total cost of decontamination liability and property insurance for STP (including premiums and assessments) to be shared pro rata based upon each owner's respective ownership interests in STP.

In 1989 the Company purchased, for its own account, extra expense insurance under the NEIL I Extra Expense Program. This insurance would reimburse the Company for extra expenses incurred to generate or purchase power lost as the result of a covered accident that shuts down production at STP for more than 21 weeks. The weekly indemnity for each of the two operating units at STP is $637,000. The maximum amount recoverable for each of the units is $66.3 million. The Company is subject to assessments, which could amount to approximately $2 million for the current policy year, November 15, 1989, to November 15, 1990, in the event that losses as a result of a covered accident at a nuclear facility of any NEIL I insured exceeds the accumulated funds available under the NEIL I Extra Expense Program.

10. QUARTERLY INFORMATION (UNAUDITED)

The following unaudited quarterly information includes, in the Company's opinion, all adjustments (consisting only of normal recurring adjustments except for the 1988 effect of the Company's deferred accounting order on STP Unit 1 recorded in the quarter ended March 31, 1989, as discussed in Note 8) necessary for a fair presentation of such amounts:

Quarter Ended	Electric Operating Revenues	Operating Income	Net Income
		(thousands)	
1989			
March 31	$188,126	$35,495	$51,553
June 30	193,740	41,014	39,442
September 30	242,001	51,593	42,473
December 31	212,718	33,504	14,313
1988			
March 31	$175,526	$25,621	$41,416
June 30	191,291	31,926	49,497
September 30	234,109	46,536	63,253
December 31	189,506	18,295	2,653

Operating income and net income were restated for the quarter ended September 30, 1989, to reflect the ALJ's interim order approving the Company's deferred accounting request on STP Unit 2 as discussed in Note 8. Operating income and net income for the quarter ended September 30, 1989, were increased $5,612,000 from $45,981,000 and $12,301,000 from $30,172,000, respectively.

Information for quarterly periods is affected by seasonal variations in sales, rate changes and other factors.

Selected Financial Data

The following selected financial data for each of the five years ended December 31 are provided to highlight significant trends in the financial condition and results of operations for the Company:

	1989	1988	1987	1986	1985
			(thousands, except ratios)		
Electric Operating Revenues	**$ 836,585**	$ 790,432	$ 768,264	$ 859,975	$ 924,908
Net Income	**147,781**	156,819	191,927	174,165	152,164
Preferred Stock Dividends	**24,558**	21,525	15,820	16,010	15,991
Net Income for Common Stock	**123,223**	135,294	176,107	158,155	136,173
Total Assets	**3,896,155**	3,670,432	3,341,949	2,950,129	2,723,361
Preferred Stock					
Not Subject to Mandatory Redemption	**250,351**	250,368	166,782	166,705	93,115
Subject to Mandatory Redemption	**47,27[illegible]**	46,966	46,660	46,355	88,864
Long-Term Debt	**1,331,544**	1,325,977	1,179,456	1,048,987	981,481
Ratio of Earnings to Fixed Charges (SEC Method)	**2.49**	2.44	3.00	3.16	2.86
Capitalization Ratios					
Common Stock Equity	**45.7%**	44.4%	45.4%	45.0%	45.5%
Preferred Stock	**9.9**	10.2	8.4	9.3	8.5
Long-Term Debt	**44.4**	45.4	46.2	45.7	46.0

REFERENCE

The following discussion and analysis of the Company's financial condition and results of operations relate to the Financial Statements, Notes to Financial Statements and the Selected Financial Data. The information contained therein should be read in conjunction with and is essential in understanding the following discussion and analysis.

OVERVIEW

Net income for common stock for the year 1989 declined 9% to $123 million from $135 million in 1988. The decline in earnings during the year is the result of accounting rules that prohibit the Company from reporting the equity carrying charges on STP Units 1 and 2 as income during the deferral period.

RATES AND REGULATORY MATTERS

Deferred Accounting. In April 1989, CPL was granted deferred accounting on STP Unit 1 by the Texas Commission. The Texas Commission's order allows CPL to defer operating and maintenance expenses, taxes, depreciation and carrying costs, including an equity return, for Unit 1. The equity return cannot be reported as income during the deferral period under accounting rules. CPL can defer Unit 1 costs from the time it went into commercial operation until February 15, 1990. CPL has requested Texas Commission approval to continue to defer STP Unit 1 costs after February 15, 1990, until rates reflecting STP Unit 1 become effective.

CPL requested in its retail rate filing that the Texas Commission grant deferred accounting on STP Unit 2 in the same manner allowed for STP Unit 1. On February 8, 1990, the ALJ issued an interim order which allows CPL to defer carrying costs and operating expenses for STP Unit 2 from June 19, 1989, the commercial operation date, until rates which reflect STP Unit 2 are in effect. Various appeals have been filed concerning the deferred accounting on STP Units 1 and 2.

If orders granting deferred accounting on STP Units 1 and 2 are ultimately reversed upon appeal, CPL would experience a significant adverse effect on the results of operations. Management believes that the deferred accounting orders will be upheld.

Rate Case Settlement. CPL requested the Texas Commission to approve the Settlement to settle all issues in dockets currently before the Texas Commission involving CPL's investment in STP. These dockets incorporate all issues before the Texas Commission involving STP prudence, deferred accounting and CPL's request to increase retail rates. The Settlement was entered into by CPL, the Staff and nine of the other fourteen intervenors in the STP dockets representing the majority of CPL's customers.

The Settlement would allow CPL to increase base rates in March 1990 by $105 million, in addition to the $39 million of interim rates placed into effect in September 1989. CPL would file in 1990 for an additional base rate increase of $120 million to become effective on January 1, 1991. CPL's base rates will then be frozen through 1994, subject to certain force majuere events. The fuel portion of customers' bills will continue to be adjusted after review and approval by the Texas Commission.

Assuming a March effective date for the first rate increase, deferred operating expenses and carrying costs in 1990 on STP Unit 1 would be approximately $15 million. Deferred operating expenses and carrying costs on STP Unit 2 in 1990 would be approximately $70 million.

Additionally, the Settlement provides for the Texas Commission to allow an accounting procedure which defers interest charges for STP to the extent of actual interest costs incurred during the deferral periods. This accounting procedure would allow the Company to recognize approximately $95 million in 1990 as income in lieu of equity carrying costs attributable to 1988 and 1989.

The Settlement would utilize a ratemaking technique called Mirror CWIP. Mirror CWIP assumes that CWIP included in rate base was a temporary loan from customers which would be repaid after the plant was placed in service. The temporary loan is repaid through lower rates over a time period which approximates the period during which it was collected through higher rates. Consequently, CPL would capitalize $360 million of carrying costs as original construction costs and establish a liability to customers for a like amount to be amortized to income from 1991 through 1995.

Since all parties have not agreed to the Settlement, hearings in CPL's retail rate filing will continue. The ALJ may ask for hearings on the Settlement before sending a recommendation to the Texas Commission. The Texas Commission must issue an order approving the Settlement before it becomes effective. A final order is expected late in the third or fourth quarter of 1990.

The Staff and intervenors entering into the Settlement have petitioned the Texas Commission to allow CPL to place settlement rates in effect in March 1990, on an interim basis subject to refund, until the regulatory process is completed. Hearings on the need to place Settlement rates in effect on an interim basis will be conducted in early March. The ALJ will make a recommendation on the interim rate request in mid-March to allow the Texas Commission to issue an order on the request before the end of March 1990.

The Settlement would allow CPL the opportunity to earn on its total STP investment during the period settlement rates are in effect. Further, management believes that the Settlement is in the best interest of both CPL's ratepayers and investors.

Reference is made to Note 8 of the Notes to Financial Statements for additional information concerning CPL regulatory matters.

CONSTRUCTION PROGRAM

The Company's need for capital results primarily from its construction program which is designed to provide reliable electric service to its customers. During 1989, construction expenditures including AFUDC decreased 57% to $142 million from $329 million in 1988. The decline in construction is due to the completion of STP Unit 1 in August 1988 and Unit 2 in June 1989. It is estimated that construction expenditures during the 1990 through 1992 period will aggregate $297 million (including AFUDC of $8.6 million). Construction expenditures during the next three years will primarily be for improving and expanding transmission and distribution facilities. These improvements will be required to meet the needs of new customers and to satisfy changing requirements of existing customers. No base-load power plants are currently planned until after the year 2000.

FINANCING AND CAPITAL RESOURCES

Internal Generation. The financial strength of the Company is dependent on numerous factors, the most significant of which is the receipt of rate relief. Rate relief must be sufficient to provide adequate coverage ratios necessary for additional external financing and for a fair return on invested capital. In 1989, the Company obtained 21% of its capital requirements from internal sources and anticipates the majority of capital requirements during the 1990 through 1992 time period will be provided from internal sources.

Long-Term Financing. During 1989, the Company issued $150 million of First Mortgage Bonds, as discussed in Note 3 of the Notes to Financial Statements. The proceeds were used to reacquire $136 million of high-coupon debt, along with a premium and related reacquisition costs of $17 million. The Company also fixed the interest rate on its adjustable rate pollution control bonds, collateralized by Series T First Mortgage Bonds, at 7½% for the remaining 25 year term of the bonds. Long-term financing by the Company involves the sale of first mortgage bonds, preferred stock and the receipt of capital contributions from its parent company or other financing alternatives. The goal of the Company is to provide a strong capital structure. At December 31, 1989, the capitalization ratios were 46% common stock equity, 10% preferred stock and 44% long-term debt. During the first quarter of 1990, the Company intends to issue $50 million of collateralized pollution control bonds. The bonds will be used to finance certain pollution control facilities for STP. Additional long-term financing may be required during 1990 depending on the amount and timing of rate relief.

Unbilled Customer Accounts Sold. The Company sells its accounts receivable to CSW Credit, Inc., a wholly-owned subsidiary of CSW. In April 1987, the Company began selling receivables for electric service provided, but not yet billed to customers. The sales provide the Company with cash immediately and reduce working capital and revenue requirements. The monthly average and year-end amounts of accounts receivable factored were $82,623,000 and $74,855,000 in 1989, as compared to $79,814,000 and $72,727,000 in 1988.

Short-Term Financing. The Company, together with other members of the CSW System, has established a System money pool to coordinate short-term borrowings. These loans are unsecured demand obligations at rates approximating the System's commercial paper borrowing costs. Periodically, all the Company's short-term loans are repaid with the proceeds from permanent financing, and therefore these loans are not considered a part of the Company's permanent capital structure. The Company's short-term borrowing limit from the money pool is $200 million and borrowings will be made during 1990 as required. During 1989, the average amount of short-term borrowings outstanding at month-end was $14,022,000 at a weighted average annual interest rate of 8.99%. The maximum amount of short-term borrowings oustanding at any month-end during 1989 was $78,396,000 and at December 31, 1989, $46,606,000 was outstanding.

NEW ACCOUNTING STANDARDS

Please refer to Note 1 of the Notes to Financial Statements — New Accounting Standard for a discussion of Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes, which has not been adopted by the CSW System.

The FASB is presently reviewing the accounting for Other Post-Employment Benefits (OPEBs). OPEBs primarily relate to medical and death benefits paid to employees after they retire. Currently, the Company accounts for these benefits on a cash basis. The FASB is considering changing the accounting requirements to an accrual basis. This would result in a significant increase in the amount of benefit expense on the income statement and the recognition of a significant liability on the balance sheet. These effects could be mitigated to the extent that such cost increases could be recovered through rates.

RESULTS OF OPERATIONS

Net Income for Common Stock. The Company's net income for common stock declined 9% in 1989 to $123 million from $135 million in 1988. The decline resulted from accounting rules that prohibit the Company from reporting the equity carrying charges on STP Units 1 and 2. See Note 8 of the Notes to Financial Statements for more information.

Electric Operating Revenues. Total electric operating revenues increased $46 million, or 6% from 1988 due to a 5% increase in kilowatt-hour sales, a retail customer interim rate increase which resulted in $15 million of additional revenue, and the recognition of revenue for the deferred costs of STP Unit 1 from its wholesale customers. Customer growth averaged 2% during 1989, with year-end customers approximating 549,000.

Residential kilowatt-hour sales increased by 7% over 1988 reflecting a slight increase in customer growth and kilowatt-hour usage. Revenue per customer was $679 in 1989, an increase of $27 over 1988. This was the result of the retail customer interim rate increase and increased usage.

Industrial sales increased in 1989 primarily as a result of increased usage by a major petrochemical plant. The Company has responded to the effects of competition from cogeneration by offering incentive rates for large industrial customers. The Company is committed to continue its efforts to develop new business and retain existing customers in the face of more competition.

Sales for resale increased 34% from the same period in 1988 as a result of the recognition of revenue for the recovery of costs on STP Unit 1 from its wholesale customers. The wholesale customers are contractually obligated to pay such costs.

Changes in kilowatt-hour sales by customer class for each of the years 1987 through 1989 are shown on the following chart:

	1989	1988	1987
Residential	6.7%	6.8%	1.4%
Commercial	4.8	4.4	—
Industrial	8.0	(1.9)	(21.7)
Other	(11.3)	14.3	(26.4)
Total Sales	4.7	4.2	(10.3)

Fuel and Purchased Power Expense. The decrease in total fuel expense is attributable to the increased usage of lower cost nuclear fuel. The average cost of fuel for the year was $1.99 per million Btu as compared to $2.11 in 1988. The average cost of natural gas, which was used to generate 59% of the Company's kilowatt-hour requirements, was $2.29 per million Btu, an $0.08 increase from the prior year. The average cost of coal was $2.22 per million Btu, up $0.08 from last year. The cost per million Btu of nuclear fuel for STP was $0.53, down $0.01 from 1988. Reference is made to Note 1 of the Notes to Financial Statements, "Electric Revenues and Fuel" for additional information on nuclear fuel expense.

Expenses and Taxes. Other operating, maintenance and depreciation expenses increased due to STP Units 1 and 2 being placed in service.

Inflation rates, as measured by the Consumer Price Index, have averaged about 4.4% for the three-year period ending December 31, 1989. The Company believes that inflation, at these levels, does not materially affect its results of operations or financial condition. However, under existing regulatory practice, only the historical cost of plant is recoverable from customers. As a result, cash flows designed to provide recovery of historical plant costs may not be adequate to replace plant in future years.

Taxes other than Federal income decreased due to a Texas franchise tax refund received by the Company in the second quarter of 1989 totaling $9.4 million including interest, net of taxes. The refund was based on recent court decisions which changed the calculation of the taxable base. The principal was credited to taxes other than Federal income taxes and the related tax impact was recorded in Federal income taxes. The decrease in taxes other than Federal income taxes is partially offset by increased ad valorem taxes on STP Units 1 and 2 which were previously capitalized, but now are expensed. The increase in Federal income tax expense in 1989 is due to a much smaller amount of pre-tax income being composed of nontaxable equity AFUDC. Other operating, maintenance, depreciation and tax expenses are offset by the deferral of $125 million representing operation and maintenance expenses, depreciation and taxes for STP Units 1 and 2.

Interest Expense and Preferred Stock Dividends. Interest on long-term debt increased primarily due to the issuance of first mortgage bonds in the second quarter of 1988. Interest on short-term debt and other increased due to a reclassification of interest expense related to Federal income tax liability for tax years 1978-1981 from nuclear fuel inventory to interest expense. This reclassification was associated with the Westinghouse settlement of STP's nuclear fuel contract. Preferred stock dividends increased due to the issuance of $85 million auction preferred stock in February 1988 and a higher dividend rate on the existing auction preferred stock.

Allowance for Funds Used During Construction. The decline in the amount of AFUDC was due to STP Unit 1 going into service in August 1988, STP Unit 2 going into service in June 1989 and the decline in the Company's construction program.

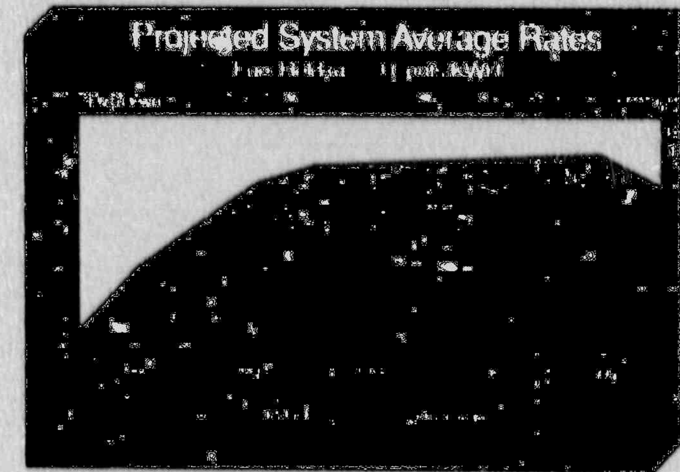
Other Income and Deductions. Deferred STP carrying costs of $85 million represents the carrying charges on STP Units 1 and 2. The increase in Other is primarily due to the deferral of interest expense related to the Federal income tax liability associated with the Westinghouse settlement of STP's nuclear fuel contract. This is offset by the associated Federal income tax expense.

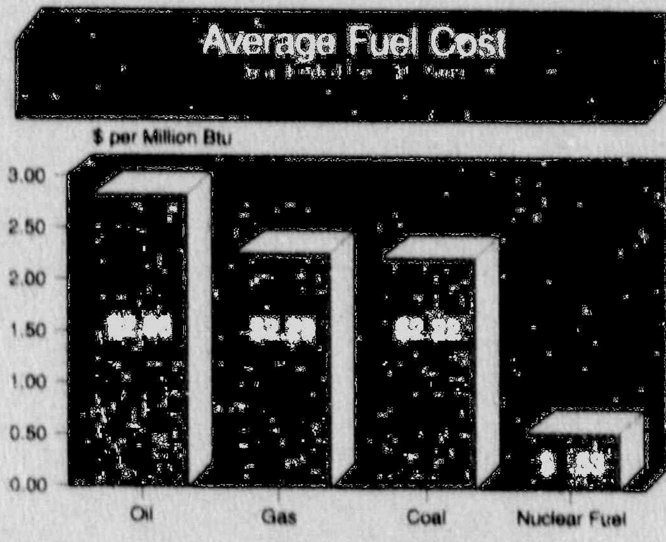
Comparative Statistical Record

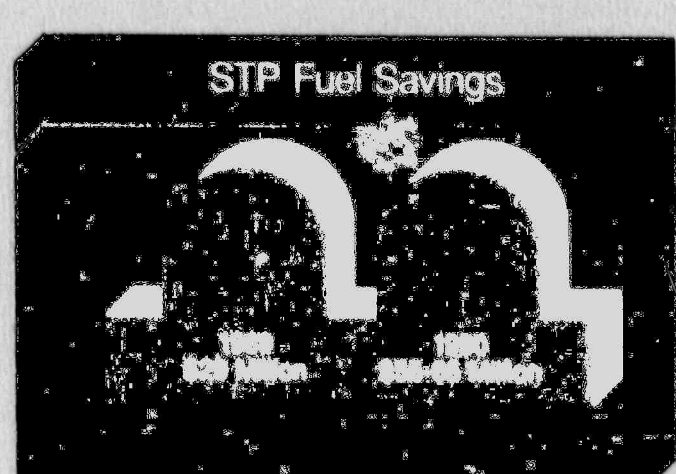
CENTRAL POWER AND LIGHT COMPANY

	1989	1988	1987
AVERAGE NUMBER OF CUSTOMERS			
Residential	**460,522**	452,707	446,548
Commercial	**71,209**	70,285	70,008
Industrial	**6,488**	6,570	6,548
All other	**3,401**	3,320	3,277
Total	**541,620**	532,882	526,381
NUMBER OF CUSTOMERS — END OF PERIOD	**549,301**	539,896	532,546
SALES — KILOWATT-HOURS (Thousands)			
Residential	**5,277,961**	4,945,741	4,630,356
Commercial	**4,086,174**	3,898,835	3,736,151
Industrial	**4,587,663**	4,244,925	4,325,326
All other	**1,354,976**	1,528,082	1,336,327
Total	**15,306,774**	14,617,583	14,028,160
REVENUES (Thousands)			
Residential	**$312,850**	$295,167	$273,223
Commercial	**254,304**	244,082	231,004
Industrial	**184,871**	180,345	198,481
All other	**84,560**	70,838	65,556
Total	**$836,585**	$790,432	$768,264
RESIDENTIAL AVERAGES			
Kilowatt-hours per customer	**11,461**	10,925	10,369
Revenues per customer	**$679.34**	$652.00	$611.86
Revenues per kilowatt-hour	**5.93¢**	5.97¢	5.90
SYSTEM CAPABILITY AT PEAK (Kilowatts)			
CPL stations	**3,947,000**	3,801,000	3,698,000
Purchase contracts	—	—	—
Total system	**3,947,000**	3,801,000	3,698,000
SYSTEM MAXIMUM DEMAND (Kilowatts)	**3,145,000**	3,013,000	2,881,000
FUEL EFFICIENCY DATA			
Average BTU per net KWH	**10,402**	10,085	10,164
Cost per million BTU	**$1.99**	$2.11	$2.08
Cost per KWH generated (mills)	**20.70**	21.26	21.17
BALANCE SHEET DATA (Thousands)			
Electric utility plant	**$4,298,859**	$4,169,637	$3,853,568
Annual constructed additions	**141,722**	329,222	444,723
Accumulated depreciation	**769,880**	658,015	589,909
Percentage of accumulated depreciation to original cost	**17.91%**	15.78%	15.31
CAPITALIZATION (Thousands)			
Common stock equity	**$1,368,067**	$1,294,844	$1,159,550
Preferred stock	**297,623**	297,334	213,442
Long-term debt	**1,331,544**	1,325,977	1,179,456

1986	1985	1984	1983	1982	1981	1980	1979
441,849	432,906	420,487	407,006	394,437	376,444	361,181	347,746
69,719	68,720	67,217	65,359	63,581	60,386	57,901	56,023
6,713	6,827	6,717	6,652	6,560	6,322	6,014	5,771
3,254	3,268	3,206	3,185	3,174	3,108	3,051	2,981
521,535	511,721	497,627	482,202	467,752	446,260	428,147	412,521
527,392	521,281	507,402	492,712	477,892	459,003	437,438	422,298
4,567,961	4,469,884	4,209,063	3,863,798	3,988,111	3,736,235	3,574,451	3,202,513
3,734,321	3,664,447	3,452,989	3,268,206	3,278,005	3,085,744	2,884,986	2,723,446
5,521,265	5,985,326	6,280,810	5,910,999	5,532,386	5,867,785	5,675,723	5,663,115
1,816,470	1,501,630	1,166,087	1,116,201	1,111,941	1,531,250	1,251,973	1,131,052
15,640,017	15,621,287	15,108,949	14,159,204	13,910,443	14,221,014	13,387,133	12,720,126
$284,345	$295,038	$298,186	$286,182	$282,616	$233,593	$203,214	$159,701
241,773	252,334	255,879	249,255	242,215	202,819	171,047	127,743
254,626	300,915	342,900	336,604	303,933	277,829	234,906	189,017
79,231	76,621	75,219	74,240	70,422	79,701	60,429	42,125
$859,975	$924,908	$972,184	$946,281	$899,186	$793,942	$669,596	$518,586
10,338	10,325	10,010	9,493	10,111	9,925	9,897	9,209
$643.53	$681.53	$709.14	$703.14	$716.50	$620.53	$562.64	$459.24
6.22¢	6.60¢	7.08¢	7.41¢	7.09¢	6.25¢	5.69¢	4.99¢
3,703,000	3,688,000	3,667,000	3,625,000	3,523,000	3,523,000	2,954,000	2,976,000
—	—	—	—	—	—	—	10,000
3,703,000	3,688,000	3,667,000	3,625,000	3,523,000	3,523,000	2,954,000	2,986,000
2,974,000	3,022,000	2,832,000	2,869,000	2,825,000	2,734,000	2,505,000	2,390,000
10,174	10,040	10,298	10,231	10,236	10,171	10,374	10,262
$2.33	$2.89	$3.27	$3.47	$3.51	$3.04	$2.55	$2.20
23.70	29.01	33.65	35.47	35.97	30.93	26.43	22.58
$3,426,969	$3,056,619	$2,758,977	$2,385,489	$2,110,440	$1,880,395	$1,687,124	$1,461,916
433,061	456,151	386,952	286,524	237,251	199,519	231,858	228,631
546,285	503,405	458,834	418,037	377,738	339,497	301,299	269,212
15.94%	16.47%	16.63%	17.52%	17.90%	18.05%	17.86%	18.42%
$1,033,443	$971,443	$851,805	$723,254	$635,049	$555,245	$478,191	$426,184
213,060	181,979	181,989	182,024	132,770	132,770	132,796	93,136
1,048,987	981,481	866,551	728,149	647,404	573,427	509,024	434,590


Projected System Average Rates


Average Fuel Cost
$ per Million Btu
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Oil
Gas
Coal
Nuclear Fuel


STP Fuel Savings

Shareholder and Investor Information

PREFERRED STOCK

TRANSFER AGENT/REGISTRAR OF STOCK

Central and South West Services, Inc.
P. O. Box 660164
Dallas, Texas 75266-0164

SHAREHOLDER SERVICES

The shareholder services staff is available from 8 a.m. to 5 p.m.,
Central Time, Monday through Friday to answer any questions you may have.
If you have a question, write:

Central and South West Services, Inc.
Shareholder Services Department
P. O. Box 660164
Dallas, Texas 75266-0164

or call:
1-800-527-5797 (Outside of Texas)/1-800-442-1718 (In Texas)

We recommend that you send stock certificates by either registered or certified mail.

FIRST MORTGAGE BONDS

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The First National Bank of Chicago
One First National Plaza
Mail Suite 0126
Chicago, IL 60670
Richard D. Manella — (312) 407-1841

ADDITIONAL INFORMATION

This report is prepared primarily for the information of security holders, employees and customers of the Company and is not transmitted in connection with the sale of any security or offer to sell or offer to buy any security.

Copies of this report and the financial statements included therein and the Securities and Exchange Commission Annual Report on Form 10-K are available generally to all security holders of the Company. A copy will be mailed to any security holder or other interested party upon written request to C. Wayne Stice, Secretary, P. O. Box 2121, Corpus Christi, Texas 78403-2121.

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