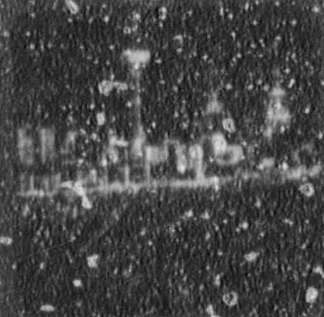


City Public Service
San Antonio, Texas

1991-92 Annual Report

Highlights of the Year

- Assets increased by $46,476,000 to $4,596,791,000
- City equity increased $46,661,000 to $1,748,692,000
- City payments decreased $656,000 to $109,017,000
- Gross revenues decreased $3,126,000 to $815,384,000
- Cost to residential customer per KWH decreased 1.5% to .... 6.39¢
- Cost to residential customer per MCF of gas increased 1.4% to $4.93
- Maximum electric system load increased 57,900 KW to 2,799,000
- 6,160 electric customers were added to total 476,122
- KWH sales increased .9% to 12,011,504,830
- MCF sales increased 1.7% to 24,810,134

Summary of Application of Revenue

Gross revenue for 1991-92		$815,384,000
Application of Revenue:		
Fuel, purchased power and resale gas		$174,759,000
Other operating and general expenses		136,975,000
Maintenance of the systems		63,860,000
For debt requirements and other interest	$262,916,000	
Less interest charged to constr.	31,418,000	
Net debt requirements and other interest		231,498,000
Payments to the City of San Antonio		109,017,000
Balance from operations available for const		99,275,000
Total		$815,384,000

Gross amount spent for replacements, improvements and expansion of gas and electric systems	$229,831,000

Funds obtained from:	
Operations	$98,376,000
Commercial Paper	101,777,000
Improvement and Contingencies Fund	(3,942,000)
Contributions and advances in aid of constr	2,720,000
Litigation Settlement Proceeds	30,900,000
Total	$229,831,000

Letter from the Chairman of the Board and General Manager

Profile of City Public Service

City Public Service, San Antonio's natural gas and electric utility, serves some 476,000 electric customers in Bexar County and small portions of surrounding counties, an area covering about 1,566 square miles. More than 287,000 customers in the metropolitan area receive natural gas from CPS.

Owned by the City of San Antonio since 1942, CPS is one of the largest municipal utilities in the country. The utility operates six power plants in the San Antonio area with a combined capacity of 3,200 megawatts and owns 28 percent of the South Texas Project nuclear plant which adds another 700 megawatts of capacity. A 500 megawatt coal-fired plant is under construction and is expected to begin operation in the summer of 1992.

The gas system is comprised of 3,854 miles of mains through which gas is delivered to CPS customers.

City Public Service has 3,515 employees as of January 31, 1992.

As City Public Service begins its 50th anniversary year, we can look back at a half-century of success that has been achieved because of an emphasis on customer service.

The mission of CPS since its purchase by the City of San Antonio in 1942 has been to provide safe, reliable, low-cost natural gas and electric service for the benefit of customers in the San Antonio area. Despite many changes in the utility industry, this vision for CPS has continued throughout the years and provides a sound basis for operation in the future.

Accomplishing the task of providing safe, reliable, low-cost service to customers has required decisions to diversify the fuel base and to follow a conservative financial strategy. Diversification of fuels through construction of coal-fired generating plants and the South Texas Project nuclear plant has resulted in low rates for CPS customers. Likewise, prudent financial planning has helped to maintain favorable bond ratings and lower interest costs which have translated into rates that are among the lowest in the state and nation.

Efficiencies through use of technology and reduction of staff through attrition also have contributed to the positive position of CPS when compared with other utilities. State-of-the-art facilities, including the use of computerized systems, allow the utility to operate in the most cost effective manner. To maintain a quality work force while controlling labor costs, CPS launched a program in December 1989 to reduce staff through attrition. The program has resulted in a work force that is 6.6 percent smaller than the staff in December 1989.

During 1991-92, CPS set new records in 24-hour electric usage and hourly peak demand, continuing a trend from the last few years. Expenses were lower than forecast, a result of sound operating practices and fuel prices that were lower than expected.

As CPS looks toward its 50th anniversary year and another half century of service to the San Antonio area, the utility has a solid foundation on which to continue building. Its modern facilities and conscientious work force assure that customers will continue to receive safe, reliable, low-cost gas and electric service—continuing to fulfill the mission which has been in place since 1942.

Pat Legan
Chairman

Arthur von Rosenberg
General Manager

As City Public Service marks the end of its first half-century as a municipal utility, it is important to salute our customers and thank our employees. Customers are the utility's reason for existing, and a dedicated work force provides the quality of utility service which the customer deserves and expects. Since 1942, CPS has served customers by providing reliable, competitively priced natural gas and electric service and has won praise for the high quality of service. The following pages outline the benefits to customers and their thoughts about the service they receive from City Public Service.

"An important consideration in locating a VLSI plant in San Antonio was the quality of power. Because of the sophistication of our production equipment, even a two-second outage at our current production level can cost us $50,000 in lost production time plus possible product scrap.

"The quality of power from CPS is very good and has met our expectations, and the cost is less than half as much as at our other production plant location.

"The combination of price and quality of service has contributed to making our move to San Antonio a good business decision."

Dave Zinnecker
Site Service Manager
VLSI Technology, Inc.

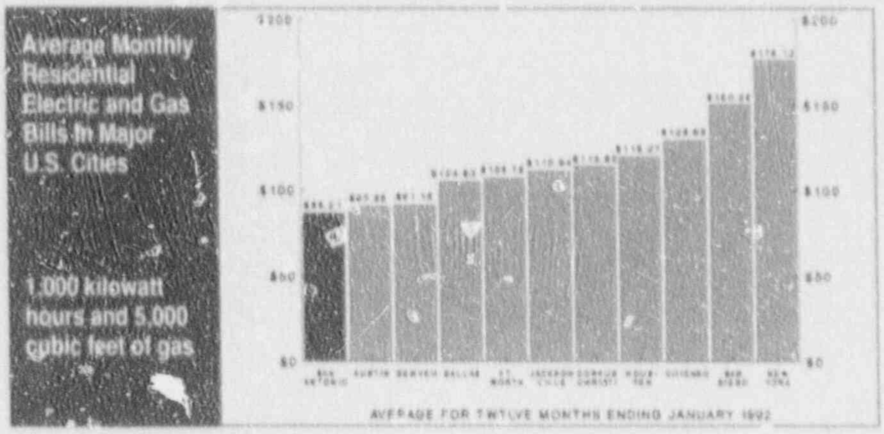
Financial

City Public Service follows a conservative strategy that has resulted in financial strength for the utility. CPS has a highly favorable double-A rating for its bonds with resulting low interest costs. The conservative financial strategy also means favorable rates for customers and benefits for the City of San Antonio, the utility's owner.

CPS customers continued to benefit from favorable rates which ranked among the lowest in the state and nation during 1991-92. Residential electric rates during the fiscal year consistently were in the lowest quartile among the 25 largest cities in the country. The combined average monthly residential gas and electric bill for fiscal 1991-92 was $86.21 for CPS customers, the lowest among the larger cities in Texas and the lowest of the 10 largest cities in the U.S.

Cost containment efforts have contributed significantly to the low rates enjoyed by customers. In an effort to cut costs, staff was reduced 6.6 percent through attrition by the end of the fiscal year when compared with the number of employees in December 1989. If employees hired to staff the new J.K. Spruce Plant are subtracted from the personnel strength, the staff reduction stood at 9.5 percent at year-end when compared with 1989 figures.

Total operating expenses for the year were lower than forecasts and the prior fiscal year, $376 million compared with $392 million in 1990-91. Favorable fuel prices represented a major factor in reducing costs as the average cost of fuel for generation was 94 cents per million BTUs, a lower level than in any year since 1974.



Public Service:

Just a note to thank you for

prompt ... excellent service

received ... vice.

problem ... sh

Your ... lping

nig, w ... em

e to u ... of

nd great ...

rything se ...

It is obvious that ... takes

great deal of pride in his work

and enjoys helping the customer!

Again, thanks to Mr. Koenig

Jewel R. Shaa

"The free energy surveys you've made available to your customers are wonderful and deserve commendation. Energy Surveyor James Raven did a very thorough, professional job. He made me aware of situations that were wasting energy and recommended ways to correct them. I also appreciate the materials he provided with regard to utilizing energy more efficiently. I learned a lot."

Mrs. Calvin Bailey

During 1991-92, CPS sold $356.7 million in refunding bonds to refinance older, high-interest gas and electric system bonds and to convert $200 million of short-term commercial paper to longer-term bonds while interest rates were low. The action to advance refund older bonds will save CPS customers $1.4 to $1.6 million annually for 12 years. The new bonds were sold at an interest rate of 7.009 percent. The average interest rate on all outstanding gas and electric bonds is now 6.85 percent, down from 7.11 percent recorded last year.

CPS had record electric sales during the fiscal year with 12 billion kilowatt hours sold. The increase over the previous year is due to increased electric usage per customer and an increase of 6,160 customers. Gas sales were up 1.7 percent from the previous year, with 24.8 million MCF sold during 1991-92.

Total revenue of $815.4 million for the fiscal year declined despite the greater electric and gas sales. The reduction is attributed to the lower unit cost of gas and electricity as a result of the continuing trend of lower costs for generation fuels and distribution gas.

Construction and Operations

City Public Service continued its building program to provide customers excellent service through modern, well-maintained facilities.

By fiscal year end, the J.K. Spruce Plant, being constructed under a $444 million fixed-price contract, was 94.4 percent complete, including engineering, procurement, construction and fabrication of equipment. Completion of the unit in the summer of 1992 will add 500 megawatts of coal-fired generating capacity at Calaveras Lake in southeast San Antonio where both coal-fired and gas-fired plants already operate. The plant will use low-sulfur coal which is brought by train from Wyoming and will share some coal-handling facilities with the J.T. Deely Plant.

The Spruce Plant will function with state-of-the art environmental equipment, including a scrubber which neutralizes sulfur dioxide gas into calcium sulfite and sulfate and a baghouse system to remove fly ash. The equipment will allow the utility to maintain high standards for air quality in the San Antonio area while bringing the utility's total generation capacity from coal to 1,336 megawatts.

A transmission line to connect the Spruce Plant to the new Cagnon Road Substation was completed during 1991-92. Built at a cost of $11.2 million, the 345,000 volt double circuit line spans 38 miles. The Cagnon Road Substation, nearly complete by year-end, brings to three the number of substations in the CPS system which have auto transformers to reduce voltage from 345,000 volts to 138,000.

CPS crews began work on the Parsons Street Substation which will provide additional reliability for the downtown electric network and also will serve the Alamodome, a 65,000-seat multi-use facility scheduled for completion in 1993. The substation is being tied to the CPS system by a 138,000 volt underground transmission line.

Construction of the Spruce Plant, named for retired General Manager J.K. Spruce, continues the utility's philosophy of diversifying fuel used for generation. The program was begun with operation of two coal-fired units in 1977 and 1978 and continued with commercial operation of the South Texas Project nuclear plant in 1988 and 1989. CPS owns 28 percent of the nuclear plant located on the Texas coast and receives 700 megawatts of electricity as its share when the plant is at full power.

The use of low-cost nuclear fuel and coal is expected to increase as the Spruce Plant comes on line during 1992 and the nuclear plant matures with resulting improvements in performance. Because both nuclear units were refueled for 18-month operation during 1991, only Unit 1 will be out of service for refueling in 1992. Even with both units experiencing refueling outages during the 1991-92 fiscal year, STP produced 15.3 billion kilowatt hours, achieving a capacity factor of 69.75 percent. By comparison, the plant operated 55.2 percent of the time during fiscal year 1990-91.

During the year, CPS was able to increase its use of nuclear fuel, the least expensive of the fuels used for generation. CPS received 34 percent of its generation from STP, compared with 26.8 percent the previous year. Coal accounted for 42 percent of the generation in 1991-92 and natural gas for 24 percent.

CPS customers set new records for hourly peak demand and 24-hour usage. On August 21, 1991, both records were broken as the hourly peak demand reached 2,799 megawatts, up from 2,717 megawatts in June 1990. The new 24-hour generation record was set at 51,419.7 megawatt hours, up from 51,115.8 megawatt hours the previous year.

Community Programs

CPS employees demonstrated their support for the community through participation in the United Way campaign and the CPS volunteer program. Community programs also included safety demonstrations and conservation programs.

In its second full year of operation, the Volunteers in Public Service, a program to match employee talents with needs for volunteer work in the community, contributed 8,265 hours of time to community service. The volunteer work earned the VIPS recognition by the United Way of Bexar County as the Corporate Volunteer Group of the Year. The American Public Power Association, a national organization with approximately 1,700 municipal utility members, presented the 1991 Community Service Award to CPS to recognize the volunteer program.

CPS employees also showed their concern for the community through participation in the United Way campaign. Despite having a reduced number of employees to contribute, CPS surpassed the previous year's donations. The contributions of $443,735 surpassed the goal by 6.9 percent, setting an all-time record for giving at CPS. More than 1,600 employees are now Continuous Givers, who automatically donate their Fair Share each year.

City Public Service continued to take its message about safety and conservation to the community through presentations to school classes, businesses and community organizations. During the year, CPS personnel presented information about the efficient use of gas and electricity to more than 34,400 persons. The utility also launched an Energy-wise Appliance program to inform customers about the most efficient refrigerators, freezers and room air conditioners.

CPS expanded the Public Safety program through the presentation of 682 safety programs to 64,626 persons. The safety message also was targeted at parents through the media to emphasize the importance of safety for children. Special children's programming on television then reinforced the message.

"I would like to take this opportunity to express my gratitude for the kind, understanding manner in which CPS handled my account when I was facing both unemployment and illness.

"Having exhausted my savings on medical and living expenses, I was really in a financial crunch. Your kind staff worked with my account, assuring me my service would not be disconnected and giving me words of encouragement.

"Although it was a rough time in my life, something very positive came out of it. I met some very wonderful people with caring hearts. Now that I am gainfully employed and my health is improving, I want to say thank you to all the CPS employees who assisted me during this trying time. My lights shine brighter because you were there when I needed your help."

A Grateful Customer

"I would like to pass on accolades to CPS and its employees for their high standard of excellence in dealing with customers, especially Ester Georges, whom I spoke with regarding a CPS bill that had been stolen along with my car.

"Your employees who assist customers via the telephone are without a doubt the most courteous and helpful that I have ever had the pleasure of dealing with."

[illegible] Bowman

Relationships with the San Antonio business community were continued through special programs. The utility provided audit services to businesses and residential customers to help them conserve gas and electricity. Seminars for small business owners were held to provide information about products needed at CPS and the requirements for doing business with the utility. CPS also continued its work with the Economic Development Foundation, an organization dedicated to attracting new business to the San Antonio area. CPS personnel provided utility planning assistance to businesses which decide to locate in the area.

Personnel Changes

Mayor Lila Cockrell left the Board of Trustees at the completion of her term of office May 31, 1991. She was replaced by Mayor Nelson Wolff as Ex-officio Trustee.

Gloria Leal Hernandez was elected to her first five-year term on the Board on June 1, 1991. She had served on the Board since June 1989 when she was elected to fill the unexpired term of Lila Cockrell who was re-elected Mayor. Mrs. Hernandez, the owner of wholesale and retail businesses, will be eligible to serve two five-year terms.

Robert J. Costello, Assistant General Manager for Operations, retired with 35 years of service. On his retirement, the responsibilities of the job were divided between Kenneth J. Fiedler, Assistant General Manager for Operations and Joe O. Trevino, Assistant General Manager for Transmission and Distribution Engineering and Construction.

Business Development

As City Public Service begins its golden anniversary year, the utility looks ahead to a bright future with continued emphasis on customer service.

The city's economic outlook continues to improve, following the lead of the other large cities in the state. Businesses have selected San Antonio for their expanded operations, increasing employment opportunities in the manufacturing, biotechnology and service industries. During the year, Golden Aluminum, a subsidiary of Coors, completed construction of an aluminum rolling mill on land leased from CPS near the Braunig Power Plant. The $170 million recycling plant will employ about 200 workers and is expected to be the utility's largest customer when the plant is in full operation.

A resort hotel, which is nearing completion in west Bexar County, will add another destination for tourists and convention participants in a city that already has many attractions. Fiesta Texas, a theme park owned by Nashville, Tennessee based Opryland and USAA, a locally headquartered mutual insurance company, will open in the spring 1992, adding another visitor destination to those that already exist, such as the Alamo, River Walk and Sea World.

During the year, several telemarketing companies chose San Antonio for their business expansions. AMR Corp. is opening a reservation center which will employ 1,000 persons who will make international airline reservations. QVC Home Shopping Network will begin operation in the summer 1992 of a telephone order facility which will employ 2,000. City Corp. will open a telephone customer service center in the spring 1992 with an employment projection of 750. These businesses join three which announced telemarketing expansion in the previous year, setting a trend in development of the telemarketing industry in San Antonio.

"Since 1949, the Department of Defense has depended on Precision Manufacturing Company for supplies and aircraft maintenance support. Through wartime, recessions and even some prosperity, we have relied on City Public Service for our power and utility service. "In the 43 years with CPS, we have never had a day lost due to lack of service. Even the effects of the infamous Texas weather have resulted in only short periods of outage.

43 years of service...

Not one complaint

Reliability and service...

Above reproach.

"Thank you, from the over 250 families of workers throughout the history of our company and the thousands of servicemen depending on us daily, for your dependability."

Edward E. Anderson
President
and
Mary J. Hicks
General Manager
Precision Manufacturing Company
San Antonio, Texas

Future Trends

As the business climate continues to improve and San Antonio's population grows, 167,000 new jobs are projected to be added by the year 2000. The expected result of the increasing population will be an increase of 200,000 electric customers by 2010. Electric sales are expected to grow at an average annual rate of 3.8 percent during the next 25 years and the hourly peak demand is expected to increase 3.3 percent annually for the same period. At the same time, distribution gas sales are expected to decline slightly as appliances become more efficient and growth in the gas system slows.

While the number of gas customers is expected to grow at the rate of only 1 percent annually during the next 25 years, a bright spot on the horizon is surfacing through the potential for using compressed natural gas as a fuel for vehicles. During 1991-92, CPS converted 12 vehicles in its fleet to operate on both CNG and gasoline. The pilot program will test the performance of vehicles operating on CNG and will provide information about the effect on maintenance costs. In the spring of 1992, CPS expects to complete construction of a facility to fuel its converted vehicles and to increase interest in the use of CNG.

The fuels diversification program which was begun in the 1970s allows CPS to continue selecting fuels for generation based on competitive prices with a positive result for customers' bills. Because of the positive pricing projection for coal, CPS expects to generate 58 percent of its electricity from coal in the year 2002. Nuclear fuel is expected to provide 24 percent of the generation, its percentage declining as a result of the growing electric load on the CPS system.

The utility will bring on line a 500 megawatt coal-fired plant during 1992 and does not anticipate adding other large capacity plants until after the turn of the century when either a lignite-powered plant or an additional low-sulfur coal plant is necessary. Any capacity required in the interim period will be provided by gas-fired peaking units.

CPS customers will continue to pay low rates, a trend which has been in effect since the early 1980s. Since 1985, the price of residential electric service has fallen from 7.54 cents per kilowatt hour to 6.4 cents for the 1991-92 year. Residential bills have declined from $102.62 for 1,000 kilowatt hours and 5,000 cubic feet of gas in 1985 to $86.61 in 1991, a decrease of 15.6 percent. If adjustments are made for inflation, the cost of electricity today is almost the same as in the early 1970s.

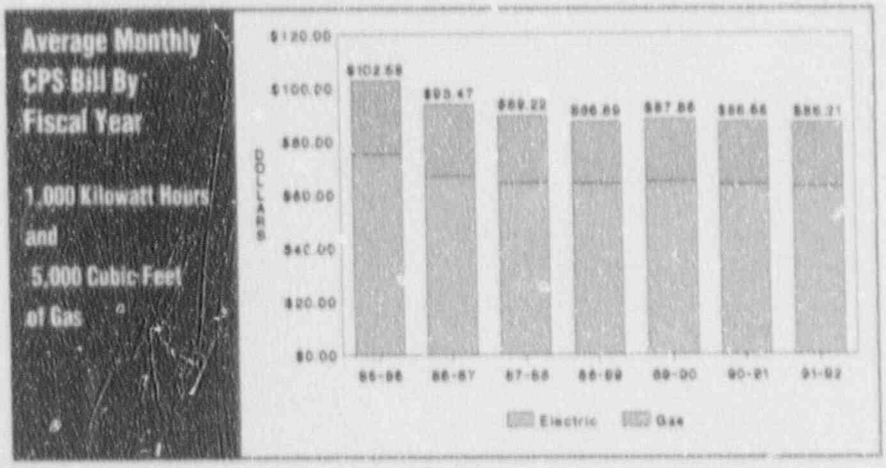
"This letter is to convey our thanks and gratitude to the gentlemen who came to our home in the middle of the night to fix our broken power line.

"We returned home from a social function to find that the power line in our back yard had been knocked down by a 40-foot section of tree and we were completely in the dark. We called CPS and were told a crew would be dispatched as soon as possible. At about 1:30 a.m., two men arrived and within 15 minutes repaired the line!

"We know that they were just doing their job but we wanted them to know how much we appreciated their hard work. Except for one child who enjoyed living by candlelight, we were all glad to have our power restored and realize how much we take electricity for granted."

Mr. and Mrs. Danny Warner

Future utility prices are expected to rise, but less rapidly than the overall rate of inflation. The average annual electric usage also is expected to rise as more appliances are added to the market.



Continued growth in the San Antonio area that outpaces the national average, competitive utility rates and the continuing tradition of excellent customer service provided by CPS combine to create a positive environment for the utility. With a fine organization in place and a tradition of excellence spanning a half-century, CPS looks ahead to future opportunities to serve the San Antonio area. The utility will continue to achieve its goal of providing safe, reliable, low-cost natural gas and electric service for the benefit of its customers.

CPS Board of Trustees





CPS Management Staff






CPS Department Managers

Ralph E. Alonzo
Customer Services

Steven Bramer
Administrative Services

Martin F. Clausewitz
Power Plant Engineering

Anthony C. Edwards
Employee Relations

Nick Flores
Operations

Louis S. Fleckenstein
Materials & Transportation

Paul R. Garza
Field Administration

Wallace H. Geisler
Generation and Environmental Planning

William C. Gunst
Production

Leonard H. Hill
Transmission and Distribution Engineering

Cy Hutchinson
Data Processing Services

John J. Leal
Personnel

James W. Pettinos
Construction

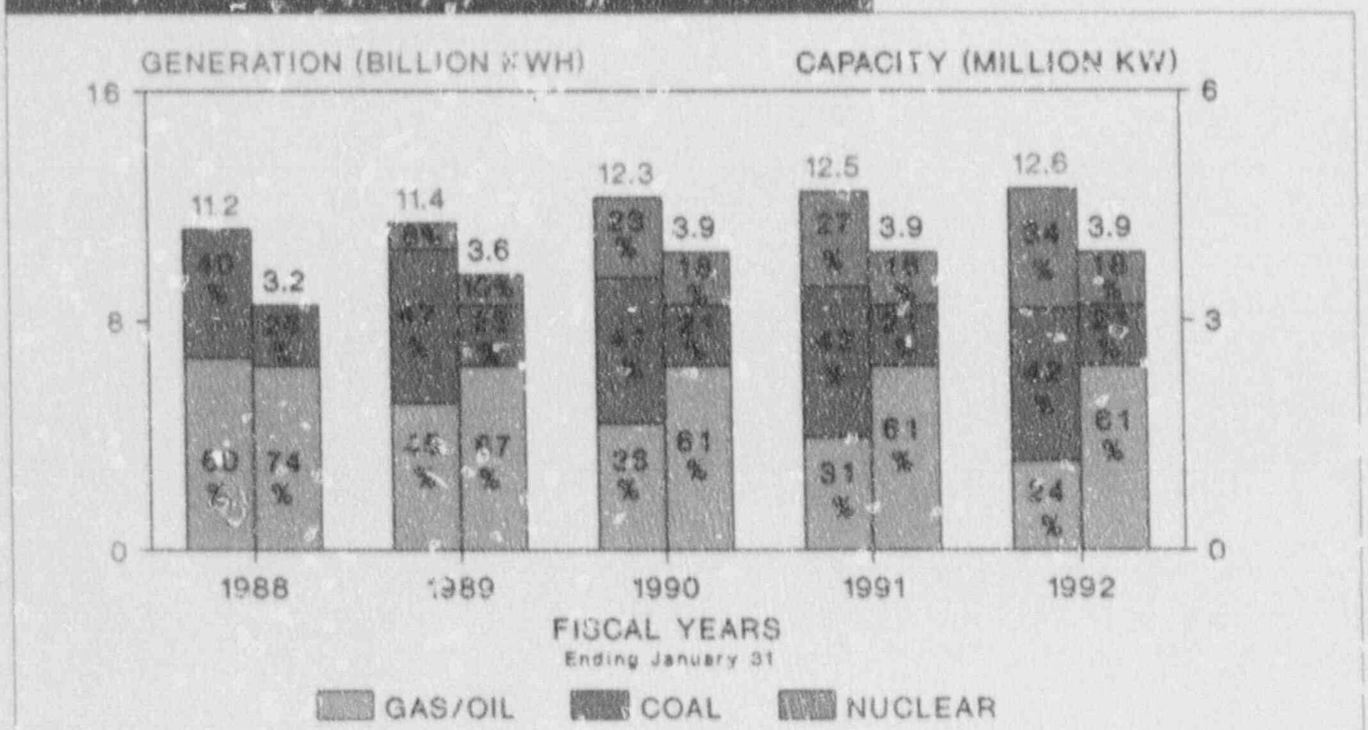
Donald R. Schnitz
Gas Engineering and Fuels

Stewart Schooler
Legal Services

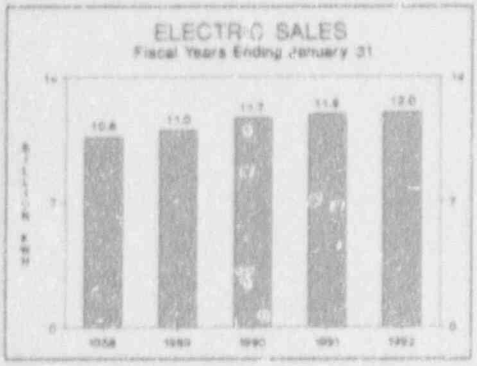
Barbara K. Stover
Public Relations

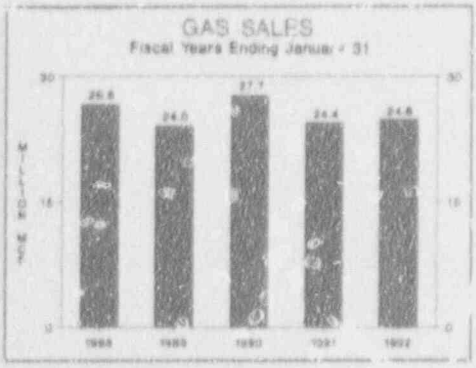
Donald S. Thomas
Financial Services

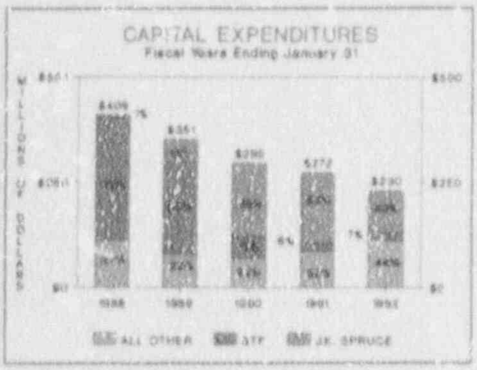
Electric Generation & Capacity by Fuel Type

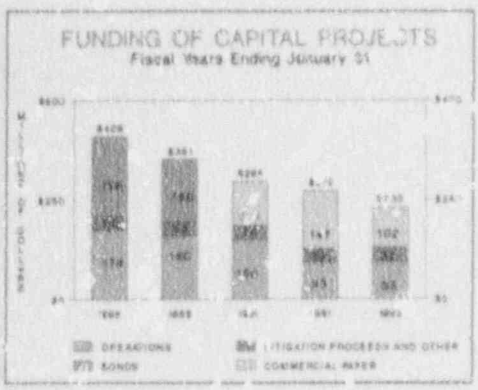


Management's Financial Summary For Fiscal Year 1991-92









City Public Service continued to experience financial stability during 1991-92. Responsible fiscal and facility policies have resulted in the utility's assets totaling almost $4.6 billion, one indicator of the utility's financial strength. Net utility plant increased by construction expenditures, primarily for the coal-fired generating plant currently under construction. The utility continued to receive highly favorable ratings for bonds and commercial paper from several prominent financial evaluation services. These ratings enable CPS to compete for the lowest possible interest costs on new debt issues.

Financing results for 1991-92 included issuing almost $357 million in bonds to refund prior, higher-interest bonds at lower rates to achieve significant interest savings through the year 2004. The financial strategy also included converting $200 million of commercial paper to long-term bonds during this period of low interest rates to control interest costs and other debt expenses.

The $160 million outstanding balance of commercial paper at year-end had a weighted average interest rate of 3.47 percent. Also, the $2.5 billion of net revenue bonds outstanding, including current maturities, as of January 31, 1992, had a very favorable ?.85 percent weighted average interest rate.

Total electric sales were a record 12 billion kilowatt hours in fiscal year 1991-92 and continued to reflect modest growth which has been the trend in recent years.

Total gas sales of 24.8 million MCF were slightly more than last year. Gas sales reflected milder weather for the second consecutive year.

Gross revenue for the year totaled $815 million, a slight decline from the prior year. Electric fuel and gas costs recoveries decreased and offset increased revenue from the 4 percent average base rate increase implemented at the beginning of the fiscal year. Electric sales accounted for $672 million in revenue, more than 82 percent of total CPS revenue in 1991-92. Gas system sales produced more than 13 percent, or almost $107 million, of total revenue. The remaining 4 percent of gross revenue, about $36 million, resulted from interest on investments and other miscellaneous income.

Revenues which reflect the recoveries of the cost of fuel and gas were down this year due to 7 percent more generation with lower cost nuclear fuel, reduced gas prices, and larger coal litigation settlement credits which served to reduce coal costs being passed on to CPS customers.

The average revenue of $.0556 per KWH reflected the lowest cost to CPS electric customers since 1982. Total gas revenue was up 2.5 percent compared to the last fiscal year due to the rate increase and to the increased gas sales. Gas revenue per MCF rose less than 1 percent, from $4.25 to $4.28 per MCF.

Operating and maintenance expenses for the fiscal year amounted to $376 million, down from $392 million the prior year. The $175 million cost of fuel for generation and gas for resale accounted for more than 46 percent of the costs to operate and maintain the electric and gas systems. Electric generation fuel costs decreased more than 14 percent as a result of the continuing benefits realized from greater generation from low-cost nuclear fuel and reduced prices for both natural gas and coal during the year.

Nuclear fueled electric generation accounted for 34 percent of CPS generation for the year, while 42 percent was from coal fueled facilities. These fuels provided the lowest cost fuel sources for 1991-92.

CPS use of natural gas has declined gradually and represented only 24 percent of total CPS generation. The cost of gas purchased for electric generation and for resale to customers also declined during the fiscal year.

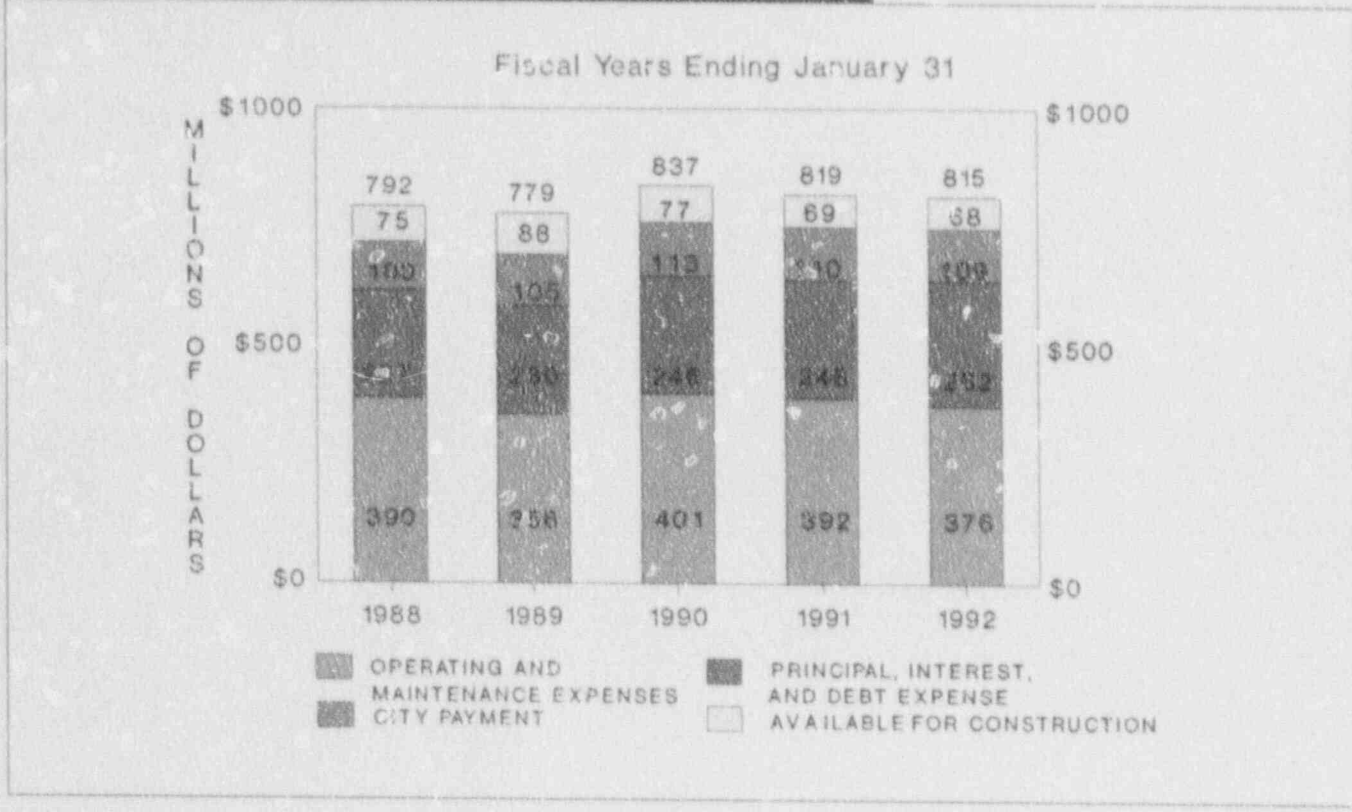
Non-fuel costs for the South Texas Project (STP) nuclear plant increased from greater operating licensing fees, administration expenses, maintenance, and Decommissioning Trust Fund payments. All other CPS operating expenses, which accounted for 35 percent of total operating and maintenance costs, reflected a small advance from the previous year. The small increase points to the effects of efforts started in late 1989 to reduce staffing levels, labor and related expenses, in view of the slower customer growth experienced for several years.

Debt requirements, almost entirely for principal and interest on bonds and commercial paper, increased from the prior fiscal year. As part of this year's financial strategy to achieve lower, long-term debt costs, $200 million in commercial paper was refunded at the same time as some outstanding, higher interest bonds. CPS utilizes its commercial paper program for interim financing and expects to continue to replace it with long-term debt during periods of lower interest rates.

Payments and services to the City of San Antonio of $109 million decreased slightly based on lower revenue. Operations in 1991-92 provided about $68 million of revenue to fund construction which allowed CPS more flexibility in its financing plans.

The CPS construction program has been under a major transition for the past five years as the two STP units were completed, while during this same period, construction continued on a new coal-fired

Gross Revenue and Application of Revenue



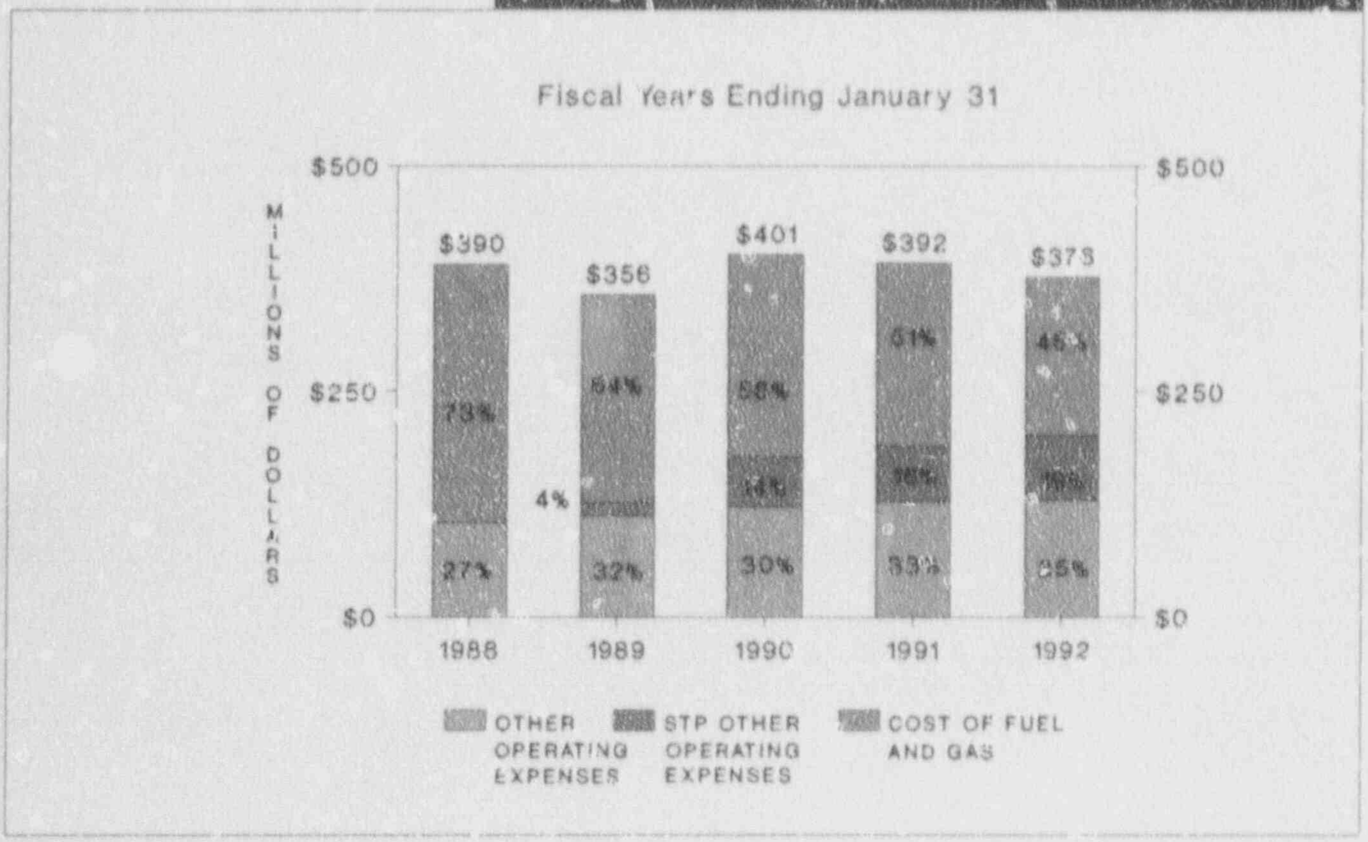
generating facility. Total capital expenditures for the fiscal year of $230 million were the lowest in many years and were $42 million less than the prior year. The construction program included the J. K. Spruce generating plant, which represented almost 50 percent of the total capital expenditures and was 94 percent complete at year-end.

The remaining half of CPS capital projects, totaling approximately $100 million, were electric transmission facility work, including projects in preparation for operating the new coal plant and some general property additions. Expenditures for electric and gas customer extensions and system improvements remained at their lower level as CPS customer growth continued the slower trend started in the later 1980s. This year management implemented further measures to limit other construction to essential current needs and, where practical, to delay expenditures for larger projects as long as practical.

Commercial paper, rather than bonds, was used to finance over 44 percent of the capital expenditures. In addition, revenue from current and prior years funded $95 million, or slightly more than 41 percent, of 1991-92 capital costs. Litigation proceeds and customer contributions provided $33 million to fund the capital program, amounts which were essentially the same as in prior years.

CPS expects to fund its lower capital needs during the next few years principally from revenue and commercial paper. Long-term bonds will continue to be used periodically to advance refund certain new series bonds for interest savings and to convert outstanding commercial paper to long-term debt in periods when interest rates are advantageous.

Operating and Maintenance Expenses



Assets	Notes	1992	1991
		(In thousands)	
UTILITY PLANT, at cost:	1,3,9		
Electric		$3,555,434	$3,499,437
Gas		241,777	231,421
General		99,983	96,646
Total plant in service		3,897,194	3,827,504
Less-Accumulated depreciation		806,770	704,212
Plant in service, net		3,090,424	3,123,292
Construction work in progress		616,719	473,940
Nuclear fuel, less accumulated amortization of $51,208 in 1992 and $31,525 in 1991		94,128	109,390
Held for future use		33,800	33,501
Utility plant, net		3,835,071	3,740,123
RESTRICTED CASH AND INVESTMENTS:	1,2,3		
Bond reserve —			
Old series bonds	4	17,637	17,554
New series bonds	4	206,697	192,810
Improvements and contingencies fund		109,645	105,703
Other	1	15,630	48,886
Total restricted cash and investments		349,609	364,953
CURRENT ASSETS:			
Cash, including temporary cash investments	1,2	49,854	73,910
Cash restricted for payment of construction retainage payable		20,673	-
Customer accounts receivable, less allowance for doubtful accounts of $2,215 in 1992 and $1,856 in 1991		52,957	55,746
Other receivables	9,10	27,690	45,716
Inventories and supplies, at average cost —			
Materials and supplies		49,288	46,402
Fuel stock		27,210	13,555
Prepayments		7,574	7,201
Total current assets		235,246	242,530
LITIGATION SETTLEMENTS BENEFITS RECEIVABLE	9,10	9,601	40,500
DEFERRED DEBITS AND OTHER	1	167,264	162,209
TOTAL		$4,596,791	$4,550,315

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

Equity and Liabilities

	Notes	1992	1991
		(In thousands)	
LONG-TERM DEBT:			
Revenue Bonds —	3,4		
Old series		$ 50,970	$ 63,060
New series		2,777,875	2,385,120
Less — Unamortized discount on new series bonds		(67,953)	(50,375)
Unamortized discount on capital appreciation bonds		(315,140)	(95,950)
Revenue bonds, net		2,445,752	2,301,855
Commercial paper	5	160,000	275,000
Long-term debt, net		2,605,752	2,576,855
EQUITY:			
Appropriated retained earnings —	3		
Bond reserve —			
Old series bonds		17,637	17,554
New series bonds		154,239	140,352
Improvements and contingencies fund		109,645	105,703
Total appropriated retained earnings		281,521	263,609
Reinvested earnings		1,467,171	1,438,422
Total equity		1,748,692	1,702,031
CURRENT LIABILITIES:			
Current maturities of revenue bonds	4	77,825	69,535
Accounts payable and accrued liabilities		59,462	80,646
Litigation settlement benefits payable to customers	10	9,853	12,629
Construction retainage payable		20,673	-
Customer service deposits		23,145	22,101
Total current liabilities		190,958	184,911
DEFERRED CREDITS AND OTHER:			
Customer advances for construction		5,801	8,344
Other		27,525	41,674
Total deferred credits and other		33,326	50,018
LITIGATION SETTLEMENT BENEFITS PAYABLE	10	18,063	36,500
COMMITMENTS AND CONTINGENCIES	3,6,9,10		
TOTAL		$ 4,596,791	$ 4,550,315

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

Statements of Earnings and Application of Earnings

	Notes	Years Ended January 31, 1992	1991
		(In thousands)	
REVENUE:	1		
Electric		**$672,434**	$677,062
Gas		**106,927**	104,360
Interest and other income		**36,023**	37,088
Gross revenue		**815,384**	818,510
EXPENSES:	1		
Fuel, purchased power and resale gas		**174,759**	201,803
Other operating and general		**136,975**	127,081
Maintenance		**63,[illegible]0**	63,200
Depreciation		**114,332**	111,158
Interest and debt expense		**201,198**	200,071
Allowance for interest used during construction		**(31,418)**	(32,093)
Payments to the City of San Antonio	7	**109,017**	109,653
Total expenses		**768,723**	790,873
NET EARNINGS		**46,661**	27,637
ADD:			
Depreciation		**114,332**	111,158
Amortization of capital appreciation bond discount		**10,765**	4,703
Amortization of bond discount and refunding debt costs		**15,506**	13,448
Interest requirements on new series bonds (payable from improvements and contingencies fund)		**160,959**	165,787
AVAILABLE FOR APPLICATION		**$348,224**	$322,733
APPLICATION:			
To pay long-term debt requirements —			
Old series bonds —			
Principal payments		**$ 1[illegible]0**	$ 10,945
Bond reserve		**83**	154
To reinvested earnings — net gain (loss) on sale of assets		**([illegible])**	3
To improvements and contingencies fund —			
Minimum requirement (12 1/2 percent of gross revenue)	3	**101,923**	102,314
Balance of available net earnings		**234,719**	209,317
APPLICATION		**$348,224**	$322,733

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

Statements of Changes in Equity

	Years Ended January 31, 1992	1991
	(In thousands)	
BOND RESERVE, old series bonds:		
Balance, beginning of year	$ 17,554	$ 17,400
Additions — Net accumulation of income not transferred	83	154
Balance, end of year	$ 17,637	$ 17,554
BOND RESERVE, new series bonds:		
Balance, beginning of year	$ 140,352	$ 138,764
Additions — transfer from improvements and contingencies fund for debt service	13,887	1,588
Balance, end of year	$ 154,239	$ 140,352

	1992	1991
IMPROVEMENTS AND CONTINGENCIES FUND:		
Balance, beginning of year	$ 105,703	$ 108,536
Additions —		
From application of earnings —		
Minimum requirement (12 1/2 percent of gross revenue)	101,923	102,314
Balance of available net earnings	234,719	209,317
Total	442,345	420,167
Deductions —		
New series bonds —		
Additions to reserve	13,887	1,588
Payment of bond interest	160,959	165,787
Payment of bond principal	62,520	53,625
Construction expenditures	95,334	93,464
Total	332,700	314,464
Balance, end of year	$ 109,645	$ 105,703

	1992	1991
REINVESTED EARNINGS:		
Balance, beginning of year	$1,438,422	$ 1,409,694
Additions —		
From improvements and contingencies fund —		
For construction	95,334	93,464
For new series bonds principal payments	62,520	53,625
From application of earnings —		
For old series bonds principal payments	11,500	10,945
Net gain (loss) on sale of assets	(1)	3
Total	169,353	158,037
Deductions —		
Depreciation	114,332	111,158
Amortization of capital appreciation bond discount	10,766	4,703
Amortization of bond discount and refunding debt costs	15,506	13,448
Total	140,604	129,309
Balance, end of year	$ 1,467,171	$ 1,438,422

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

Statements of Cash Flows

	Years Ended January 31, 1992	Years Ended January 31, 1991
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 46,661	$ 27,637
Noncash items included in net earnings —		
Allowance for interest used during construction	(31,418)	(22,093)
Depreciation expense	114,332	111,158
Amortization expense —		
Debt expense	11,789	10,382
Discount on new series bonds	3,717	3,066
Amortization of capital appreciation bond discount	10,766	4,703
Loss (gain) on sale of utility plant	1	(3)
Changes in current assets and current liabilities	(13,335)	15,080
Proceeds from freight litigation settlement	17,565	11,500
Refund of freight litigation settlement benefits payable to customers	(20,110)	(10,087)
Decrease in other assets	15,262	3,206
Increase (decrease) in other liabilities	(17,141)	5,941
Net cash provided by operating activities	138,089	160,490
NET CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of utility plant	-	4
Additions to utility plant	(198,387)	(250,627)
Net cash used by investing activities	(198,387)	(250,623)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions in aid and customer advances for construction	2,720	2,179
Sale of refunding bonds	335,055	-
Sale of commercial paper	85,000	150,000
Defeasance of bonds refunded	(123,645)	-
Commercial paper refunded	(200,000)	-
Debt costs	(3,802)	-
Excess of reacquisition amounts over principal of bonds refunded in advance	(9,737)	-
Principal payments on revenue bonds	(74,020)	(64,570)
Proceeds from STP litigation settlement	30,000	30,000
Net cash provided by financing activities	41,571	117,609
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (18,727)	$ 27,476
CASH AND CURRENT RESTRICTED CASH including temporary cash investments:		
Beginning of year	$ 73,910	$ 49,597
End of year	70,527	73,910
Net increase (decrease)	(3,383)	24,313
RESTRICTED CASH AND INVESTMENTS:		
Beginning of year	364,953	361,790
End of year	349,609	364,953
Net increase (decrease)	(15,344)	3,163
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (18,727)	$ 27,476

The accompanying notes a[illegible]art of these financial statements.

1. Summary of Significant Accounting Policies

ORGANIZATION — City Public Service (CPS), a municipal utility owned by the City of San Antonio (the City), provides electricity and natural gas to the San Antonio metropolitan area. As a municipal utility, CPS is exempt from payment of income taxes, state franchise and sales taxes and real and personal property taxes. CPS provides certain payments and benefits to the City as described more fully in Note 8.

BASIS OF ACCOUNTING — The accounting records of CPS are maintained in accordance with generally accepted accounting principles for rate-regulated enterprises, as prescribed by the Financial Accounting Standards Board (FASB) and, where applicable, the Governmental Accounting Standards Board (GASB). The accounting records of CPS follow the Uniform System of Accounts for Gas and Electric Utilities issued by the National Association of Regulatory Utility Commissioners. Certain prior period amounts have been reclassified for comparative purposes.

FISCAL YEAR — The fiscal year ended January 31, 1992, is referred to herein as 1992 and the year ended January 31, 1991, as 1991.

REVENUES AND EXPENSES — Revenue is recognized as billed on a cycle basis. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. Prior to fiscal year 1992, fuel and resale gas costs were fully expensed when incurred. In fiscal year 1992, CPS began recognizing fuel and resale gas costs on the same basis as it recognizes revenue. Management believes this accounting change results in an improved presentation of the financial statements as it relates to the results of CPS' operations. At February 1, 1991, the cumulative effect of this change in accounting principle increased deferred fuel and gas costs by $768,000, which expense has been recognized in fiscal 1992.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the Federal Government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is included in fuel expense, in the amount of $.001 per kilowatt hour (KWH) for its share of electricity produced by STP, other than for precommercial power generation. For further discussion regarding the STP, see Note 9.

UTILITY PLANT — Utility plant is stated at the cost of construction, including costs of contracted services, direct material and labor, indirect costs, including general engineering, labor and material overhead, and an allowance for interest used during construction (AIUDC). CPS computes AIUDC using rates representing the cost of borrowed funds on projects estimated to cost in excess of $1 million. Retirements of utility plant, together with removal cost less salvage, are charged to accumulated depreciation. The maintenance of property, and replacements and renewals of items determined to be less than a unit of property, are charged to maintenance expense. General utility plant assets consist of land, buildings and equipment for general and administrative purposes that are used commonly in electric and gas operations.

CPS computes depreciation using the straight-line method over the estimated service lives of the various classes of depreciable property as determined by periodic engineering studies. Depreciation as a percentage of average depreciable plant was 2.99 percent in 1992 and 2.96 percent in 1991.

OTHER RESTRICTED CASH — These funds, which are generally restricted as to use for other than current operations, or are designated for expenditures in the acquisition or construction of noncurrent assets, consist primarily of the current portion of the New Series Bonds sinking fund, customer assistance program funds, insurance reserves, retainage on long-term construction contracts and short-term investments from tax-exempt commercial paper proceeds.

INVESTMENTS — Investments are stated at cost which approximates market value. The specific identification method is used to determine cost in computing gain or loss on sales of securities. Amortization of premium and accretion of discount is recorded over the term of the investment.

DEFERRED DEBITS AND OTHER — These amounts consist primarily of the unamortized balances of bond issuance expenses and excess of reacquisition amounts over revenue bond principal amounts refunded in advance. Amortization is recorded over the period of the outstanding bonds.

STATEMENT OF CASH FLOWS — For purposes of reporting cash flows, CPS considers all highly liquid debt instruments purchased with a maturity of approximately three months or less to be short-term investments. Accordingly, CPS' temporary cash investments and restricted cash and investments are cash equivalents. No material noncash investing or financing transactions occurred during 1992 and 1991.

In order to determine net cash provided by operating activities, net earnings have been adjusted by, among other things, changes in current assets and current liabilities, excluding changes in cash and temporary cash investments, current maturities of long-term debt and litigation settlements benefits receivable and payable. Those changes shown as an (increase) decrease in current assets and as an increase (decrease) in current liabilities are as follows:

	1992	1991
	(In thousands)	
Customer accounts receivable	$ 2,789	$ (3,077)
Other receivables, net of current maturities of litigation settlements benefits receivable	257	511
Inventories and supplies	(16,541)	7,735
Prepayments	(373)	(1,113)
Accounts payable and accrued liabilities	(21,184)	8,851
Construction retainage payable	20,673	
Customer deposits	1,044	2,473
Changes in current assets and current liabilities	$(13,335)	$15,080

The following provides information related to cash interest paid by CPS for the years indicated:

	1992	1991
	(In thousands)	
Interest (net of AIUDC)	$ 145,704	$161,387

2. Cash, Temporary Cash Investments and Investments:

CPS cash deposits at January 31, 1992 and 1991, were entirely collateralized by banks for the account of CPS. Deposits are collateralized by securities held by a third party in CPS' name.

CPS' investments, including both restricted and unrestricted, at January 31, 1992 and 1991, were all in U.S. Treasury securities and were held for the account of CPS at its general depository bank. CPS' investments are generally limited to U.S. Government or U.S. Government guaranteed obligations. Investments were $418.9 million with a market value of $427.0 million at January 31, 1992.

3. Revenue Bond Indenture Requirements:

The trust indenture executed by the City in conjunction with the issuance of the revenue bonds dated February 1, 1951, through August 1, 1974 (Old Series Bonds), contains, among others, the following provisions:

(1) All of the assets of the gas and electric systems, together with the net revenues of the systems, as defined, are pledged with the Harris Trust and Savings Bank of Chicago, Illinois, as Corporate Trustee, to secure the payment of the Old Series Bonds.

(2) Gross revenues of the gas and electric systems shall be applied to: (a) expenses of operating and maintaining the systems, (b) debt service and reserve requirements on the Old Series Bonds, (c) payment of an "in lieu of tax" amount to the City, (d) an amount equal to 12-1/2 percent of gross revenues to the improvements and contingencies fund, (e) additional benefits and payments to the City to bring City benefits and payments to 14 percent of gross revenues, (f) additional payments to the improvements and contingencies fund until such fund equals 20 percent of the value of fixed capital assets and (g) the balance to a surplus fund.

(3) The following funds are established: (a) general fund, (b) improvements and contingencies fund, (c) bond construction fund (containing the proceeds of revenue bonds), (d) principal and interest current requirements (containing the monthly payments of annual debt requirements) and (e) bond reserve fund (containing an amount equal to the next fiscal year's principal and interest requirements). These funds may be invested with authorized depository banks or in U.S. Government securities.

Beginning with the fiscal year ended January 31, 1976, new series electric and gas systems revenue improvement bonds (New Series Bonds) were issued. These bonds are junior and subordinate to the Old Series Bonds. The bond ordinances authorizing these issues provide that no further bonds or obligations will be authorized or issued under the terms of the trust indenture for Old Series Bonds. While any of the Old Series Bonds are outstanding, the New Series Bonds are payable solely from the net revenues of the systems (1) deposited and available for deposit in the improvements and contingencies fund and (2) from funds payable to the City. At such time as the trust indenture covering the Old Series Bonds becomes inoperative, revenues will be applied as follows: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6 percent of the gross revenues of the systems to be deposited in a repair and replacement fund, (e) for cash payments and benefits to the City not to exceed 14 percent of the gross revenues of the systems and (f) any remaining revenues to the repair and replacement fund. The New Series Bonds ordinances require that a bond reserve fund at least equal to the average annual principal and interest requirements of all outstanding New Series Bonds be established.

As of January 31, 1992, bond reserve requirements for the Old Series Bonds and New Series Bonds have been met.

4. Revenue Bonds:

A summary of revenue bonds is as follows:

	Maturities	Weighted Average Interest Rate on Outstanding Bonds at January 31, 1992	January 31 1992	1991
			(In thousands)	
Old Series,				
1973-1974	1993-1997	6.73%	$ 63,060	$ 74,560
New Series Serial Bonds,				
1975-1991	1993-2016	6.85%	2,341,045	2,278,210
Unamortized New Series Bonds issue discount			(67,953)	(50,375)
New Series Capital Appreciation Bonds,				
1989 & 1991	2002-2012		502,565	164,945
Unamortized Capital Appreciation Bonds discount			(315,140)	(95,950)
		6.85%	2,523,577	2,371,390
Less-Current maturities			77,825	69,535
Revenue bonds, net of current maturities			$2,445,752	$2,301,855

Principal due (in thousands) for the next five years are:

Year	Principal Due Old Series Bonds	New Series Bonds	Total
1993	12,090	65,735	77,825
1994	12,720	70,345	83,065
1995	12,000	76,755	88,755
1996	12,750	82,370	95,120
1997	13,500	88,420	101,920

During 1992 and in prior years, CPS refunded certain previously issued and outstanding New Series Bonds through the issuance of New Series Revenue Refunding Bonds. The refunded bond issues and trust accounts are not included in CPS financial statements. At January 31, 1992, portions of the bonds which have been defeased in-substance were still outstanding as follows.

Fiscal year 1987 refunding	$253,350,000
Fiscal year 1988 refunding	168,725,000
Fiscal year 1990 refunding	397,200,000
Fiscal year 1992 refunding	41,740,000

CPS may issue New Series Revenue Refunding Bonds during fiscal 1992-1993. If it elects to do so, it would be to achieve interest savings on certain outstanding New Series Bonds and to refund all, or part of the outstanding commercial paper with long-term bonds.

5. Commercial Paper:

In October 1988, the City Council of San Antonio, Texas (City Council), adopted an ordinance authorizing the issuance of up to $300 million in Tax-Exempt Commercial Paper (TECP) to assist in the financing of eligible projects, including fuel acquisition and capital improvements to the utility systems (the Systems). The program's scheduled maximum maturities will not extend beyond November 1, 2028. As of January 31, 1992, $160 million in principal amount was outstanding, with a weighted-average interest rate of approximately 3.47 percent and an average life outstanding of approximately 84 days. In February and March 1992, CPS sold a total of $30 million in TECP bringing the total outstanding commercial paper to $190 million. All proceeds have been, or will be, used to pay for capital projects.

The TECP has been classified as long-term in connection with the refinancing terms under a revolving credit agreement with a consortium of banks which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $300 million for the purpose of paying amounts due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 1993, and may be renew additional periods. There have been no borrowings under the credit agreement as of January 31, 1992. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of the Old Series Bonds, the New Series Bonds and any New Series Bonds to be issued in the future.

6. Benefit Plans:

CPS has a self-administered, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. The Plan assets are held in a separate trust which is periodically audited and which statements include historical trend information. Generally, participating employees contribute 5 percent of their total compensation and are normally fully vested in CPS' contribution after completing 15 years of credited service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55.

The total employer and employee pension funding, which includes amortization of past-service costs over 30 years using the unit credit cost actuarial method, is summarized as follows:

	1992	1991	1990
		(In thousands)	
Employee contributions	$ 5,230	$ 4,649	$ 4,298
CPS contributions	13,814	12,887	12,841
Total contributions	$ 19,044	$ 17,536	$ 17,139
Covered payroll	$ 107,397	$ 95,640	$ 88,534
Total payroll	$ 117,310	$ 105,961	$ 100,863
Employee contributions to total covered payroll	5%	5%	5%
CPS contributions to total covered payroll	13%	13%	15%

Of the amounts contributed during years 1992, 1991 and 1990, approximately $11.7 million, $10.4 million and $9.8 million, respectively, was funded each year to cover normal costs of the Plan. The remaining contribution in each year was funded to cover the amortization of the unfunded actuarial accrued liability.

GASB Statement No. 5 requires that a pension benefit obligation be measured using the actuarial present value of credited projected benefits, as adjusted for projected salary increases. This measure is independent of the funding method used to determine contributions to the Plan; however, the significant actuarial assumptions used to compute the contribution requirement are the same as those used to compute the pension benefit obligation. On January 1, 1991, the Plan was amended to determine plan benefits and contributions on total compensation rather than base pay as in prior years and to change the reduction in early retirement benefits prior to age 55 from 2-1/4 percent per year to 4 percent. The effect of these changes was an increase to the total pension benefit obligation of approximately $6.2 million, and an increase in plan contributions of approximately $1.0 million for fiscal year 1991-1992. The actuarial valuation and the actuarially determined contribution requirement as of December 31, 1991, were computed using an assumed rate of return of 8.5 percent and projected salary increases averaging 6.5 percent. As a result, under GASB No. 5, the following represents CPS' pension benefit obligation (in thousands) as of December 31, 1991, 1990 and 1989:

	1991	1990	1989
For retirees, beneficiaries and inactive participants	$104,232	$ 90,347	$ 82,783
For active participants —			
Employer and employee financed vested benefits	197,573	186,094	161,344
Employer financed nonvested benefits	39,894	30,897	28,472
Total pension benefit obligation	341,699	307,338	272,599
Net assets available for plan benefits (at fair market value)	288,494	219,678	201,601
Unfunded pension benefit obligation	$ 53,205	$ 87,660	$ 70,998

Prior to GASB No. 5, CPS reported the Plan status as the actuarial present value of accumulated plan benefits. Under such method, the actuarial present value of accumulated plan benefits using an assumed rate of return of 8.5 percent was $217,377,000 at December 31, 1990. At that time, net assets available for plan benefits were $219,678,000 at fair market value. As of December 31, 1991, the actuarial present value of accumulated plan benefits was $247,972,668. This value compares to the net asset value of $288,494,000 as reported above.

Employees that retired prior to 1983 are receiving annuity payments from an insurance carrier as well as receiving some benefits directly from CPS. These incremental costs for 1992 and 1991 were $637,000 and $538,000, respectively, and were recorded when paid.

7. Other Postemployment Benefits:

CPS provides certain health care and life insurance benefits for retired employees. All former CPS employees are eligible for these benefits upon retirement from CPS. The cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs. These costs approximated $1,404,000 and $1,116,000 for 1992 and 1991, respectively.

In addition, retired employee and covered dependents contributed $451,000 and $356,000 for their health care and life insurance benefits in 1992 and 1991, respectively. In 1992 there were approximately 1,415 retirees and covered dependents eligible for health care and life insurance benefits, as compared to approximately 1,360 in 1991.

In view of the potential economic significance of these benefits, CPS has initiated a preliminary review of the present value of the postemployment benefit obligation, which management currently estimates to be $100 million. CPS began partial accrual and funding of projected future benefits to current retirees in 1992.

8. Payments to the City:

The trust indenture provides for benefits and services totaling 14 percent of CPS gross revenues, as defined, to be paid or provided to the City. Payments to the City for 1992 and 1991, based on allowable revenue, were as follows:

	1992	1991
	(In thousands)	
In lieu of taxes	$ 11,722	$ 11,353
Reland gas and electric services	17,112	17,378
Additional payments	80,183	80,922
	$ 109,017	$ 109,653

9. South Texas Project (STP):

CPS is one of four participants in the STP, which consists of two-1,250 megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Houston Lighting & Power Company (HL&P), the project manager, Central Power and Light Company (CPL) and the City of Austin (Austin). Under the terms of the STP Participation Agreement, each participant provides funding for its share of construction and operating expenditures. Full power operating licenses were issued by the Nuclear Regulatory Commission (NRC) on March 22, 1988, for Unit 1 and March 28, 1989, for Unit 2. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28 percent ownership in the STP is for 700 megawatts of plant capacity. At January 31, 1992, CPS' investment in the STP utility plant was approximately $2 billion, net of accumulated depreciation.

LITIGATION — On January 7, 1988, HL&P filed pleadings against CPS, CPL and its parent company, Central and South West Corporation (CSW), in the State District Court in Matagorda County. Suit was also filed by HL&P against these parties in the Dallas County District Court in which litigation by Austin against HL&P was pending, seeking to have CPS and CPL/CSW brought into the Austin litigation as third-party defendants. The causes of action asserted by HL&P against CPS and CPL/CSW are basically the same in both suits. HL&P denied Austin's claims based on breach of contract, including mismanagement, in connection with HL&P's performance as project manager, but asserted that it is entitled to indemnity and contribution from CPS and CPL/CSW to the extent any liability is imposed on HL&P for these or Austin's other claims, which include fraudulent inducement and breach of obligation by HL&P as project manager.

In March 1988, CPS and CPL made a call for binding arbitration and designated arbitrators, under the terms of the STP Participation Agreement, concerning their disputes with HL&P over the STP including any breach of its obligations by HL&P, and have requested that any proceedings on HL&P's pleadings against CPS and CPL be stayed pending the arbitration. The arbitration call, which is binding on the participants and should supersede HL&P's district court actions against CPL and CPS, asserts issues concerning (1) the extent to which HL&P has breached its obligations under the Participation Agreement and the amount of damages caused by such breach and (2) that neither CPS nor CPL is liable to HL&P for any portion of the damages alleged against HL&P by Austin. CPS has filed a pleading denying HL&P's allegations, seeking an order compelling arbitration and subject thereto, urging a counterclaim for damages. Trial of Austin's claims in Dallas resulted in a jury verdict on July 5, 1989, finding that, although HL&P failed to supply the participants with information as and when required by the Participation Agreement, no costs were incurred in the construction of STP due to that breach, which in reasonable probability, would not have been otherwise incurred. Austin has appealed the adverse judgment, and that appeal is pending. In the meantime, both HL&P and Austin named arbitrators in the CPS/CPL arbitration.

On August 20, 1990, the Dallas District Court ruled that the disputes raised in the call for arbitration of CPS and CPL are arbitrable and should be submitted to arbitration before a panel chosen as provided by the STP Participation Agreement. Since that time, HL&P has unsuccessfully challenged certain aspects of the arbitration procedures in various appeals courts and has filed a petition for writ of certiorari pending in the United States Supreme Court.

In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

In December 1985, a suit involving the STP was settled on the agreement of Brown & Root, the former architect/engineer and constructor for the STP, to pay the plaintiffs, CPS and the other participants, $750 million. CPS commenced receipt of its $210 million share of the settlement in January 1986, of which $15 million was outstanding at January 31, 1992. Quarterly installments, without interest, in the amount of $7.5 million are remitted to CPS pursuant to an unqualified contractual obligation of Aetna Life Insurance Company. The two remaining payments expected to be received during 1993 have been recorded as current other receivables.

NUCLEAR INSURANCE — 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 $7.8 billion per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $66.15 million for each licensed reactor, but not more than $10 million per reactor for each nuclear incident in any one year. CPS and each of the other participants of STP are subject to such assessments, which CPS and the other participants 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. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $400 million for the nuclear industry as a whole, provides protection from nuclear related claims of workers employed in the nuclear industry after January 1, 1988, who do not use the workers' compensation system as sole remedy and bring suit against another party. STP could be assessed up to about $3.1 million per reactor or a total of $6.2 million to pay its maximum share for this liability coverage.

NRC 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 so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The participants of STP currently maintain on-site property damage insurance in the amount of $2.515 billion, which is the maximum amount of such insurance currently available to cover such losses. The $2.515 billion of nuclear property insurance is composed of a $1.265 billion primary layer of insurance and a layer of excess insurance that would contribute $1.25 billion of additional coverage that is subject to a retrospective assessment from each electric utility which is a member of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at the nuclear plant to any utility insured by NEIL exceed the accumulated funds available to NEIL, the maximum retrospective assessment for STP would be approximately $7.6 million for the current policy year that began November 15, 1991. CPS would be liable for its 28 percent ownership interest as to premium and any retrospective assessment with respect to STP and for the cost of cleanup, repair or replacement in excess of the policy limits.

NUCLEAR DECOMMISSIONING — In July 1990, CPS together with the other owners of the STP filed with the NRC a certificate of financial assurance for the decommissioning of the nuclear plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. CPS' portion of the estimated costs for decommissioning the STP nuclear power plant is approximately $150 million in 1989 dollars, which exceeds NRC minimum requirements. This cost estimate will be reviewed and updated periodically and could change by a material amount. CPS will record ratably the expense of decommissioning over the life of the STP nuclear power plant. Beginning in 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The trust accounts and related decommissioning liability are not included in CPS' financial statements.

10. Commitments and Contingencies:

In December 1986, CPS approved a settlement offer from two railroads involved in disputed issues about the proper and lawful freight rates. As a result, CPS received a $17.6 million payment from the railroads in fiscal year 1992, and an $11.5 million payment in January 1991. CPS will receive additional annual payments totaling $18.8 million, over the next two years from the railroad settlement, which is expected to be returned to customers as payments are received. The amount due in 1993 has been recorded as current other receivables with the final amount due recorded as litigation settlements benefits receivable.

OTHER — In the normal course [illegible], CPS is involved in various other legal proceedings [illegible] to alleged personal and property damages, breach of contract, condemnation appeals and discrimination cases. In addition, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

Purchase and construction commitments amounted to approximately $209 million at January 31, 1992. This amount includes approximately $39 million that is expected to be paid for natural gas purchases to be made under the contracts currently in effect; the actual amount to be paid will be dependent upon CPS' actual requirements during the contract period. Also included is $63 million for coal purchases, $33 million for coal transportation and $24 million for treated cooling water based upon the minimum firm commitment under these contracts. Also included is $25 million for the balance still owing on a turnkey contract for construction of a new 500 megawatt coal-fired electric generating plant to be completed by the summer of 1992. Construction and engineering of this project are approximately 94.4 percent complete as of January 31, 1992.

11. Segment Information:

	1992			1991		
	Electric	Gas	Total	Electric	Gas	Total
	(In thousands)			*(In thousands)*		
REVENUE	$ 672,434	$ 106,927	$ 779,361	$ 677,062	$ 104,360	$ 781,422
EXPENSES —						
Operating and maintenance expenses	300,504	75,090	375,594	312,208	79,876	392,084
Depreciation	106,596	7,736	114,332	103,999	7,159	111,158
Total	407,100	82,826	489,926	416,207	87,035	503,242
OPERATING INCOME	$ 265,334	$ 24,101	289,435	$ 260,855	$ 17,325	278,180
Interest and other income			26,023			37,088
Net interest and debt expense and payments to the City of San Antonio			(278,797)			(287,631)
NET EARNINGS			$ 46,661			$ 27,637
CAPITAL EXPENDITURES	$ 216,243	$ 1[illegible]588	$ 229,831	$ 257,154	$ 15,314	$ 272,468
Identifiable assets	$ 3,790,538	$ 211,279	$ 4,001,817	$ 3,732,257	$ 209,785	$ 3,942,042
General assets			594,974			608,273
Total assets			$ 4,596,791			$ 4,550,315

Report of Independent Public Accountants

To the Board of Trustees of City Public Service:

We have audited the accompanying balance sheets of City Public Service as of January 31, 1992 and 1991, and the related statements of earnings and application of earnings, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the management of City Public Service. 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 City Public Service as of January 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

San Antonio, Texas, March 12, 1992

Five-Year Financial Review

(Unaudited)

	Years Ended January 31,				
	1992	1991	1990	1989	1988
	(In thousands)				
REVENUE AND APPLICATION					
Revenues:					
Electric sales	$ 672,434	$ 677,062	$ 683,106	$ 636,086	$ 626,725
Gas sales	106,927	104,360	118,607	106,114	126,581
Interest and other income	36,023	37,088	34,773	36,19[illegible]	38,450
Total revenues	$ 815,384	$ 818,510	$ 836,486	778,391	$ 791,757
Revenues applied:					
Cost of operating systems:					
Fuel, purchased power and resale gas	$ 174,758	$ 201,803	$ 223,008	$ 228,547	$ 284,019
Other operating and general expenses*	136,975	127,081	117,423	84,781	69,302
Maintenance	63,860	63,[illegible]	60,508	42,948	36,025
Total	$ 375,593	$ 392,[illegible]	$ 400,939	$ 356,276	$ 389,346
Operating fund	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Debt requirements for Old Series Bonds:					
Interest	$ 4,720	$ 5,337	$ 5,938	$ 6,454	$ 6,954
Principal requirements	11,500	10,945	10,375	9,905	[illegible],435
Reserve requirements	83	154	121	-0-	(74)
Debt expense	9	10	11	12	14
Total	$ 16,312	$ 16,446	$ 16,445	$ 16,371	$ 16,329
Payments and services to City:					
Payment in lieu of taxes	$ 11,722	$ 11,353	$ 11,050	$ 9,891	$ 8,946
Refunds for services	17,110	17,378	17,059	16,255	15,656
Additional payment	80,185	80,922	84,236	78,638	75,044
Total	$ 109,017	$ 109,653	$ 112,345	$ 104,784	$ 99,646
Debt requirements for New Series Bonds/Other:					
Interest expense	$ 160,959	$ 165,787	$ 168,675	$ 172,023	$ 162,143
Principal requirements	62,520	53,625	42,995	27,535	25,385
Reserve requirements	13,886	1,588	10,304	(1,720)	8,852
Debt expense	81	(95)	110	9,049	8,956
Other interest*	9,158	10,883	7,310	6,279	5,619
Total	$ 246,604	$ 231,788	$ 229,394	$ 213,166	$ 210,955
Allowance for interest used during construction	(31,418)	(22,093)	(24,780)	(88,008)	(107,025)
Additions to plant:					
Total expenditures for year	$ 229,831	$ 272,468	$ 295,139	$ 351,122	$ 408,852
Less construction funds provided by sources other than revenues	134,497	179,003	145,365	191,409	234,985
Revenues used for additions to plant	95,334	$ 93,465	$ 149,774	$ 159,713	$ 173,867
Additions to Improvements and Contingencies fund	3,942	(2,833)	(47,631)	16,089	8,639
Total	99,276	$ 90,632	$ 102,143	$ 175,802	$ 182,506
Total revenues applied	$ 815,384	$ 818,510	$ 836,486	$ 778,391	$ 791,757
BALANCE SHEET DATA					
Utility plant at cost**	$ 4,641,841	$ 4,444,335	$ 4,194,614	$ 3,925,479	$ 3,596,119
Annual construction additions	229,831	272,468	295,139	351,122	408,852
Accumulated depreciation	806,770	704,212	608,257	522,371	473,275
Annual depreciation allowance	114,332	111,158	102,498	66,397	44,609
Principal and interest coverage	1.83x	1.81x	1.91x	1.95x	1.97x

* *Prior fiscal years restated to segregate other interest.*
** *Prior fiscal years reclassified to reflect Contributions in Aid of Construction.*

(Unaudited)

	1992	1991	1990	1989	1988
				Years Ended January 31,	
					(In thousands)
OPERATING REVENUES					
Electric:					
Residential	**$ 306,709**	$ 305,974	$ 311,104	$ 283,355	$ 271,402
Commercial and industrial	**267,241**	268,098	268,738	256,794	254,156
Street lighting	**9,367**	9,207	9,015	8,459	8,049
Public authorities	**75,392**	78,100	79,533	75,259	73,319
Other utilities	**8,548**	10,426	9,133	7,572	14,795
Miscellaneous	**5,177**	5,257	5,578	4,647	5,005
Total electric	**$ 672,434**	$ 677,062	$ 683,106	$ 636,086	$ 626,726
Gas:					
Residential	**$ 65,768**	$ 63,779	$ 73,330	$ 63,858	$ 76,060
Commercial and industrial	**34,110**	33,614	37,112	34,662	41,375
Public authorities	**6,225**	6,230	7,367	6,746	8,185
Miscellaneous	**824**	737	798	848	961
Total gas	**$ 106,927**	$ 104,360	$ 118,607	$ 106,114	$ 126,581
SALES (000 OMITTED)					
Electric — KWH:					
Residential	**4,793,631**	4,711,423	4,732,736	4,343,500	4,141,938
Commercial and industrial	**5,281,292**	5,157,802	5,001,737	4,833,460	4,645,938
Street lighting	**86,661**	85,058	82,791	81,257	79,548
[illegible]c authorities	**1,623,979**	1,650,207	1,646,668	1,551,533	1,468,775
[illegible]ies	**225,942**	296,500	236,741	179,981	237,855
[illegible]	**12,011,505**	11,900,990	11,702,673	10,989,731	10,574,054
[illegible]					
[illegible]	**13,340**	13,116	15,237	12,949	14,846
[illegible]l and industrial	**9,658**	9,467	10,291	9,240	9,814
[illegible]rities	**1,812**	1,816	2,131	1,838	1,988
[illegible]	**24,810**	24,399	27,659	24,027	26,648
PURCHASE FOR RESALE:					
Electric (1,000) KWH	**67,900**	24,214	3,986	18,148	15,039
Gas (1,000) MCF	**25,078**	25,260	28,286	23,968	27,127
ELECTRIC GENERATION — (1,000) KWH*	**12,621,547**	12,509,782	12,425,044	11,677,624	11,213,230
Electric Gen. Capacity, KW (Gas)**	**2,400,000**	2,400,000	2,400,000	2,400,000	2,400,000
Electric Gen. Capacity, KW (Coal)	**836,000**	836,000	836,000	836,000	836,000
Electric Gen. Capacity, KW (Nuclear)	**700,000**	700,000	350,000		
ELECTRIC PEAK DEMAND — KW	**2,799,000**	2,741,100	2,697,000	2,664,000	2,551,000
NUMBER OF CUSTOMERS:					
Electric	**476,122**	469,962	466,478	462,849	459,766
Gas	**287,502**	285,699	284,324	284,130	284,122
RESIDENTIAL AVERAGES:					
Electric:					
Revenue per customer	**$ 734.82**	$ 740.93	$ 758.65	$ 696.61	$ 671.35
KWH per customer	**11,485**	11,409	11,541	10,678	10,246
Revenue per KWH	**6.40 ¢**	6.49 ¢	6.57 ¢	6.52 ¢	6.55 ¢
Gas:					
Revenue per customer	**$ 247.32**	$ 241.32	$ 277.94	$ 242.46	$ 288.33
MCF per customer	**50.2**	49.6	57.8	49.2	56.3
Revenue per MCF	**$ 4.93**	$ 4.86	$ 4.81	$ 4.93	$ 5.12

* *1989 and 1990 include Test Energy of 290,521 and 149,972 respectively.*

** *Oil rating for the gas units is 2,198,000 KW for the five year period.*