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 10CFR50.90

William G. Council  
 Executive Vice President

July 22, 1988

U. S. Nuclear Regulatory Commission  
 Attention: Document Control Desk  
 Washington, D.C. 20555

SUBJECT: COMANCHE PEAK STEAM ELECTRIC STATION (CPSES)  
 DOCKET NOS. 50-445 AND 50-446  
 REQUEST FOR AMENDMENT TO CONSTRUCTION PERMIT  
 NOS. CPPR-126 AND CPPR-127 AND APPLICATION  
 FOR OPERATING LICENSES FOR CPSES UNITS 1 AND 2

Gentlemen:

Pursuant to 10CFR50.30 and 50.90, Texas Utilities Electric Company (TU Electric), licensee under the referenced NRC Construction Permits for the Comanche Peak Steam Electric Station (CPSES), acting for itself and the other licensees named in the referenced Construction Permits, hereby requests amendment of the said Permits and hereby amends its Application for Operating Licenses to reflect revised ownership interests as described below. In support thereof, the following information is submitted.

A. Proposed Amendments of Construction Permits

Applicants propose the amendments to reflect a re-allocation of ownership interests in CPSES as follows:

The transfer by the Brazos Electric Power Cooperative, Inc. (Brazos) of its 3.8% ownership interest in CPSES to TU Electric, which presently holds an 87-5/6% interest therein. By letter dated March 4, 1988 (TXX-89285), TU Electric, acting for itself and the other licensees named in the referenced Construction Permits, requested amendment of the said Permits to reflect a re-allocation of ownership interests in CPSES occasioned by an Agreement between TU Electric and Texas Municipal Power Agency (TMPA)

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dated February 12, 1988. That letter requested amendments to reflect the transfer of TMPA's 6.2% ownership interest in CPSES to TU Electric, thereby bringing the aggregate interest of TU Electric to 94-1/30%. Approval of the amendments requested on March 4, 1988, together with the amendments requested in the instant letter will bring TU Electric's aggregate interest in CPSES to 97-5/6%. \*\_/

The transfer of the Brazos interest is memorialized in the Agreement between Brazos and TU Electric dated as of July 5, 1988 (the Agreement), which is discussed below. Under the terms of the Agreement, the foregoing transfer is subject to certain conditions precedent and regulatory approvals including the Commission's approval. Applicants request that the amendments involving the Brazos ownership interest be approved at this time and be made effective as of the date of completion of the transfer of the Brazos ownership interest as set forth in the Agreement.

B. Supporting Material

In support of this request, there is submitted for the Commission's convenience a copy of the Agreement.

TU Electric has the financial qualification and ability to complete construction of the 3.8% share of CPSES which it proposes to purchase under the Agreement. To support that conclusion, we furnish TU Electric's most recent SEC Form 10-K dated December 31, 1987, TU Electric's Form 8-K dated July 5, 1988, and the 1987 Annual Report of Texas Utilities Company.

C. General

This request is being submitted pursuant to 10CFR 50.30 and 50.90. The amendments herein requested are administrative in nature and involve only the transfer of an ownership interest from one entity to another entity which is already an owner and licensee. This transfer will in no way affect the provisions of the Joint Ownership Agreement with respect to responsibility for the operation and control of CPSES nor in any way affect the design or construction of the facility. Accordingly, the proposed transfer does not involve any increase in the probability or consequences of accidents previously considered, does not create the possibility of an accident of a type different from any evaluated previously, does not involve any decrease in a safety margin, and therefore does not involve a significant hazards consideration. Finally, the proposed transfer will not have a significant impact on the environment.

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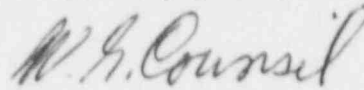
\*\_/ The interest of the remaining other owner, Tex-La Electric Cooperative of Texas, Inc., (2-1/6%) remains unchanged.

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In view of the fact that the transfer proposed by these amendments does not raise any complex issue, and that the proposed transfer is also subject to the jurisdiction of other regulatory agencies whose approval is a condition precedent to the transfer, TU Electric respectfully requests an expedited processing of these amendments so that the transfer can be consummated at the earliest possible date.

Pursuant to 10CFR170.12(c), this application for amendments to the referenced permits is accompanied by a check for \$150 to cover the application fee. Further, in accordance with 10CFR50.4(b)(2)(ii), one (1) signed original and thirty seven (37) copies of this request are enclosed.

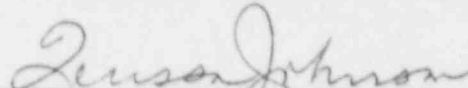
Very truly yours,

  
W. G. Council

RSB:tgw  
Enclosures  
cc: J. H. Wilson, OSP-NRC  
Mr. R. D. Martin, Region IV  
Resident Inspectors, CPSES (3)

STATE OF TEXAS :  
:  
COUNTY OF DALLAS :

There personally appeared before me W. G. Council, who being duly sworn did state that he is Executive Vice President, Nuclear Engineering and Operations, of TU Electric; that he is duly authorized to sign and file with the Nuclear Regulatory Commission this amendment request for amendment of Construction Permit Nos. CPPR-126 and CPPR-127, this amendment to the Application for Operating Licenses for Comanche Peak Steam Electric Station, Units 1 and 2, and the supplemental information regarding the foregoing; that he is familiar with the content thereof; and that the matters of fact set forth therein are true and correct to the best of his knowledge, information, and belief.

  
\_\_\_\_\_  
Notary Public

My commission expires: 3/12/90

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AGREEMENT

between

BRAZOS ELECTRIC POWER COOPERATIVE, INC.

Brazos

and

TEXAS UTILITIES ELECTRIC COMPANY

TU Electric

Dated as of July 5, 1988

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**THIS AGREEMENT** is made and entered into this 5th day of July, 1988 by and between the following parties:

**BRAZOS ELECTRIC POWER COOPERATIVE, INC.**, a Texas non-profit electric cooperative corporation, having its principal office at 2404 LaSalle Avenue, Waco, McLennan County, Texas ("Brazos"), and **TEXAS UTILITIES ELECTRIC COMPANY**, a Texas corporation, having its principal office at 2001 Bryan Street, Suite 1900, Dallas, Dallas County, Texas ("TU Electric", and where appropriate in the context of this Agreement, TU Electric may include TU Electric's corporate predecessors, Dallas Power & Light Company, Texas Electric Service Company and Texas Power & Light Company).

#### **DEFINITIONS**

As used in this Agreement and in the Exhibits attached hereto, unless otherwise specified therein, the following terms shall have the following meanings:

- (a) "Agreement" means this Agreement and the Schedule and all Exhibits attached to this Agreement.
- (b) "Assignment Agreement" means the Assignment Agreement attached hereto as Exhibit A.
- (c) "Brazos Comanche Peak Debt" means the aggregate of the indebtedness of Brazos to the REA, the CFC and the FFB with respect only to Comanche Peak, which at the date hereof is the unpaid principal amount of One Hundred Ninety Four Million, Six Hundred Ninety Thousand, Three Hundred Fifty and 14/100 Dollars (\$194,690,350.14), and is evidenced and represented by documentation previously delivered by Brazos to TU Electric.
- (d) "Business Day" means a day on which banks in Dallas, Texas are open for regular banking business.
- (e) "CFC" means the National Rural Utilities Cooperative Finance Corporation, or its successor.

- (f) "Closing" means the consummation, pursuant to this Agreement, of the sale of the Purchased Assets by Brazos to TU Electric and the purchase of the Purchased Assets by TU Electric from Brazos, as described herein.
- (g) "Closing Date" means such date as may be agreed upon by the parties for the Closing, which date shall be within thirty (30) days after the last to occur of the NRC Affirmative Date, the PUC Affirmative Date or the granting of the necessary approvals of the REA, the CFC and the FFB with respect to the Brazos Comanche Peak Debt referred to in Section 5.3(e) hereof.
- (h) "Closing Payment" means the aggregate of (i) Two Million, Four Hundred Fifty Four Thousand, Eight Hundred Ninety Dollars (\$2,454,890), plus (ii) the amount of principal paid by Brazos with respect to the Brazos Comanche Peak Debt from (and including) March 1, 1988 until the Closing Date and not previously paid as part of the Signing Payment, plus (iii) an incremental amount calculated at a rate equal to nine and one-half percent (9 1/2%) per annum on said principal outstanding from time to time from (and including) March 1, 1988 until the Closing Date and not previously paid as part of the Signing Payment.
- (i) "Comanche Peak" means the nuclear-fueled electric generating facility under construction on certain lands situated in Hood and Somervell Counties, Texas, and consisting of two units having a nominal capacity of 1,150 megawatts each, and related properties, and is the aggregate and combination of the Station, Fuel and Transmission Facilities, and all other rights and interests associated with or relating to all of the same.
- (j) "Deferred Payment" shall have the meaning set out in Section 1.5(c) hereof.
- (k) "FFB" means the Federal Financing Bank, or its successor.
- (l) "Fuel" means the Comanche Peak nuclear fuel, irrespective of chemical and/or physical form, and the rights and interests related thereto.
- (m) "Guaranty" means the form of Guaranty of TUC attached hereto as Exhibit B.
- (n) "Joint Ownership Agreement" means that certain instrument entitled on the cover page thereof "Joint Ownership Agreement Between Dallas Power &

Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc. for Comanche Peak Steam Electric Station," executed on January 2, 1979, together with and as modified by that certain instrument entitled on the cover page thereof "Modification of Joint Ownership Agreement Between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc. For Comanche Peak Steam Electric Station," executed on June 1, 1979, together with and as amended by (i) the Amendment of Joint Ownership Agreement, executed on December 9, 1980, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos and Tex-La, together with and as amended by (ii) the Second Amendment of Joint Ownership Agreement, executed on February 12, 1982, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos and Tex-La.

- (o) "Members" means the twenty (20) Texas non-profit electric cooperative corporations that are the members of Brazos, as set out in Exhibit C attached hereto.
- (p) "Mortgage" means the purchase money mortgage in the form of the Deed of Trust and Security Agreement attached hereto as Exhibit D creating a first lien and granting to Brazos a first and prior security interest in the Purchased Assets to secure payment of the Note.
- (q) "New Lawsuit" means the lawsuit that, pursuant to Section 4.2(e) of this Agreement, may be filed by Brazos or TU Electric, and if filed will be filed in Dallas County, Texas, in the event that nonsuits are taken by Brazos and TU Electric in the Pending Dallas Suit pursuant to Section 4.2(d) of this Agreement or this Agreement is terminated under Article X hereof.

- (r) "Note" means the non-negotiable promissory note, in the form attached hereto as Exhibit E, to be made and delivered at Closing by TU Electric as provided in Section 1.5(c) of this Agreement.
- (s) "NRC" means the United States Nuclear Regulatory Commission, or its successor.
- (t) "NRC Affirmative Date" shall have the meaning set out in Section 5.3(d) hereof.
- (u) "Owners" means collectively TMPA, TU Electric, Tex-La and Brazos, as owners of Comanche Peak in accordance with the terms of the Joint Ownership Agreement, or singularly any of such parties.
- (v) "Pending Austin Suits" means Cause No. 399,482 — Brazos Electric Power Cooperative, Inc. v. Texas Utilities Company, Texas Utilities Electric Company, Texas Utilities Mining Company, and Texas Utilities Services Incorporated, — in the District Court of Travis County, Texas, 345th Judicial District, and Cause No. 399,336 — Tex-La Electric Cooperative of Texas, Inc., and Texas Municipal Power Agency v. Texas Utilities and Texas Utilities Electric Company, — in the District Court of Travis County, Texas, 98th Judicial District.
- (w) "Pending Dallas Suit" means Cause No. 86-6809-A — Texas Utilities Electric Company v. Tex-La Electric Cooperative of Texas, Inc., et al. — in the District Court of Dallas County, Texas, 14th Judicial District.
- (x) "Pending Houston Suit" means Cause No. 83-29889 — Charles A. Atchison, et al v. Brown & Root, Inc., et al, — in the District Court of Harris County, Texas, 215th Judicial District, removed in April, 1988, to the United States District Court for the Southern District of Texas, Houston Division, and numbered Civil Action No. H-88-1409.
- (y) "Pending Litigation" means the Pending Dallas Suit and the Pending Austin Suits.

- (z) "Pending Somervell County Suit" means Cause No. 2692 -- Clementine Mathews and her husband Dolphin Mathews v. Comanche Peak Electric Steam Station, et al., -- in the District Court of Somervell County, Texas, 15th Judicial District.
- (aa) "Permitted Exceptions" means
- Matters affecting Brazos' title to all or any part of the Purchased Assets existing immediately prior to the time the same were acquired by Brazos from or through TU Electric or TU Electric's predecessors-in-title;
  - Matters affecting Brazos' title to all or any part of the Purchased Assets created by the acts or omissions of (i) all parties owning interests in Comanche Peak at the time involved acting collectively, or (ii) the Project Manager or TU Electric or both;
  - The lien for unpaid taxes and assessments relating to taxes and assessments unpaid by parties other than Brazos or imposed with respect to the periods prior to which Brazos owned the property interest involved and after the Closing;
  - The rights of third parties in and to the Purchased Assets created by the acts or omissions of parties other than Brazos and not arising by, through or under Brazos;
  - The Joint Ownership Agreement and all licenses, permits, leases, franchises and contracts relating to the Purchased Assets applied for, obtained or created by the acts or omissions of (i) any Owner other than Brazos, (ii) all parties owning interests in Comanche Peak at the time involved acting collectively, or (iii) the Project Manager or TU Electric or both; and
  - Liens (existing or inchoate) in favor of mechanics, materialmen, laborers and suppliers of materials, goods, services, equipment, inventory (of subcontractors) and labor to or for the Station, the Fuel

or the Transmission Facilities created by the acts or omissions of (i) any Owner other than Brazos, (ii) all parties owning interests in Comanche Peak at the time involved acting collectively, or (iii) the Project Manager or TU Electric or both.

- (bb) "Project Manager" means TU Electric designated and acting as such in accordance (or purportedly in accordance) with the terms of the Joint Ownership Agreement.
- (cc) "PUC" means the Public Utility Commission of Texas, or its successor.
- (dd) "PUC Affirmative Date" shall have the meaning set out in Section 5.3(c) hereof.
- (ee) "Purchased Assets" means the aggregate of all that part of Comanche Peak (as Comanche Peak exists and is constituted on the Closing Date) owned by Brazos or to which Brazos has a right, title or interest, including without limitation the following, to the extent of Brazos' ownership interest therein: all real property and rights appurtenant thereto, and improvements thereon and fixtures thereto; that portion of Brazos' Certificate of Convenience and Necessity heretofore issued by the PUC relative to Brazos' ownership interest in the Station and the Transmission Facilities; all personal property and rights therein, tangible or intangible, including all machinery, equipment, furniture and vehicles; all rights and entitlements to electric power and energy that may hereafter be generated at Comanche Peak; all rights or claims with respect to charges, payments or prepaid items; all warranties and claims and proceeds therefrom; all rights under all agreements, permits, licenses, franchises and authorizations; all intellectual property rights; all computer hardware and software and related rights and interests; all books and records in the possession of the Project Manager or otherwise owned by all of the Owners in combination; the Fuel; the Transmission Facilities; and all other properties and assets pertaining to Comanche Peak; but excluding, however, any Subject Claim of Brazos arising out of or under this Agreement or the

other documents delivered to Brazos pursuant hereto; and excluding all documents and other written material relating to Comanche Peak in the custody, control or possession of Brazos, and its agents, attorneys and consultants, except all such documents and other written material pertaining to or involving the Pending Litigation other than copies of those which have been filed in the Pending Litigation or at the NRC or which are privileged or which may be the work product or the product of Brazos' attorneys' or consultants' joint defense activities or correspondence to or from TU Electric or its attorneys or other correspondence or documents copies of which have been provided to TU Electric or its attorneys.

- (ff) "REA" means the Rural Electrification Administration of the United States Department of Agriculture, or its successor.
- (gg) "Signing Payment" means the aggregate of (i) Fifteen Million, Three Hundred Twenty Two Thousand, Five Hundred Eighty One Dollars (\$15,322,581), plus (ii) the amount of principal paid by Brazos with respect to the Brazos Comanche Peak Debt during the period from (and including) March 1, 1988 until the date hereof, plus (iii) an incremental amount calculated at a rate equal to nine and one-half percent (9 1/2%) per annum on said principal outstanding from time to time from (and including) March 1, 1988 until the date hereof.
- (hh) "Site" means approximately 7,669 acres owned (in fee or other estate or interest) by the Owners, as tenants in common, and located in Hood and Somervell Counties, Texas, and more particularly described on the Schedule attached hereto.
- (ii) "Special Warranty Deed with Vendor's Lien and Bill of Sale" means the form of Special Warranty Deed with Vendor's Lien and Bill of Sale attached hereto as Exhibit F.
- (jj) "Station" means the Site, all improvements thereon (including Squaw Creek Lake and Park) and all fixtures and attachments thereto, as well as (i) all personal property thereon and associated therewith or related thereto and owned by the Owners, and (ii) all rights (tangible or intangible), and all

easements and other interests of any nature associated therewith or related thereto and owned by the Owners, excluding, however, the Fuel and Transmission Facilities.

- (kk) "Subject Claims" means any and all claims, actions, controversies, causes of action, disputes, demands and complaints of whatsoever kind or nature and whether known or unknown.
- (ll) "Tex-La" means Tex-La Electric Cooperative of Texas, Inc.
- (mm) "TMPA" means the Texas Municipal Power Agency.
- (nn) "Total Payment" means the amount to be paid by TU Electric to Brazos hereunder in connection with the purchase of the Purchased Assets and in connection with the settlement of the Pending Litigation; which shall be the total of (i) the Signing Payment, (ii) the Closing Payment and (iii) the Deferred Payment, as described in Section 1.5 hereof.
- (oo) "Transmission Facilities" means the Comanche Peak — DeCordova 345 kV electrical transmission line approximately 14.4 miles in length, and associated rights-of-way, equipment, fixtures and personal property.
- (pp) "TUC" means Texas Utilities Company, a Texas corporation, which is the corporate parent of TU Electric.

#### RECITALS

- A. TU Electric is an investor-owned utility which, pursuant to a statutory merger that occurred on January 1, 1984, succeeded to all the rights, title and interests and assumed and became liable for all obligations of Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, and Texas Utilities Generating Company under the Joint Ownership Agreement, and is engaged in the generation, purchase, transmission, distribution and sale of electric energy within the State of Texas.
- B. Brazos is a Texas non-profit cooperative corporation, established pursuant to Tex. Rev. Civ. Stat. Ann. art. 1528b, which is engaged in the generation, transmission and sale of electric energy within the State of Texas.



- C. Brazos and TU Electric have previously entered into the Joint Ownership Agreement.
- D. Brazos and TU Electric each own an undivided interest in Comanche Peak, which in the case of Brazos consists of such interest in the Station and Fuel (stated to be an undivided 3.8% interest in the conveyance involved) that was conveyed and transferred to Brazos by TU Electric (or its predecessors) and such interest in the Transmission Facilities (stated to be an undivided 32.2% interest in the relevant instrument but is subject to adjustment) that was conveyed and transferred or agreed to be conveyed and transferred to Brazos by TU Electric (or its predecessors).
- E. Brazos and TU Electric have been involved in the Pending Litigation and would like to settle their disputes involved in the Pending Litigation and otherwise relating to Comanche Peak and Brazos would like to sell its interest in Comanche Peak and be relieved of its obligations under the Joint Ownership Agreement and TU Electric would like to acquire such interest and is willing to relieve Brazos of such obligations under the Joint Ownership Agreement.
- F. Brazos and TU Electric have concluded this Agreement in order to provide for the sale by Brazos and the purchase by TU Electric of all of Brazos' right, title and interest in Comanche Peak and the settlement of all Subject Claims between Brazos and TU Electric and between Brazos and TU Electric's affiliates pertaining to Comanche Peak, the Pending Litigation, and all matters in connection therewith, upon and subject to the terms and conditions set out herein.

## ARTICLE I

### SALE AND PURCHASE

1.1 Properties and Assets Sold and Purchased. Subject to the terms and conditions of this Agreement, Brazos hereby agrees to sell, transfer, assign, convey and deliver to TU Electric and TU Electric hereby agrees to purchase from Brazos, and pay Brazos for, the Purchased Assets in the manner and at the times hereinafter described.

1.2 Closing. The Closing will occur at 10:00 a.m., Dallas, Texas time, on the Closing Date. The Closing will be held at the offices of Worsham, Forsythe, Sampels &

Wooldridge, 2001 Bryan Street, Suite 3200, Dallas, Dallas County, Texas or at such other address as the parties may agree. The fact that the Closing is or was intended to be held in Dallas County shall not be used by TU Electric as evidence for venue purposes in any proceeding related to a Subject Claim arising out of or under this Agreement.

1.3 Transfer of Purchased Assets. At the Closing, Brazos will sell, convey, assign and transfer to TU Electric, and TU Electric will purchase, under and pursuant to a form of the Special Warranty Deed with Vendor's Lien and Bill of Sale, the Purchased Assets.

1.4 Method of Payment. All payments made by TU Electric to Brazos under this Agreement shall be made by wire transfer of immediately available funds through the federal reserve system to Brazos' bank designated in writing to TU Electric. If the due date of any payment under this Agreement falls on a day that is not a Business Day, such payment shall be paid on the first Business Day following the date on which such payment is due.

1.5 Payment of Total Payment. TU Electric shall pay to Brazos the Total Payment as follows:

- (a) Payment Upon Signing. On the date of execution of this Agreement, TU Electric will pay to Brazos the Signing Payment. The Signing Payment shall be held in a separately segregated fund by Brazos until Closing, but Brazos may invest same in its sole discretion. The Signing Payment will be subject to refund prior to the Closing as provided in Article X of this Agreement. Upon the Closing, the Signing Payment will be deemed a part of the Total Payment.
- (b) Payment at the Closing. At the Closing, TU Electric will pay to Brazos the Closing Payment.
- (c) Deferred Payment. At the Closing, TU Electric will execute and deliver to Brazos in payment of the remaining portion of the purchase price the Note, in an original principal amount equal to the total unpaid principal amount of the Brazos Comanche Peak Debt at the Closing Date, the payment of which will be secured by the Mortgage given as a purchase money mortgage and the vendors lien provided for in the Special Warranty Deed with Vendors Lien and

Bill of Sale, it being understood and agreed that Brazos will contemporaneously therewith assign and transfer the Note and the Mortgage together with the vendors lien retained in the Special Warranty Deed with Vendors Lien and Bill of Sale to the REA pursuant to and in accordance with the Assignment Agreement as a mechanism for payment of the Brazos Comanche Peak Debt. The Note shall bear interest at the rate of nine and one-half percent (9-1/2%) per annum on the principal balance unpaid from time to time for the period described therein and at the rate of eight and one-half percent (8-1/2%) per annum on the principal balance unpaid from time to time for the remainder of the term thereof, which term shall be the same as the remaining term of the Brazos Comanche Peak Debt at the Closing Date.

## ARTICLE II

### REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF BRAZOS

Brazos represents and warrants to, and agrees with, TU Electric as follows:

2.1 Legal Status. Brazos is a non-profit electric cooperative corporation, duly organized, validly existing and in good standing under the laws of the State of Texas, with full, requisite corporate power and authority to carry on its business as now conducted and to own, sell and transfer the Purchased Assets as provided for in this Agreement.

2.2 Authority for Agreement. Brazos has full, requisite corporate power and authority to execute, deliver and perform this Agreement, the Special Warranty Deed with Vendor's Lien and Bill of Sale and each other agreement and instrument to be executed and delivered in connection with this Agreement, and to carry out its obligations hereunder and thereunder. Brazos has full, requisite corporate power and authority to act for itself and the other persons or entities, private and governmental, acting by, through and under Brazos, in connection with this Agreement, the Special Warranty Deed with Vendor's Lien and Bill of Sale and the other agreements and instruments to be executed and delivered by it pursuant hereto. This Agreement has been, and at the time of the Closing, the Special Warranty Deed with Vendor's Lien and Bill of Sale and such other agreements and instruments as are delivered by Brazos will have been, duly authorized,

executed and delivered by Brazos and this Agreement does, and at the time of Closing, the Special Warranty Deed with Vendor's Lien and Bill of Sale and such other agreements and instruments as are delivered by Brazos will, constitute valid and legally binding obligations of Brazos and the other persons or entities, private and governmental, acting by, through and under Brazos, enforceable against such parties in accordance with their respective terms. Except for the approvals set out in Section 2.3, the execution, delivery and performance of this Agreement, the Special Warranty Deed with Vendor's Lien and Bill of Sale and such other agreements and instruments will not conflict with or result in any violation of, or constitute a default under, (i) the Articles of Incorporation or by-laws of Brazos, or (ii) any material provision of any mortgage, indenture, lease, agreement or other instrument, including any evidence of indebtedness, including without limitation the Brazos Comanche Peak Debt, to which Brazos, or any of Brazos' properties or assets, is subject or a party, or (iii) any permit, concession, grant, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Brazos or any of its property, including the Purchased Assets; or with the passage of time or the giving of notice or the taking of any action by any third party, have any of the effects described herein, except no representation is made with respect to any instrument, permit, concession, grant, franchise or license (and the laws and regulations with respect thereto) made or obtained by TU Electric or the Project Manager on behalf of the Owners.

2.3 Approvals. Brazos has obtained all necessary consents, approvals, orders and authorizations of, and made all necessary registrations, declarations and filings with, each governmental authority or other entity required in connection with the execution, delivery, and performance by Brazos of this Agreement, the Special Warranty Deed with Vendor's Lien and Bill of Sale and the other agreements and instruments to be executed and delivered by Brazos hereunder, except (i) for any such required to be obtained by the Project Manager, (ii) with respect to the rights of first refusal referred to in Section 5.3(b) hereof, (iii) for any such required to be effected from the PUC and NRC referenced in Sections 5.3(c) and (d) hereof, and (iv) those that must be obtained from the REA, the CFC and the FFB referenced in Section 5.3(e). No other filing or registration with, and no

other consent, approval, authorization, permit, certificate or order of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or any other entity is or will be required by any applicable statute or other law or by any judgment, order or decree or any rule or regulation of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or agreement with any other entity to permit Brazos to execute, deliver and perform this Agreement, the Special Warranty Deed with Vendor's Lien and Bill of Sale or any agreement or instrument required hereby to be executed and delivered by it at the Closing.

2.4 Liabilities. There are no obligations or liabilities or other obligations or other evidence of indebtedness, of Brazos, including without limitation the Brazos Comanche Peak Debt, whether accrued, absolute, contingent or otherwise, which TU Electric may become liable for or is assuming as a result of the purchase of assets provided for herein or which may apply with respect to the Purchased Assets, except such as currently exist with respect to Comanche Peak and which were entered into or incurred by (i) all parties owning interests in Comanche Peak at the time involved acting collectively, or (ii) the Project Manager or TU Electric or both. Brazos has no debt for financing its interest in Comanche Peak except for the Brazos Comanche Peak Debt and all mortgages, other liens and security interests for all debt which applies to Brazos' interest in Comanche Peak will be released or terminated prior to or at the Closing. The documentation previously delivered by Brazos to TU Electric with regard to the Brazos Comanche Peak Debt comprises all relevant information with respect thereto and omits no information which would be material to an understanding thereof. The amounts specified by Brazos to TU Electric as the amounts paid or payable by Brazos with respect to the Brazos Comanche Peak Debt during the periods of March 1, 1988 until the date hereof and from the date hereof until the Closing Date and the amount specified by Brazos to TU Electric as the unpaid principal balance of the Brazos Comanche Peak Debt at the Closing Date and the payment and other terms of such debt at such time are and will be at the Closing Date true and correct in all respects.

2.5 Taxes. Apart from all taxes and similar charges owed by the Project Manager on behalf of all the Owners collectively, Brazos owes no taxes or similar charges or impositions with respect, or the nonpayment of which would apply, to, or result in any lien or other encumbrance upon, the Purchased Assets to any taxing authority. No tax charge, tax expense or tax claim against the Purchased Assets originating with or caused by the action or inaction of Brazos individually or in combination with any of the Owners other than TU Electric or the Project Manager will attach to or affect any portion of the Purchased Assets conveyed at the Closing.

2.6 Title to Real Property. Brazos has such title in and to the Site and all real property interests therein and the real property interests included in the Transmission Facilities as was conveyed to Brazos by or through TU Electric or by TU Electric's predecessors-in-title. Except in combination with, or in conjunction with action by, all of the Owners of the Site and the real property interests included in the Transmission Facilities acting collectively either directly or through the Project Manager, Brazos has not encumbered the Site or any of the real property interests therein or the real property interests included in the Transmission Facilities with any mortgages, liens, claims, charges, security interests or encumbrances, except in connection with the Brazos Comanche Peak Debt and other Brazos debt, all of which liens and security interests pertaining to the Site or any of the real property interests therein or the real property interests included in the Transmission Facilities will be released prior to or at the Closing.

Brazos, separately or in combination with any or all of the Owners other than TU Electric or the Project Manager, has not taken any action which would result in the structures, improvements and fixtures on such real property constituting a part of the Site not being in conformity with all applicable Federal, state and local zoning, building, health safety and environmental laws, ordinances, rules or regulations. No notice from any governmental body, which has not otherwise been disclosed to TU Electric or the Project Manager in writing, has been served upon Brazos claiming any violation of any such law, ordinance, rule or regulation or requiring any work, repairs, construction, alterations or installation on or in connection with such real property or the buildings,

structures, fixtures or improvements thereon, nor to Brazos' knowledge has any such violation, which has not otherwise been disclosed to TU Electric or the Project Manager in writing, been claimed or action with respect thereto threatened.

2.7 Title to Personal Property. Brazos has the title to such interest as was conveyed to Brazos by or through TU Electric or TU Electric's predecessor-in-title in all of the equipment, vehicles, fixtures, machinery and other items of personal property, tangible and intangible, to the extent the same are parts of the Purchased Assets to be conveyed at the Closing. Except in combination or in conjunction with action by TU Electric, the Project Manager or all of the Owners acting collectively, and except in connection with the Brazos Comanche Peak Debt and other Brazos debt, the security interests in connection with which pertaining to the equipment, vehicles, fixtures, machinery and other items of personal property, tangible and intangible, which are part of the Purchased Assets will be released prior to or at the Closing, Brazos has not, apart from any personal property and similar charges owed by the Project Manager on behalf of all of the Owners collectively, encumbered the equipment, vehicles, fixtures, machinery and other items of personal property, tangible and intangible, which are part of the Purchased Assets, with any mortgages, liens, claims, charges, security interests, encumbrances or other restrictions or limitations, and assuming payment by TU Electric of any and all transfer taxes that may become due on account of the transfer of the Purchased Assets contemplated by this Agreement and except for the liens for ad valorem taxes not yet due and payable.

2.8 Litigation. There are no Subject Claims, suits or proceedings, administrative or otherwise, pending (i.e. Brazos having been served with process with respect thereto or otherwise having knowledge thereof) against Brazos or, to the best of Brazos' knowledge, threatened against Brazos affecting the Purchased Assets, whether such be at law, in equity or in arbitration, or before or by any governmental department, commission, board, bureau, agency or instrumentality which, if adversely determined against Brazos, would affect Brazos' ability to perform its obligations under this Agreement, except the Pending Litigation, the licensing proceedings to which TU Electric is a party, the Pending Houston

Suit and the Pending Somervell County Suit; and Brazos, separately and apart from the Owners in combination or in conjunction with action by all of the Owners acting collectively either directly or through the Project Manager (but without acknowledgment that such exists with reference to the Owners), is not in default with respect to any order, writ, injunction or decree of any court, arbitrator or governmental department, commission, board, bureau, agency or instrumentality affecting the Purchased Assets.

2.9 Contracts. There is not in effect any executory contract, agreement, order or commitment to which Brazos is subject or a party, and to which TU Electric or the Project Manager is not a party, which would bind TU Electric after the Closing with respect to the Purchased Assets and which would adversely affect the value of the Purchased Assets after the Closing.

2.10 Exclusion of Implied Warranties. THE PURCHASED ASSETS ARE BEING SOLD "AS-IS". BRAZOS MAKES NO WARRANTIES CONCERNING THE MERCHANTABILITY OR CONDITION OF THE PURCHASED ASSETS OR OF THEIR FITNESS FOR ANY PARTICULAR PURPOSE, EXCEPT TO THE EXTENT OTHERWISE EXPRESSLY SET FORTH HEREIN.

2.11 Accuracy of Representations and Warranties. All representations and warranties of Brazos contained herein are, and will be at the time of the Closing, accurate and complete in all material respects and all documents delivered by Brazos to TU Electric incident hereto are, and will be at such time, valid and authentic in all respects.

### ARTICLE III

#### REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF TU ELECTRIC

TU Electric represents and warrants to, and agrees with, Brazos as follows:

3.1 Corporate Status. TU Electric is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas with full, requisite corporate power and authority to carry on its business as now conducted and to own, buy and accept the transfer of the Purchased Assets as provided for in this Agreement.



3.2 Authority for Agreement. TU Electric has full, requisite corporate power and authority to execute, deliver and perform this Agreement, to receive delivery of the Special Warranty Deed with Vendor's Lien and Bill of Sale, and to execute, deliver and perform the Note, the Mortgage and each other agreement and instrument to be executed and delivered by TU Electric in connection with this Agreement, and to carry out its obligations hereunder and thereunder. TU Electric has full, requisite corporate power and authority to act for itself and the other persons or entities, private and governmental, acting by, through and under TU Electric in connection with this Agreement, the Note, the Mortgage and the other agreements and instruments to be executed and delivered by it pursuant hereto. This Agreement has been, and at the Closing the Note, the Mortgage and such other agreements and instruments will have been, duly authorized, executed and delivered by TU Electric, and this Agreement constitutes, and at the Closing the Note, the Mortgage and such other agreements and instruments will constitute, valid and legally binding obligations of TU Electric enforceable against it in accordance with their respective terms. The execution, delivery and performance of this Agreement, the Note, the Mortgage and such other agreements and instruments will not conflict with or result in any violation of, or constitute a default under, (i) the Articles of Incorporation or by-laws of TU Electric, or (ii) any material provision of any mortgage, indenture, lease, agreement or other instrument to which TU Electric is subject or a party, including any bonds or other obligation or other evidence of indebtedness, or (iii) any permit, concession, grant, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to TU Electric or any of its property, including Comanche Peak; or with the passage of time or the giving of notice or the taking of any action by any third party, have any of the effects described herein.

3.3 Approvals. TU Electric has obtained all necessary consents, approvals, orders and authorizations of, and has made all necessary registrations, declarations and filings with, each governmental authority or other entity required in connection with the execution, delivery, and performance by TU Electric of this Agreement, the Note, the

Mortgage and the other agreements and instruments to be executed and delivered by TU Electric hereunder, except (i) with respect to the rights of first refusal referred to in Section 5.3(b) and (ii) for the filings with the PUC and NRC referenced in Sections 5.3(c) and (d) of this Agreement. No other filing or registration with, and no other consent, approval, authorization, permit, certificate or order of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or other entity is or will be required by any applicable statute or other law or by any judgment, order or decree or any rule or regulation of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or agreement with any other entity to permit TU Electric to execute, deliver or perform this Agreement, the Note, the Mortgage or any agreement or instrument required hereby to be executed and delivered by it at the Closing, except as referred to above.

3.4 Authority for TUC Guaranty. TUC has full, requisite corporate power and authority to execute, deliver and perform the Guaranty and to carry out its obligations thereunder. At the Closing, the Guaranty will have been duly authorized, executed and delivered by TUC, and will constitute the valid and legally binding obligation of TUC enforceable against it in accordance with its terms. The execution, delivery and performance of the Guaranty will not conflict with or result in any violation of, or constitute a default under, (i) the Articles of Incorporation or by-laws of TUC, or (ii) any material provision of any mortgage, indenture, lease, agreement or other instrument to which TUC is subject or a party, or (iii) any permit, concession, grant, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to TUC or any of its property; or with the passage of time or the giving of notice or the taking of any action by any third party, have any of the effects described herein.

3.5 Accuracy of Representations and Warranties. All representations and warranties of TU Electric contained herein are, and will be at the time of the Closing, accurate and complete in all material respects and all documents delivered by TU Electric to Brazos incident hereto are, and will be at such time, valid and authentic in all respects.

## ARTICLE IV

### PRE-CLOSING OBLIGATIONS

Brazos and TU Electric, as appropriate, covenant that between the date of this Agreement and the Closing Date:

4.1 Representations, Warranties and Covenants. Brazos shall not take any action which would result in the representations and warranties set forth in Article II hereof being inaccurate, incorrect or incomplete to the extent applicable as of the Closing Date and Brazos shall take all such action as may be necessary to insure that all covenants and agreements of Brazos set forth in this Agreement which are required to be performed by it at or prior to the Closing Date will have been so performed.

TU Electric shall not take any action which would result in the representations and warranties set forth in Article III hereof being inaccurate, incorrect or incomplete to the extent applicable as of the Closing Date and TU Electric shall take all such action as may be necessary to insure that all covenants and agreements of TU Electric set forth in this Agreement which are required to be performed by it at or prior to the Closing Date will have been so performed.

4.2 Abatement of Participation in Pending Litigation. For purposes of this Section 4.2, the term "TU Electric" shall include not only TU Electric but TUC and its subsidiaries, Texas Utilities Mining Company and Texas Utilities Services Inc., all of which are parties to the Pending Litigation.

Immediately after the execution hereof and to the fullest extent that would not violate court orders in effect in the Pending Dallas Suit, Brazos shall abate all of its voluntary activities in connection with the Pending Litigation, including cessation of the furnishing of any assistance, financial or otherwise, to any party to such litigation and the retention and furnishing of advice or direction to any attorneys of or consultants to any party to such litigation, and any other activity adverse to TU Electric pertaining thereto. In such regard, Brazos agrees that it will immediately direct any attorneys and consultants retained solely by it in connection with the Pending Litigation to abate their

work, and, consistent with any agreements Brazos may have with TMPA and/or Tex-La and consistent with any agreements Brazos may have with consultants hired jointly with TMPA and/or Tex-La (all of which agreements are terminable and will be abated by Brazos immediately after the date hereof and terminated by Brazos upon the Closing), Brazos will as soon as possible withdraw its authorization to any other attorney or consultant employed jointly by it and any of the other parties to the Pending Litigation to incur fees or expenses chargeable to Brazos. Specifically with regard to the Pending Litigation, Brazos (and TU Electric to the extent specified herein) agrees to take the following actions:

- (a) Brazos agrees to the continued abatement of the Pending Austin Suits and agrees not to revive such actions during the pendency of this Agreement and to take any action necessary to oppose such revival as to Brazos. In the event the Pending Dallas Suit is nonsuited in accordance with paragraphs (d) and (e) hereof, Brazos shall not claim that such nonsuit entitles Brazos to revive the Pending Austin Suits;
- (b) Brazos and TU Electric agree to file within three (3) days after the date hereof and diligently pursue a joint motion to sever each of their respective Subject Claims against each other in the Pending Dallas Suit;
- (c) Brazos and TU Electric agree as part of the joint motion required by paragraph (b) hereof to request jointly that the Court in the Pending Dallas Suit approve a standstill agreement with respect to the severed Subject Claims whereby the current scheduling order is withdrawn with respect to the severed Subject Claims and no new scheduling order or trial setting is made, and no discovery or any other steps to advance the litigation between Brazos and TU Electric shall be taken unless this Agreement is terminated or the transactions contemplated hereunder to be consummated prior thereto are not consummated on or prior to the Closing Date, provided, however, any costs incurred and assessed against Brazos by the Court in the Pending Dallas

Suit after approval of such standstill agreement shall be paid by TU Electric until such time as this Agreement is terminated or the transactions contemplated hereunder to be consummated prior thereto are not consummated on or prior to the Closing Date;

- (d) If for any reason the Court in the Pending Dallas Suit refuses to grant the severance or refuses to approve the standstill agreement referenced above prior to the end of three (3) weeks after the date hereof, Brazos and TU Electric agree to immediately nonsuit each of their respective Subject Claims against each other filed in the Pending Dallas Suit on such date which shall be three (3) weeks after the date hereof (or the next day the Court is open for business if such date is a holiday), provided that, as specified in Section 9.7 of this Agreement, TU Electric shall have the right to retain Brazos as a party to the Pending Dallas Suit but only for the purposes specified in said Section 9.7;
- (e) If it is necessary for Brazos and TU Electric to nonsuit the Subject Claims filed against each other in the Pending Dallas Suit, Brazos and TU Electric agree that such nonsuits will not operate to prejudice either party's position with respect to the Subject Claims they have made and legal positions they have taken in the Pending Litigation. In the event this Agreement is terminated or the transactions contemplated hereunder to be consummated prior thereto are not consummated on or prior to the Closing Date, Brazos and TU Electric agree that their Subject Claims in the Pending Dallas Suit shall be refiled in Dallas County in the New Lawsuit in the 14th Judicial District Court (and if such suit is not assigned initially to such Court, Brazos and TU Electric agree to thereafter file a Joint Motion to transfer such suit to such Court), within five (5) Business Days after such termination of this Agreement or failure to close hereunder on the Closing Date, with TU Electric as the plaintiff and Brazos as defendant and counter-plaintiff,

and that Brazos will not oppose venue in Dallas County, Texas except to the extent that Brazos could on the date of this Agreement contest venue in Dallas County, Texas in the Pending Dallas Suit. In the event this Agreement is terminated or the transactions contemplated hereunder to be consummated prior thereto are not consummated on or prior to the Closing Date, Brazos will retain, without limitation, any and all rights Brazos may now have to appeal the order of the Court in the Pending Dallas Suit dated September 19, 1986. For all purposes, including, without limitation, (i) any statute of limitations claim, (ii) any claim concerning §16.069 of the Texas Civil Practice and Remedies Code, and (iii) any claim asserted in the Pending Austin Suits (including without limitation, any Subject Claim concerning which suit was first filed), the New LawsUIT will be considered as having been filed by TU Electric on May 29, 1986, and Brazos' counterclaim in the New LawsUIT will be considered as having been filed by Brazos on June 20, 1986. All discovery, including documents produced and depositions taken, which had been conducted in the Pending Dallas Suit up to the execution of this Agreement, shall be for all purposes considered as having been taken in the New LawsUIT, and all orders issued by the Court in the Pending Dallas Suit up to the execution of this Agreement (except the scheduling order) shall have the same force and effect as if they had been issued in the New LawsUIT;

- (f) No efforts made or cooperation given by Brazos' officers, employees, agents, consultants, experts or attorneys (including, without limitation, Joseph Robert Riley, Spiegel & McDiarmid and Locke Purnell Rain Harrell) pursuant to or under any provision of this Agreement shall create any conflict of interest which would prevent any such employees, agents, consultants or attorneys from participating adversely to TU Electric in any legal proceeding brought by TU Electric against Brazos and/or by Brazos against TU Electric should this Agreement be terminated or should the transactions contemplated

under this Agreement to be consummated prior thereto not be consummated on or before the Closing Date. TU Electric hereby waives any such conflict of interest which might otherwise exist because of any such effort or cooperation; and

- (g) If it is necessary to nonsuit the current Subject Claims, as set forth in paragraphs (d) and (e) above, then in such event upon or at any time after the Closing, if TU Electric requests, Brazos and TU Electric agree that their Subject Claims in the Pending Dallas Suit shall be refiled in the New LawsUIT in Dallas County and that the New LawsUIT and all such Subject Claims shall then immediately be dismissed with prejudice.

4.3 Agreement to Obtain Approvals. Brazos shall use all reasonable efforts to obtain with respect to Brazos and TU Electric shall use all reasonable efforts to obtain with respect to TU Electric all necessary consents, approvals, authorizations, permits, certificates or orders of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or other entity which are required by any applicable statute or other law or by any judgment, order or decree or any rule or regulation of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or any agreement or other requirement to permit each of them, respectively, to execute, deliver or perform this Agreement and any agreement or instrument required hereby to be executed and delivered by either of them at the Closing.

## ARTICLE V

### CONDITIONS TO OBLIGATIONS TO CLOSE

5.1 Conditions to Obligation of Brazos to Close. The obligation of Brazos to consummate and close the transactions contemplated by this Agreement at the Closing is subject to the satisfaction of each of the following conditions at or prior to the Closing:

- (a) Representations and Warranties. The representations and warranties of TU Electric contained in this Agreement shall have been true and correct on and as of the date hereof and shall be true and correct on and as of the Closing Date in all material respects as though such representations and

warranties had been made on and as of the Closing Date, and TU Electric shall have delivered to Brazos a certificate, dated as of the Closing Date, of its Chairman of the Board, a Division President or a Vice President to the foregoing effect;

- (b) Compliance With Agreement. TU Electric shall have fully performed and complied with all of the covenants, agreements and conditions to be performed or complied with by it at or prior to the Closing (including without limitation its assumption obligations with respect to the Joint Ownership Agreement), and TU Electric shall have delivered to Brazos a certificate, dated as of the Closing Date, of its Chairman of the Board, a Division President or a Vice President to the foregoing effect;
- (c) Receipt of Payment. TU Electric shall have delivered to Brazos the payments referenced in paragraphs (a) and (b) of Section 1.5 hereof;
- (d) Receipt of Closing Documents. Brazos shall have received the fully executed Closing documents described in Article VII hereof to be delivered at the Closing; and
- (e) Consent to Assignment Agreement. The REA shall have entered into the Consent to Assignment Agreement attached to the Assignment Agreement, thereby accepting assignment of the Note as a mechanism for paying the Brazos Comanche Peak Debt and assignment of the Mortgage and the vendors lien contained in the Special Warranty Deed with Vendors Lien and Bill of Sale as security for the payment of the Note.
- (f) Receipt of L.R.S. Determination. Brazos shall have received an acceptable Internal Revenue Service determination or Letter Ruling that no payments to be made under this Agreement and the Note will, when added to other nonmember revenues of Brazos, adversely affect Brazos' tax-exempt status under Section 501(c)(12) of the Internal Revenue Code of 1986.

5.2 Conditions to Obligation of TU Electric to Close. The obligation of TU Electric to consummate the transactions contemplated by this Agreement at the Closing is subject to the satisfaction of each of the following conditions at or prior to the Closing:



- (a) Representations and Warranties. The representations and warranties of Brazos contained in this Agreement shall have been true and correct on and as of the date hereof and shall be true and correct on and as of the Closing Date in all material respects as though such representations and warranties had been made on and as of the Closing Date, and Brazos shall have delivered to TU Electric a certificate, dated as of the Closing Date, of its President or Executive Vice President and General Manager to the foregoing effect;
- (b) Compliance with Agreement. Brazos shall have fully performed and complied with all of the covenants, agreements and conditions to be performed or complied with by it at or prior to the Closing, and Brazos shall have delivered to TU Electric a certificate, dated as of the Closing Date, of its President or Executive Vice President and General Manager to the foregoing effect;
- (c) Delivery of Pending Litigation Documentation. At the Closing, Brazos shall have delivered to TU Electric the originals and all copies of all documents and other written material in its custody, control or possession (including without limitation those held by Brazos' agents, attorneys and consultants) pertaining to or involving the Pending Litigation, other than copies of those which are filed in the Pending Litigation or at the NRC or which are privileged or which may be the work product or the product of Brazos' attorney's or consultant's joint defense activities, if any, prepared in connection with the Pending Litigation or correspondence to or from TU Electric or its attorneys or other correspondence or documents copies of which have been provided to TU Electric or its attorneys. Such documents or other written material which are essential to the conduct of Brazos' on-going business activities may be retained by Brazos except for one copy which will have been delivered to TU Electric prior to the Closing. As concerns privileged or joint defense documents or written material, Brazos shall, to the full extent permitted by law, exercise such privileges and claims of confidentiality as may be available to prevent disclosure thereof to any person or entity, private or governmental; and

- (d) Receipt of Closing Documents. TU Electric shall have received the Closing documents described in Article VI hereof to be delivered at the Closing.

5.3 Conditions to Obligation of Both Parties to Close. The obligation of the parties to consummate the transactions contemplated by this Agreement at the Closing Date is subject to the satisfaction of each of the following conditions at or prior to the Closing Date:

- (a) No Adverse Proceeding. There shall not be pending any suit, action or other proceeding by any person before any court or arbitrator or any governmental department, commission, board, bureau, agency or instrumentality in which it is sought to restrain or prohibit any of the transactions contemplated by this Agreement.
- (b) Waiver of Right of First Refusal. Immediately upon execution of this Agreement, Brazos will notify TMPA and Tex-La of the execution of this Agreement by means of the notice attached hereto as Exhibit G. By the Closing Date, TMPA and Tex-La will have executed an irrevocable waiver or other sufficient relinquishment of any rights of first refusal or consent to sale that TMPA and Tex-La may have under the Joint Ownership Agreement (it being agreed that failure to exercise such right in accordance with the terms of the Joint Ownership Agreement by TMPA or Tex-La in response to the notice from Brazos within the time period specified in the Joint Ownership Agreement will constitute sufficient relinquishment of the rights of first refusal of TMPA or Tex-La as the case may be) with respect to any transaction provided for herein or such rights shall have been validly exercised, in whole or in part, by either or both of TMPA and Tex-La and the purchase which arises as a result of such exercise fully consummated. In the event that either or both of TMPA and Tex-La shall have exercised any such rights of first refusal to the extent that TMPA and/or Tex-La acquire all of Brazos' interest in the Purchased Assets, Brazos shall promptly refund to TU Electric the full amount of the Signing Payment less \$15,322,581 and Brazos shall, in consideration for retaining said \$15,322,581 of the Signing

Payment, perform its obligations pursuant to Article IV, Sections 5.2(c), Section 8.1, Section 9.1, Section 9.2, Section 9.5, Section 9.6 and Section 9.7 hereof. It is agreed by Brazos and TU Electric that the purchase price under this Agreement of the Purchased Assets includes an amount, in addition to the payment of cash and delivery of the Note by TU Electric, which represents the forgiveness of certain indebtedness of Brazos to TU Electric under the Joint Ownership Agreement which TU Electric contends Brazos owes it but which Brazos does not admit is owing to TU Electric (the "Brazos JOA Debt"). In such connection, it is understood that inasmuch as such forgiveness of the Brazos JOA Debt is part of the purchase price of the Purchased Assets, Brazos shall require either TMPA or Tex-La, as purchaser of Brazos' interest in the Purchased Assets pursuant to any rights of first refusal or consent to sale under the Joint Ownership Agreement to pay, and, therefore, such purchaser would be required to pay TU Electric and fully satisfy it with respect to the Brazos JOA Debt pertaining to Brazos' interest in the Purchased Assets, purchased by TMPA and/or Tex-La. In the event that TMPA and/or Tex-La exercise any such rights of first refusal to the extent that all of Brazos' interest in the Purchased Assets has not been acquired by TMPA and/or Tex-La, after consummation of the sale to TMPA and/or Tex-La, Brazos shall promptly refund to TU Electric a proportional amount of the Signing Payment (calculated after deducting \$15,322,581) equivalent to the proportion of the Purchased Assets which TMPA and/or Tex-La has elected to acquire. Brazos shall be entitled to retain the \$15,322,581, together with the balance of the Signing Payment not refunded to TU Electric and Brazos and TU Electric agree to perform this Agreement with respect to the portion of the Purchased Assets not acquired by TMPA and/or Tex-La in the manner set forth herein, with appropriate proportional modifications to the payment obligations of TU Electric herein, and to the

obligations of Brazos herein to deliver all of the Purchased Assets, as well as all of the other provisions of this Agreement. In addition, Brazos shall refund to TU Electric a proportional amount of the payments that TU Electric has made with respect to the Brazos Comanche Peak Debt equivalent to the proportion of the Purchased Assets being acquired by TMPA and/or Tex-La, and TMPA or Tex-La shall pay TU Electric the Brazos JOA Debt to the extent set forth hereinbefore.

- (c) Approval by PUC. By final action subject to no further appeal, the PUC shall have approved the transfer to TU Electric of Brazos' certificate of convenience and necessity with respect to the Station and the Transmission Facilities permitting TU Electric's acquisition and ownership of Brazos' ownership interest in the Station and the Transmission Facilities in accordance with the terms hereof. In such connection, TU Electric and Brazos will file within fifteen (15) Business Days of the date of this Agreement and prosecute to the best of their ability a joint application for approval of the transfer of such certificate of convenience and necessity rights and such other applications or filings with the PUC as shall be necessary and essential in connection with the transactions contemplated under this Agreement. In connection with all such proceedings, each party will bear its own cost and expense of prosecuting such applications or filings.

Upon the issuance by the PUC of any order or other document purporting to give the approval contemplated under this Agreement with or without conditions, the parties, with their respective attorneys and other consultants, shall promptly confer and endeavor in good faith to determine if such order or other document evidences the final approval contemplated by this Agreement without any condition that is deemed by either party to be inconsistent with the provisions of this Agreement. It is understood and agreed that, in connection with such applications and filings, TU Electric will

request the PUC not to prejudge either the reasonableness or the recoverability in TU Electric's rates of the consideration payable hereunder and to defer any such determinations to a subsequent TU Electric rate case; however, should the PUC refuse to defer such determination and determine in such certification proceedings that all or any portion of the consideration payable hereunder is unreasonable or shall not be recoverable in TU Electric's rates, such determination shall be deemed by TU Electric to be inconsistent with the provisions of this Agreement and therefore shall be inconsistent for the purposes hereof. If such determination is affirmative the parties shall promptly execute a stipulation dated currently to such effect. If such determination is negative, the parties, at their own cost and expense, respectively, will undertake to cause the PUC to issue such further order or document evidencing its approval as contemplated by this Agreement, including the elimination of any such condition that was deemed by either party to be inconsistent with this Agreement and upon the issuance of any further order or other document by the PUC in such proceedings the same procedures will be followed by the parties as provided in the case of the order or other document first issued by the PUC in such proceedings, including the execution of a stipulation dated currently evidencing the affirmative action by the parties in respect of the order or other document issued by the PUC. The date of any stipulation executed by the parties under this paragraph is referred to as the "PUC Affirmative Date." The provisions of this paragraph shall not affect or detract from the rights of Brazos or TU Electric under Sections 10.1 or 10.2 hereof.

- (d) Approval by NRC. The NRC shall have granted all necessary and essential approvals and consents with respect to the transactions provided for herein, including without limitation the entry of a final non-appealable order approving the sale of Brazos' right, title and interest in the Station and Fuel

to TU Electric in accordance with the terms hereof. In such connection, it is understood and agreed that TU Electric will file within fifteen (15) Business Days of the date of this Agreement and prosecute to the best of its ability all applications or filings with the NRC as shall, in its judgment, be necessary and essential in connection with the transactions contemplated under this Agreement. TU Electric will deliver promptly to Brazos copies of all such applications and filings and will advise Brazos on a current basis with respect to the status of any such proceeding. In connection with all such proceedings, Brazos will, at Brazos' reasonable cost and expense, at the request of TU Electric, render all such assistance as may be appropriate under the circumstances, including without limitation, providing such of its personnel as may be appropriate to testify and otherwise participate in any such proceedings in support of this Agreement.

Upon the issuance by the NRC of any order or other document purporting to approve the transactions contemplated under this Agreement with or without conditions, TU Electric will promptly deliver to Brazos a reproduced legible copy of such order or other document, and the parties, with their respective attorneys and other consultants, shall promptly confer and endeavor in good faith to determine if such order or other document evidences the final approval of the NRC of such transactions contemplated by this Agreement without any condition that is deemed by either party to be inconsistent with the provisions of this Agreement. If such determination is affirmative the parties shall promptly execute a stipulation dated currently to such effect. If such determination is negative, TU Electric, with the assistance of Brazos, which shall be at Brazos' reasonable cost and expense, will undertake to cause the NRC to issue such further order or document evidencing its approval of such transactions including the elimination of any such condition that was deemed by either party to be inconsistent with this

Agreement and upon the issuance of any further order or other document by the NRC in such proceedings the same procedures will be followed by the parties as provided in the case of the order or other document first issued by the NRC in such proceedings, including the execution of a stipulation dated currently evidencing the affirmative action by the parties in respect to the order or other document issued by the NRC. The date of any stipulation executed by the parties under this paragraph is referred to as the "NRC Affirmative Date." The provisions of this paragraph shall not affect or detract from the rights of Brazos or TU Electric under Sections 10.1 or 10.2 hereof.

- (e) Approval of REA, CFC and FFB. The REA, the CFC and the FFB shall have granted all necessary and essential approvals and consents with respect to the transactions provided for herein, including without limitation, their consent to the Assignment Agreement and the acceptance by them of the assignment of the Note, the Mortgage and the vendors lien contained in the Special Warranty Deed with Vendors Lien and Bill of Sale as a payment mechanism and security for such payment mechanism with respect to all promissory notes, mortgages, or other evidences of indebtedness and security agreements or arrangements with respect to the payment thereof, that Brazos may have in favor of the REA, the CFC and the FFB with respect to the Brazos Comanche Peak Debt, so that at the Closing Date Brazos, TU Electric and the REA will enter into the Assignment Agreement and pursuant thereto deliver to the REA the Note and the Mortgage in return for which the REA, the CFC and the FFB will execute and deliver to Brazos all such receipts, releases, termination statements and other documents as shall be necessary or appropriate in the estimation of Brazos and TU Electric to provide for and evidence the termination and release of all mortgages, liens and other security instruments in connection with the Brazos Comanche Peak Debt. In

such connection, it is understood and agreed that Brazos will carry on discussions with the REA, the CFC and the FFB in order to obtain their consent and agreement in the foregoing respects. In connection with all such undertakings, TU Electric will, at TU Electric's cost and expense, at the request of Brazos, render all such assistance as may be appropriate under the circumstances, including without limitation, providing such of its personnel as may be appropriate to participate in any such undertakings in support of this Agreement.

- (f) Execution of Transmission Services Agreement. Brazos and TU Electric shall have executed an appropriate amendment of the Transmission Agreement between Brazos and TU Electric's corporate predecessors, executed on July 25, 1979, to reflect Brazos' sale of the Transmission Facilities to TU Electric.

## ARTICLE VI

### CLOSING DOCUMENTS FROM BRAZOS

As a condition of Closing, Brazos and the referenced attorney, in each case as appropriate, will deliver to TU Electric on the Closing Date the following:

6.1 Deeds and Transfers, etc. (i) An executed and acknowledged Special Warranty Deed with Vendor's Lien and Bill of Sale; (ii) duplicate counterparts of the amendment contemplated under Section 5.3(f) hereof; and (iii) the Release, Covenant Not to Sue and Indemnity Agreement specified in Sections 9.1, 9.2 and 9.5 hereof.

6.2 Lien Search. Real property search certificates from a reputable title company and a UCC search certificate from the Secretary of State of Texas disclosing no security interests, judgments or other liens outstanding against Brazos' ownership interest in the Purchased Assets, other than the Permitted Exceptions and liens securing the Brazos Comanche Peak Debt and other Brazos debt to be released at or prior to the Closing.

6.3 Certificate of Secretarial Officer. A certificate of the Secretary or an Assistant Secretary of the Board of Directors of Brazos, dated the Closing Date, with



respect to the incumbency of officers and their signatures, the existence and good standing of Brazos, and the due adoption of resolutions by the Board of Directors of Brazos and the requisite number of the Members of Brazos authorizing the execution, delivery and performance of this Agreement and the other agreements and instruments to be delivered to TU Electric at the Closing.

6.4 Counsel Opinion. An opinion of Joseph Robert Riley, counsel for Brazos, dated the Closing Date and addressed to the TU Electric in the form set forth in Exhibit H attached hereto.

## ARTICLE VII

### CLOSING DOCUMENTS FROM TU ELECTRIC

As a condition of Closing, TU Electric and the referenced attorneys, in each case as appropriate, will deliver to Brazos on the Closing Date the following:

7.1 Proof of Payment. Proof of the payment to Brazos pursuant to Section 1.5(b) hereof.

7.2 Other Instruments. (i) The executed Note and Mortgage; (ii) duplicate counterparts of the amendment contemplated under Section 5.3(f) hereof; and (iii) the Release, Covenant Not to Sue, Assumption and Indemnity Agreement specified in Sections 9.3, 9.4 and 9.5 hereof; and (iv) the executed Guaranty.

7.3 Certificate of Secretarial Officer. A certificate of the Secretary or an Assistant Secretary of TU Electric and TUC, dated the Closing Date, with respect to the incumbency of officers and their signatures, corporate existence and good standing, and, in the case of TU Electric, the due adoption of resolutions of the Board of Directors of TU Electric authorizing the execution, delivery and performance of this Agreement and the other agreements and instruments to be delivered by TU Electric to Brazos pursuant hereto at the Closing and, in the case of TUC, the due adoption of resolutions of the Board of Directors of TUC authorizing the execution, delivery and performance of the Guaranty to be delivered by TUC to Brazos pursuant hereto at the Closing.

7.4 Counsel's Opinion. An opinion of Worsham, Forsythe, Sampels & Wooldridge, counsel for TU Electric and TUC, dated the Closing Date and addressed to Brazos in the form set forth in Exhibit I attached hereto.

## ARTICLE VIII

### CLOSING AND INDEMNIFICATION

8.1 Indemnification by Brazos. Brazos agrees to indemnify, hold harmless and defend TU Electric and anyone related to or affiliated with TU Electric, including its parent, subsidiaries and affiliates and anyone related to or affiliated with such parent, subsidiaries or affiliates, from and against any and all claims, demands, liabilities, losses, costs and expenses, including reasonable attorneys' fees, which TU Electric or anyone related to or affiliated with TU Electric, including its parent, subsidiaries and affiliates and anyone related to or affiliated with such parent, subsidiaries or affiliates, may sustain and which arise out of or are based upon or relate to the inaccuracy or falsity of any representation or warranty made by Brazos set forth in this Agreement or in any other agreement or instrument delivered pursuant hereto or the breach or nonperformance by Brazos of any covenant or agreement with TU Electric or anyone related to or affiliated with TU Electric, including its parent, subsidiaries and affiliates and anyone related to or affiliated with such parent, subsidiaries or affiliates, made by Brazos set forth in this Agreement or in any other agreement or instrument delivered pursuant hereto.

8.2 Indemnification by TU Electric. TU Electric agrees to indemnify and hold harmless and defend Brazos and Brazos' Members and anyone related to or affiliated with Brazos and Brazos' Members from and against any and all claims, demands, liabilities, losses, costs and expenses, including reasonable attorneys' fees, which Brazos, its Members or anyone related to or affiliated with Brazos or its Members may sustain and which arise out of or are based upon or relate to the inaccuracy or falsity of any representation or warranty made by TU Electric set forth in this Agreement or in any other agreement or instrument delivered pursuant hereto or the breach or nonperformance by TU Electric of any covenant or agreement with Brazos, its Members or anyone related

to or affiliated with Brazos or its Members made by TU Electric set forth in this Agreement or in any agreement or instrument delivered pursuant hereto.

8.3 Survival of Representation and Warranties. The representations, warranties, covenants and agreements of the parties hereto shall survive the execution and delivery of this Agreement and the consummation of the transactions contemplated hereunder for a period of four (4) years after the Closing Date or for such longer period as may be commensurate therewith for any document delivered pursuant hereto which is in effect for a longer period than such four years.

8.4 Notice and Opportunity to Participate in Defense. In the event that Brazos, its Members or TU Electric or any of its parent, subsidiaries or affiliates, or anyone related to or affiliated with any of them, receives notice of the commencement of any action or proceeding or the assertion of any claim in respect of which Brazos, its Members or TU Electric or any of its parent, subsidiaries or affiliates, or anyone related to or affiliated with any of them, may be entitled to indemnification, the party receiving such notice shall give the indemnifying party written notice within ten (10) calendar days thereof (except that failure to so notify will not relieve the indemnifying party of its obligations hereunder except to the extent it has been prejudiced thereby) and the opportunity to participate in the defense thereof and in any settlement negotiations with respect thereto, and will cooperate with the other party in all reasonable respects and make available to the other party all records, evidence and personnel for consultation and testimony reasonably requested by the other party in connection therewith. The settlement of any such action, proceeding or claim without the prior written approval of the indemnifying party shall relieve such party of any obligations to the indemnified party in respect of the subject matter of the settlement of such action, proceeding or claim.

## ARTICLE IX

### SETTLEMENT OF PENDING LITIGATION

9.1 Brazos' Release. Upon the Closing, Brazos, for itself and on behalf of any person or entity, private or governmental, claiming by, through or under Brazos, including

without limitation, to the extent it has the standing and right under law to do so, its Members and customers (including the customers of Brazos' Members and other wholesale customers) and its or their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives, shall waive, release, discharge, renounce and relinquish any and all Subject Claims relating to Comanche Peak it has or they have, or may have, whether known or unknown, contingent or absolute, including, without limitation, those based on common law, whether contract (expressed or implied, including express or implied warranty) or tort (including, without limitation, intentional tort, negligence or gross negligence, sole, joint or concurrent) or strict liability or fraud, and those based upon any Federal, state or local statute, law, order or regulation, including, without limitation, the Atomic Energy Act of 1954, as amended, the regulations of the NRC, the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, and any rule or regulation under either, the Texas Securities Act (Title 19, Articles 581-1, et seq., V.A.T.S.) and the Texas Deceptive Trade Practices and Consumer Protection Act, against TU Electric or TUC, or both, in any capacity, whether individually, as Project Manager of Comanche Peak or otherwise, and their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys and representatives, past and present, and any and all of their respective successors, subsidiaries and affiliates and their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys and representatives, past and present, except Subject Claims arising out of or under this Agreement or any of the other agreements or instruments to be delivered by TU Electric or TUC pursuant hereto. Brazos hereby covenants and warrants that it has not assigned any Subject Claims that are to be released at the Closing. At the Closing, Brazos will execute and deliver to TU Electric the form of Release attached hereto as Exhibit J.

9.2 Brazos Covenant Not to Sue. Except as provided for in Section 4.2(g) hereof, upon the Closing, Brazos, for itself and on behalf of any person or entity, private or governmental, claiming by, through or under Brazos, including without limitation, to the

extent it has the standing and right under law to do so, its Members and customers (including the customers of Brazos' Members and other wholesale customers) and its or their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives, shall agree and covenant that it and they, individually, collectively or in any combination, will forbear from asserting against, and never sue for or look for satisfaction with respect to, TU Electric and TUC and their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys and representatives, past and present, and any and all of their respective successors, subsidiaries and affiliates and their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys and representatives, past and present, any Subject Claim (including without limitation any Subject Claim against any contractor, subcontractor, supplier, consultant, vendor or other person, firm or entity in privity in any manner with any of them which may therefor or as a result thereof have a right over or Subject Claim in subrogation) in any manner involving, concerning, arising out of, or relating to, the design, construction, management and licensing of, or any other matter relating to, Comanche Peak, and the management, procurement, conversion, enrichment, fabrication, shipping, transportation and storage of the Fuel, except for claims arising out of or under this Agreement or any of the other agreements or instruments to be delivered by TU Electric, or any of TU Electric's affiliates, subsidiaries or parent company, pursuant hereto; and Brazos, for itself and on behalf of any person or entity, private or governmental, claiming by, through or under Brazos, including without limitation, to the extent it has the standing and right under law to do so, its Members and customers (including the customers of Brazos' Members and other wholesale customers) and its or their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives hereby further agrees and covenants that, upon and after the Closing, neither it nor they, individually, collectively or in any combination, will directly or indirectly, challenge, contest or assert any complaint in any court or before any administrative agency or body or in any other

forum whatsoever with respect to, or in any manner involving, concerning, arising out of, or relating to, Comanche Peak and the incidents and attributes thereof including, without limitation, the design, construction, management and licensing of Comanche Peak or any other aspect thereof, the costs and schedule of construction and completion of Comanche Peak, and the reasonableness, prudence or efficiency of the planning, design, construction, management and licensing of Comanche Peak, and the reasonableness, prudence or efficiency of the management, procurement, conversion, enrichment, fabrication, shipping, transportation and storage of the Fuel, and the costs incurred in connection with the management, procurement, conversion, enrichment, fabrication, shipping, transportation and storage of the Fuel, and the breach of the Joint Ownership Agreement and any express or implied warranties arising out of the Joint Ownership Agreement, and any representation, misrepresentation, disclosure or non-disclosure in connection with the negotiations or preceding the execution by Brazos of the Joint Ownership Agreement and in connection with the performance or nonperformance by TU Electric of its duties, responsibilities or obligations under the Joint Ownership Agreement as Project Manager or otherwise, and the failure of TU Electric to pursue any remedies, either at law or otherwise, that may be, or may have been, available against any and all contractors, subcontractors, suppliers, consultants, vendors or others with respect to Comanche Peak (including separately the Station, Fuel or Transmission Facilities) and on account of anything that has occurred or may have occurred, in whole or in part, with respect to Comanche Peak, (including separately the Station, Fuel or Transmission Facilities) and the incidents and attributes thereof and any of the foregoing whether known or unknown, except with regard to Subject Claims arising out of or under this Agreement or any of the other agreements or instruments to be delivered by TU Electric, or any of TU Electric's affiliates, subsidiaries or parent company, pursuant hereto. At the Closing, Brazos will execute and deliver to TU Electric the form of Covenant Not to Sue attached hereto as Exhibit K. Further, Brazos covenants and agrees that it will cooperate and assist TU Electric in connection with all necessary approvals of this Agreement and that it will

encourage and solicit its attorneys, including Joseph Robert Riley, Spiegel & McDiarmid and Locke Purnell Rain Harrell, and Brazos' separately employed consultants, not to oppose or assist any third party in opposing TU Electric in connection with any matters relating to Comanche Peak (except that nothing herein shall be construed to prohibit said attorneys and consultants from representing Brazos in connection with proceedings in which TU Electric's rates are being determined provided that no opposition, or assistance to any third party opposition, to Comanche Peak related costs is made); and, if necessary to prevent a conflict of interest, it being understood and agreed that Brazos' separately employed consultants and attorneys may have obtained or developed information regarding Comanche Peak in the course of the Pending Litigation, that arguably could be inequitable for them to otherwise utilize in view of the consideration being rendered by TU Electric hereunder in order to obtain a final settlement of the matters referred to in this Agreement, Brazos covenants and agrees that it will take all such action as may be necessary or appropriate in order to prevent the consultants and attorneys, including Joseph Robert Riley, Spiegel & McDiarmid and Locke Purnell Rain Harrell, separately employed by it in connection with, the Pending Litigation, from participating or assisting in any manner adverse to Brazos' duty of cooperation herein or to TU Electric in connection with the Pending Litigation, the Pending Houston Suit, the Pending Somervell County Suit or any current or future proceedings or matter before the PUC (except that nothing herein shall be construed to prohibit said attorneys and consultants from representing Brazos in connection with proceedings in which TU Electric's rates are being determined provided that no opposition, or assistance to any third party opposition, to Comanche Peak related costs is made) or the NRC involving or relating to Comanche Peak, or any current or future proceedings (except that nothing herein shall be construed to prohibit said attorneys and consultants from representing Brazos in connection with proceedings in which TU Electric's rates are being determined provided that no opposition, or assistance to any third party opposition, to Comanche Peak related costs is made) before any court or before any administrative agency or body or in any other forum

whatsoever with respect to, or in any manner involving, concerning, arising out of, or relating to: (i) the acts or omissions of TU Electric or the Project Manager referred to or in question in the Pending Litigation or which could have been brought into question in the Pending Litigation; or (ii) the acts or omissions of TU Electric or the Project Manager with respect to Comanche Peak that occur, in whole or in part, prior to the Date of Commercial Operation (as said term is defined in the Joint Ownership Agreement). The covenant set forth in the prior sentence shall survive Closing hereunder and remain in force until the expiration of any Subject Claim covered thereby.

9.3 TU Electric Release. Upon the Closing, TU Electric, for itself and on behalf of its parent, TUC, and their subsidiaries and affiliates and on behalf of any person or entity, private or governmental, claiming by, through or under TU Electric or TUC, including without limitation, to the extent it has the standing and right under law to do so, their customers, and on behalf of their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives shall waive, release, discharge, renounce and relinquish any and all Subject Claims relating to Comanche Peak (including separately the Station, Fuel or Transmission Facilities) it has or they have, or may have, whether known or unknown, contingent or absolute, including, without limitation, those based on common law, whether contract (express or implied, including express or implied warranty) or tort (including, without limitation, intentional tort, negligence or gross negligence, sole, joint or concurrent) or strict liability or fraud, and those based on any Federal, State or local statute, law, order or regulation, including, without limitation, the Atomic Energy Act of 1954, as amended, the regulations of the NRC, the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, and any rule or regulation under either, the Texas Securities Act (Title 19, Articles 581-1, et seq., V.A.T.S.) and the Texas Deceptive Trade Practices and Consumer Protection Act, against Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers) in any capacity, whether individually or otherwise, and its and their respective insurers, agents, servants, employees, officers, directors, consultants,



attorneys and representatives, past and present, and any and all of their respective successors, subsidiaries and affiliates and their respective insurers, agents, servants, employees, officers, directors, members, consultants, attorneys, and representatives, past and present, except Subject Claims arising out of or under this Agreement or the other agreements and instruments executed and delivered pursuant hereto and except that nothing herein shall prohibit TU Electric from charging Brazos for any electric power and energy purchased by Brazos from TU Electric in accordance with the rates set forth in TU Electric's tariff as same may be approved and in effect from time to time even though said rates may include costs related to Comanche Peak. TU Electric hereby covenants and warrants that it has not assigned any Subject Claims that are to be released at the Closing. At the Closing, TU Electric will execute and deliver to Brazos the form of Release attached hereto as Exhibit L.

9.4 TU Electric Covenant Not to Sue. Except as provided for in Section 4.2(g) hereof, upon the Closing, TU Electric, for itself and on behalf of its parent, TUC and their subsidiaries and affiliates, and any person or entity, private or governmental, claiming by, through or under TU Electric or TUC, including without limitation, to the extent it has the standing and right under law to do so, their customers, and their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives shall agree and covenant that it and they, individually, collectively or in any combination, will forebear from asserting against, and never sue for or look for satisfaction with respect to, Brazos and its Members and their respective insurers, agents, servants, employees, officers, directors, members, consultants, attorneys and representatives, past and present, and any and all of their respective successors, subsidiaries, and affiliates and their respective insurers, agents, servants, employees, officers, directors, shareholders, members, consultants, attorneys and representatives, past and present, any Subject Claim in any manner involving, concerning, arising out of, or relating to Comanche Peak, and the management, procurement, conversion, enrichment, fabrication, shipping, transportation and storage of the Fuel, except for claims arising out

of or under this Agreement or any of the other agreements or instruments to be delivered by TU Electric pursuant hereto; and TU Electric, for itself and on behalf of its parent, subsidiaries and affiliates, and any person or entity, private or governmental, claiming by, through or under them, including without limitation, to the extent it has the standing and right under law to do so, its or their customers, and its or their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives hereby further agrees and covenants that, upon and after the Closing, neither it nor they, individually, collectively or in any combination, will directly or indirectly challenge, contest or assert any complaint against Brazos or its Members in any court or before any administrative agency or body or in any other forum whatsoever with respect to, or in any manner involving, concerning, arising out of, or relating to, Comanche Peak and the Joint Ownership Agreement and in connection with the performance or nonperformance by Brazos of its duties, responsibilities or obligations under the Joint Ownership Agreement, and on account of anything that has occurred or may have occurred, in whole or in part, with respect to Comanche Peak, (including separately the Station, Fuel, or Transmission Facilities) and the incidents and attributes thereof and any of the foregoing whether known or unknown, except with regard to Subject Claims arising out of or under this Agreement or any of the other agreements or instruments to be delivered by TU Electric pursuant hereto and except that nothing herein shall prohibit TU Electric from charging Brazos for any electric power and energy purchased by Brazos from TU Electric in accordance with the rates set forth in TU Electric's tariff as same may be approved and in effect from time to time even though said rates may include costs related to Comanche Peak. At the Closing, TU Electric will execute and deliver to Brazos the form of Covenant Not to Sue attached hereto as Exhibit M. Further, TU Electric covenants and agrees that it will encourage and solicit its attorneys, including Worsham, Forsythe, Sampels & Wooldridge, Jackson, Walker, Winstead, Cantwell & Miller, Hunton & Williams, Ackles, Ackles & Ackles and Roy Minton, and TU Electric's consultants, not to oppose or assist any third party in opposing

Brazos in connection with any matters relating to Comanche Peak (except that nothing herein shall be construed to prohibit said attorneys and consultants from representing TU Electric in connection with proceedings in which TU Electric's rates are being determined even though said rates may include costs related to Comanche Peak and Brazos may purchase electric power and energy pursuant to said rates); and, if necessary to prevent a conflict of interest, it being understood and agreed that TU Electric's separately employed consultants and attorneys may have obtained or developed information regarding Brazos in the course of the Pending Litigation that arguably could be inequitable for them to otherwise utilize in view of the consideration being rendered by Brazos hereunder in order to obtain a final settlement of the matters referred to in this Agreement, TU Electric covenants and agrees that it will take all such action as may be necessary or appropriate in order to prevent the consultants and attorneys, including Worsham, Forsythe, Sampels & Wooldridge, Jackson, Walker, Winstead, Cantwell & Miller, Hunton & Williams, Ackles, Ackles & Ackles and Roy Minton, separately employed by it in connection with the Pending Litigation or otherwise, from participating or assisting in any manner adverse to TU Electric's duty of cooperation herein or to Brazos in connection with any current or future proceedings or matter before the PUC (except that nothing herein shall be construed to prohibit said attorneys and consultants from representing TU Electric in connection with proceedings in which TU Electric's rates are being determined even though said rates may include costs related to Comanche Peak and Brazos may purchase electric power and energy pursuant to said rates) involving or relating to Comanche Peak, or any current or future proceedings (except that nothing herein shall be construed to prohibit said attorneys and consultants from representing TU Electric in connection with proceedings in which TU Electric's rates are being determined even though said rates may include costs related to Comanche Peak and Brazos may purchase electric power and energy pursuant to said rates) before any court or before any administrative agency or body or in any other forum whatsoever with respect to, or in any manner involving, concerning, arising out of, or relating to the acts or

omissions of Brazos referred to or in question in the Pending Litigation or which could have been brought into question in the Pending Litigation. The covenant set forth in the prior sentence shall survive the Closing and remain in force until the expiration of any Subject Claim covered thereby.

9.5 Assumption of Liabilities and Obligations and Indemnification. Effective upon the Closing, TU Electric agrees to assume all of the duties, responsibilities, liabilities and obligations of Brazos under the Joint Ownership Agreement. Further, effective upon the Closing, TU Electric agrees to indemnify, hold harmless and defend Brazos and its Members and customers (including the customers of Brazos' Members and other wholesale customers) from and against all Subject Claims or any alleged willful or intentional acts of the Project Manager, its agents, servants, employees or independent contractors acting on behalf of the Project Manager which may be asserted against Brazos and its Members and customers (including the customers of Brazos' Members and other wholesale customers) by any third party (other than Brazos' Members and customers and the customers of Brazos' Members or other wholesale customers acting in such capacity), including without limitation Subject Claims predicated upon the alleged actual or imputed negligence or gross negligence of Brazos and its Members and customers (including the customers of Brazos' Members and other wholesale customers) arising out of or connected with, the location, planning, design, construction, licensing, condition, maintenance, operation and decommissioning of Comanche Peak, including but not limited to all claims asserted or which might have been or might hereafter be asserted in the Pending Houston Suit and in the Pending Somervell County Suit; provided, however, that TU Electric specifically shall not indemnify Brazos and its Members or customers in connection with any Subject Claims which may be asserted by Brazos' Members and customers, and the customers of Brazos' Members or other wholesale customers, or creditors, acting in such capacity, which in any manner relate to Brazos' participation as an Owner of Comanche Peak or as a party to the Joint Ownership Agreement, or by reason of Brazos' involvement in the Pending Litigation, or by reason of the execution of this Agreement and

participation in the transactions provided for herein, and provided further, that TU Electric specifically shall not indemnify Brazos in connection with any Subject Claims which may be asserted by Tex-La or TMPA or others which in any way relate to Brazos' execution of the Joint Ownership Agreement, or which arise by reason of Brazos' participation in the Pending Litigation, or by reason of Brazos' execution of this Agreement and participation in the transactions provided for herein. TU Electric will, in addition to providing such indemnity, assume the defense of Brazos and its Members and customers (and the customers of Brazos' Members and other wholesale customers) in any tribunal where any such claim is asserted. Pursuant hereto, at the Closing TU Electric will execute and deliver to Brazos the form of Assumption and Indemnity Agreement attached hereto as Exhibit N. Effective upon the Closing, Brazos agrees to indemnify, hold harmless and defend TU Electric, TUC and their respective subsidiaries, affiliates and customers from and against any and all Subject Claims of Brazos or anyone related to or affiliated with Brazos, including Brazos' Members, customers (including the customers of Brazos' Members and other wholesale customers) and creditors, acting in such capacity, relating to Brazos' execution of, or participation in, the Joint Ownership Agreement, Brazos' execution of this Agreement and participation in the transactions provided herein, and Brazos' activities as an Owner separate and apart from joint activities with all other Owners or activities by, through and under the Project Manager. Further, effective upon the Closing, Brazos agrees to indemnify, hold harmless and defend TU Electric, TUC and their respective subsidiaries, affiliates and customers from and against any and all Subject Claims of Brazos or anyone related to or affiliated with Brazos, including Brazos' Members and, to the extent they are acting in such capacity, Brazos' customers (including the customers of Brazos' Members and other wholesale customers) and creditors, with respect to, or in any manner involving, concerning, arising out of, or relating to: (i) the acts or omissions of TU Electric or the Project Manager referred to or in question in the Pending Litigation or which could have been brought into question in the Pending Litigation, including without limitation Subject Claims based upon the negligence or gross

negligence, sole, joint or concurrent, of TU Electric or the Project Manager; and (ii) the acts or omissions of TU Electric or the Project Manager with respect to Comanche Peak that occur, in whole or in part, prior to the Date of Commercial Operation (as said term is defined in the Joint Ownership Agreement), including without limitation Subject Claims based upon the negligence or gross negligence, sole, joint or concurrent, of TU Electric or the Project Manager. Pursuant hereto, at the Closing Brazos will execute and deliver to TU Electric the form of Indemnity Agreement attached hereto as Exhibit O.

9.6 Covenant of Cooperation. The parties hereby covenant and agree to assist, cooperate with, and support each other (other than financial support) in the event that a third party institutes any action against either of them with respect to Comanche Peak and any incident or attribute thereof, except that neither of them shall be required to take any position which it believes is contrary to its material pecuniary interests or contrary to the truth; provided, however, that in any event, Brazos shall not cooperate with or support any party in the Pending Litigation with regard to the Subject Claims being made therein by Tex-La and TMPA.

9.7 Termination of Participation. To the extent that Brazos can, and not be in violation of Section 210 of the Energy Reorganization Act, 42 USC Section 5851 (1983), upon the execution of this Agreement, Brazos, for itself and on behalf of any person or entity, private or governmental, claiming by, through or under Brazos, including without limitation, to the extent it has the standing and right under law to do so, its Members and customers (including the customers of Brazos' Members and other wholesale customers) and its or their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives, agrees and covenants to immediately abate any and all currently pending actions whatsoever, directly or indirectly, involving or relating to the prosecution or processing of any Subject Claims in any way relating to Comanche Peak against TU Electric or TUC, or their respective directors, officers, employees, agents, insurers, consultants or attorneys, past or present, and any and all of their respective successors, subsidiaries and affiliates and their respective insurers,

agents, servants, employees, officers, directors, shareholders, consultants, attorneys and representatives, past and present, presently or hereafter pending in any court or before any administrative agency or body (except Subject Claims being made in the Pending Litigation, which shall be governed by the provisions of Article IV of this Agreement). In such capacity and to the extent Brazos can and not be in violation of Section 210 of the Energy Reorganization Act, 42 USC Section 5851 (1983) (Brazos hereby representing and warranting that it knows of no violation, actual or alleged, of Section 210 of the Energy Reorganization Act, 42 USC Section 5851 (1983) which has not heretofore been disclosed to TU Electric in writing), Brazos agrees & covenants that Brazos for itself and on behalf of any person or entity, private or governmental, claiming by, through or under Brazos, including without limitation, to the extent it has the standing and right under law to do so, its Members and customers (including the customers of Brazos' Members and other wholesale customers) and its or their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives, shall not prosecute, directly or indirectly, any Subject Claims, objections, motions or other actions adverse to TU Electric in connection with applications for granting the requisite licenses and approvals for Comanche Peak pending before the NRC and its Atomic Safety and Licensing Boards and Atomic Safety and Licensing Appeal Boards, including, without limitation, in NRC Dockets Nos. 50-445-OL, 50-446-OL and 50-445-CPA, the ongoing antitrust review relative to the licensing of Comanche Peak, and any and all appeals from rulings and orders of the NRC related to, or growing out of, said Dockets which are pending before any court. Within three (3) Business Days after the Closing, Brazos shall cause the dismissal, with prejudice to the refileing of same in any forum and in any form whatsoever, of all of its Subject Claims against TU Electric, TUC and their subsidiaries and affiliates in the Pending Litigation, and shall withdraw all of its Subject Claims adverse to TU Electric in connection with the granting of the requisite licenses and approvals for Comanche Peak pending in the NRC Dockets Nos. 50-445-OL, 50-446-OL and 50-445-CPA and any and all proceedings in any manner related to, or arising out of, said Dockets.

Brazos agrees and covenants, from and after the Closing, to fully cooperate with TU Electric and provide all reasonably requested assistance, including providing the legal assistance of its attorneys (including Joseph Robert Riley, Spiegel & McDiarmid and Locke Purnell Rain Harrell), in a timely manner in connection with any legal proceedings (excluding the Pending Litigation) involving Comanche Peak, including the licensing of Comanche Peak by the NRC, including without limitation the ongoing antitrust review in connection therewith, and all proceedings involving Comanche Peak before the PUC to the extent of not opposing, or assisting any third party in opposing, the position being advocated by TU Electric. Except as specifically provided otherwise in this Agreement, TU Electric shall promptly reimburse Brazos for any and all reasonable out-of-pocket expenses and any and all reasonable outside professional fees, including, without limitation, attorneys fees, incurred by Brazos in providing such cooperation.

9.8 TU Electric Actions and Litigation Costs. Within three (3) Business Days after the Closing, TU Electric shall cause the dismissal, with prejudice to the refile of same in any forum and in any form whatsoever, of all of its Subject Claims against Brazos in the Pending Litigation; provided, however, that TU Electric shall have the right to retain Brazos as a party to the Pending Dallas Suit, not for the purpose of seeking any affirmative relief against or from Brazos, but for the purpose of defeating a possible contention on the part of the other parties thereto with respect to the absence of a necessary party to TU Electric's Subject Claims against the other parties in said case (it being understood that TU Electric's position is that any such contention would not be valid). TU Electric shall promptly reimburse Brazos for any and all expenses reasonably incurred because of any such retention of Brazos by TU Electric in the Pending Dallas Suit. It is expressly understood that nothing herein shall in any manner affect, diminish or impair TU Electric's right to fully prosecute any and all of its Subject Claims against the other parties in the Pending Litigation. Except as provided otherwise above, all costs and expenses related to or incurred in connection with the Pending Litigation shall be borne and paid by the party by whom incurred or to which they are related.



9.9 Termination of Joint Ownership Agreement Relationship. Except as otherwise provided in Section 9.5 hereof with respect to TU Electric's assumption of Brazos' obligations under the Joint Ownership Agreement, Brazos and TU Electric hereby agree that, upon the Closing, the Joint Ownership Agreement, as between Brazos and TU Electric, shall be deemed terminated and of no further force and effect as between them, it being understood that under the circumstances described in Article II, Section 6 of the Deed of Trust the Joint Ownership Agreement may be reinstated.

## ARTICLE X

### TERMINATION OF AGREEMENT

10.1 Termination of Agreement by TU Electric. In the event at any time after TU Electric's having given written notice of intent to terminate this Agreement and the lapse of two (2) Business Days of discussion (which shall take place within five (5) days of said written notice of intent) between Brazos and TU Electric with respect thereto, TU Electric reasonably determines that the Closing cannot occur for reasons that are beyond TU Electric's control, TU Electric may terminate this Agreement upon seven (7) Business Days' written notice of termination from TU Electric to Brazos, and Brazos agrees to promptly refund and pay to TU Electric the Signing Payment, plus in addition thereto an incremental amount calculated from the date of receipt of the Signing Payment by Brazos at the rate of eight and one-half percent (8-1/2%) per annum. Brazos agrees that it shall have no right to withhold payment of any amounts it agrees to pay herein in respect to or on the basis of its alleged claims in the Pending Litigation. Payment by Brazos of such funds to TU Electric shall constitute acceptance by Brazos of TU Electric's right to terminate this Agreement under the circumstances. In the event of such termination, the rights of the parties with respect to Comanche Peak shall be governed by the Joint Ownership Agreement, the Transmission Agreement executed on July 25, 1979, and the applicable law as determined and applied in the Pending Litigation or the New Lawsuit.

10.2 Termination of Agreement by Brazos. In the event at any time after Brazos' having given written notice of intent to terminate this Agreement and the lapse of two (2) Business Days of discussion (which shall take place within five (5) days of said written notice of intent) between Brazos and TU Electric with respect thereto, Brazos reasonably determines that the Closing cannot occur for reasons that are beyond Brazos' control, Brazos may terminate this Agreement upon seven (7) Business Days' written notice of termination from Brazos to TU Electric and Brazos will immediately refund and pay to TU Electric the Signing Payment plus in addition thereto an incremental amount calculated from the date of receipt of the Signing Payment by Brazos at the rate of eight and one-half percent (8-1/2%) per annum. Brazos agrees that it shall have no right to withhold payment of any amounts it agrees to pay herein in respect to or on the basis of its alleged claims in the Pending Litigation. Acceptance by TU Electric of the return of such funds from Brazos shall constitute acceptance by TU Electric of Brazos' right to terminate this Agreement under the circumstances. In the event of such termination, the rights of the parties with respect to Comanche Peak shall be governed by the Joint Ownership Agreement, the Transmission Agreement executed on July 25, 1979, and the applicable law as determined and applied in the Pending Litigation or the New Lawsuit.

10.3 Automatic Termination. Unless either the Closing has occurred or there is a written agreement signed by TU Electric and Brazos to extend the date set out in this paragraph, this Agreement shall automatically terminate at 5:00 p.m., Dallas, Texas time, on the date which is at the end of nine (9) months after the date hereof, without any need for the giving of notice or any other action by either TU Electric or Brazos. In the event such termination occurs, Brazos will immediately refund and pay to TU Electric the Signing Payment, plus in addition thereto an incremental amount calculated from the date of receipt of the Signing Payment by Brazos at the rate of eight and one-half percent (8-1/2%) per annum. Payment by Brazos and acceptance by TU Electric of the amount set forth in this paragraph shall constitute acceptance by TU Electric and Brazos of termination of this Agreement. In the event of such termination, the rights of the parties

with respect to Comanche Peak shall be governed by the Joint Ownership Agreement, the Transmission Agreement executed on July 25, 1979, and the applicable law as determined and applied in the Pending Litigation or the New Lawsuit.

10.4 Termination of Covenants, Releases and Indemnifications. If this Agreement is terminated pursuant to the provisions of Article X hereof and all amounts specified therein are refunded and paid by Brazos to TU Electric, all releases, covenants not to sue, indemnifications, assumptions and guaranties hereunder or contained in any exhibit hereto shall be void and of no effect whatsoever.

## ARTICLE XI

### MISCELLANEOUS PROVISIONS

11.1 Bulk Sales Law Waiver. To the extent it may lawfully do so, TU Electric hereby waives compliance by Brazos with the bulk sales law of any jurisdiction, if applicable, with respect to the transactions contemplated hereby, and Brazos agrees to hold TU Electric harmless from and against any liability, loss, cost or expense, including reasonable attorneys' fees, which TU Electric may sustain by reason of such noncompliance. TU Electric agrees to give Brazos prompt notice of the assertion of any claim resulting from such noncompliance.

11.2 Further Assurance. Brazos agrees that, after the Closing, it will from time to time, upon the reasonable request of TU Electric, execute, acknowledge and deliver in proper form any instrument of conveyance or further assurance necessary for perfecting in TU Electric or its successors and assigns, as the case may be, the title to the Purchased Assets or for carrying out the purpose and intent of this Agreement.

11.3 No Third Party Beneficiaries. The parties hereto acknowledge and agree that this Agreement is entered into for the sole benefit of TU Electric, TUC, Brazos and Brazos' Members, their respective successors and assigns (to the extent permitted) and, to the extent specifically and expressly set forth elsewhere in this Agreement, their respective insurers, agents, servants, employees, officers, directors, subsidiaries, affiliates, representatives and customers, and that nothing in this Agreement shall be

construed as giving any right, benefit, remedy or claim to any person, firm, corporation or other entity, other than TU Electric, TUC, Brazos and Brazos' Members, their respective successors and assigns (to the extent permitted) and, to the extent specifically and expressly set forth elsewhere in this Agreement, their respective insurers, agents, servants, employees, officers, directors, subsidiaries, affiliates, representatives and customers. Without in any way limiting the foregoing provisions, it is expressly understood that nothing in this Agreement shall affect any of the rights, obligations and remedies among TU Electric and TMPA and Tex-La under the Joint Ownership Agreement or otherwise.

11.4 Default. In the event of default in performance hereunder by either Brazos or TU Electric, the non-defaulting party shall be entitled to all remedies legally available to it including the remedy of specific performance, the parties hereto agreeing that no adequate remedy at law exists.

11.5 Property and Transfer Taxes.

- (a) Property Taxes. All real and personal property taxes, and other similar taxes, charges, and fees imposed on or with respect to or measured by the Purchased Assets not heretofore paid by Brazos shall be the responsibility and liability of TU Electric, except for such taxes, charges and fees caused by the action or inaction of Brazos individually or in combination with any of the Owners other than TU Electric or the Project Manager.
- (b) Transfer Taxes. The payment of any and all real estate transfer, stamp, documentary, deed and recording taxes and fees, and all sales and excise taxes imposed in connection with the Purchased Assets or the sale or transfer of the Purchased Assets shall be the responsibility and liability of TU Electric.

11.6 Expenses. Brazos and TU Electric shall each pay all expenses incurred by them respectively in connection with this Agreement, including the fees of their respective counsel and accountants, if any, except as may be otherwise provided.

11.7 Governing Law. This Agreement shall be construed, and the provisions hereof shall be enforced, in accordance with the laws of the State of Texas.

11.8 Announcements. All press releases or other announcements by TU Electric or Brazos prior to or in connection with the execution of this Agreement shall be approved by Brazos and TU Electric prior to the issuance thereof, which approval shall not be unreasonably withheld.

11.9 Entire Agreement, Amendments. This Agreement, and the other documents delivered pursuant hereto, constitute the entire agreement between Brazos and TU Electric relating to the subject matter hereof and supersede all other prior agreements, representations and understandings between the parties. No supplement to, or modification or amendment of, this Agreement shall be binding, unless executed in writing by both Brazos and TU Electric.

11.10 Assigns, etc. This Agreement shall be binding upon and inure to the benefit of Brazos and its Members, and TU Electric and TUC, and their respective successors and assigns but shall not confer any rights upon any third persons except to the extent expressly provided herein. This Agreement may not be assigned by Brazos without the written consent of TU Electric or by TU Electric without the written consent of Brazos.

11.11 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (a) if served personally on the party to whom notice is to be given at the addresses and to the attention of the persons named as follows, or (b) if sent by telex or nationally recognized overnight delivery service, or (c) by first class mail, postage prepaid, certified and return receipt requested, and properly addressed as follows:

(a) To Brazos at:

Brazos Electric Power Cooperative, Inc.  
P. O. Box 2585  
Waco, Texas 76702-2585

Attention: Richard E. McCaskill

For Federal Express:

Brazos Electric Power Cooperative, Inc.  
2404 LaSalle Avenue  
Waco, Texas 76706

Attention: Richard E. McCaskill  
(with copy to)

Joseph Robert Riley  
Law Offices of Joseph Robert Riley  
500 RepublicBank Tower  
P. O. Box 153  
Waco, Texas 76703

(b) To TU Electric at:

Texas Utilities Electric Company  
2001 Bryan Street  
Suite 1900  
Dallas, Texas 75201

Attention: Erle Nye

(with copy to)

Worsham, Forsythe, Sampels & Wooldridge  
2001 Bryan Street  
Suite 3200  
Dallas, Texas 75201

Attention: Robert A. Wooldridge

11.12 Headings. The division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

11.13 Execution and Counterparts. This Agreement may be executed in any number of counterparts, each and all of which shall be deemed for all purposes to be one agreement.

11.14 Interest on Past Due Payments. In the event that Brazos or TU Electric fails to timely make any payments to the other which become due under this Agreement, the

incremental amount due on the past due payment for the period between and including the due date and the date actually paid shall be calculated at the rate of twelve and one-half percent (12-1/2%) per annum.

11.15 Use of Representations or Recitals. Any representations or recitals made by Brazos and TU Electric in this Agreement are for the purposes of this Agreement only. In the event that this Agreement is terminated or does not timely close at the Closing Date, neither Brazos nor TU Electric shall use, as evidence or otherwise, any such representations or recitals against the other in any way in the New LawsUIT or any other lawsuit concerning any Subject Claims which have been made in the Pending Litigation.

11.16 Separate Litigation. Any Subject Claims arising out of or under this Agreement shall be prosecuted in a lawsuit separate from the lawsuit in which any Subject Claims which have been made in the Pending Litigation are prosecuted.

11.17 Construction of Comanche Peak. If TU Electric continues to believe that the completion of Comanche Peak is economically and otherwise feasible, TU Electric covenants that it will use its best efforts to complete, or cause to be completed, the construction of Comanche Peak and placing the same in operation.


11.18 Severability. The parties hereto agree that the various obligations and undertakings specified in this Agreement and the other agreements or instruments referred to herein are each mutually dependent upon one another and, in the event that any fundamental or essential provision of this Agreement or any of such other agreements or instruments is finally determined to be invalid, illegal or unenforceable by a court or administrative body having jurisdiction, TU Electric and Brazos hereby agree to conduct good faith negotiations for the purpose of reaching a mutually acceptable written agreement to replace the deleted provision with a provision which will most nearly accomplish the purpose and intent of the deleted provision. Failing to reach such a mutually acceptable agreement, the parties shall rescind the transactions provided for herein and therein.

11.19 Time of the Essence. Time is of the essence in the performance of this Agreement.

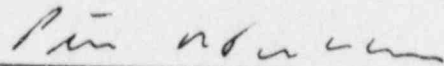
IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth at the outset hereof.

TEXAS UTILITIES ELECTRIC COMPANY

(Corporate Seal)

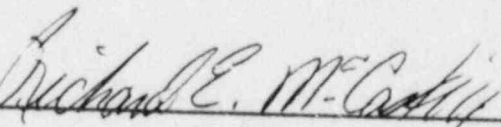
By:   
Its: Chairman of the Board and  
Chief Executive

ATTEST:

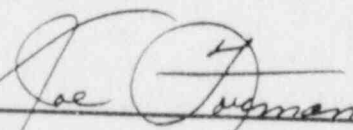
By:   
Its: Corporate Secretary

BRAZOS ELECTRIC POWER  
COOPERATIVE, INC.

(Corporate Seal)

By:   
Its: Executive V.P. / G.M.

ATTEST:

By:   
Its: Secretary



## SCHEDULE

### FIELD NOTES COMANCHE PEAK S.E.S. PROPERTY

All that certain lot, tract or parcel of land in the John W. Fogg Survey, Abstract 27, S. McKelvy Survey, Abstract 68, Jose Antonio Hernandez Survey, Abstract 42, Wm. B. Smith Survey, Abstract 90, Wm. B. Smith Survey, Abstract 91 and the Wm. Parker Survey, Abstract 83 all in Somervell County, Texas; the Galveston County School Land Survey, Abstract 38 in Somervell and Hood Counties, Texas; the James D. Elliott Survey, Abstract 170, J. Grace Survey, Abstract 203 and the R. Disney Survey, Abstract 144 all in Hood County, Texas and being more particularly described by metes and bounds as follows:

**BEGINNING** at a point in the line common to said Fogg Survey and the Wm. W. Parker Survey, Abstract 82 Somervell County, Texas, said point being South 58 degrees 54 minutes 17 seconds West, 2136-22/100 feet along said common line from the South corner common to said Fogg and Hernandez Surveys;

**THENCE** departing said common survey line;

North 31 degrees 40 minutes 49 seconds West, 1808-13/100 feet,  
North 60 degrees 17 minutes 47 seconds West, 822-92/100 feet,  
North 30 degrees 51 minutes 45 seconds West, 699-38/100 feet,  
North 37 degrees 09 minutes 49 seconds West, 397-05/100 feet,  
North 00 degrees 29 minutes 04 seconds East, 34-3/10 feet,  
South 88 degrees 33 minutes 14 seconds West, 241-71/100 feet,  
South 68 degrees 18 minutes 22 seconds West, 176-9/10 feet, and  
North 30 degrees 02 minutes 49 seconds West, crossing the line common to said John W. Fogg Survey and said Wm. B. Smith Survey, Abstract 91, in all 3593-27/100 feet;

**THENCE** South 50 degrees 50 minutes 50 seconds West, 904-7/10 feet to a point in the line common to said Wm. B. Smith Survey, Abstract 91 and said Wm. Parker Survey, Abstract 83, Somervell County, Texas;

**THENCE** with said common line, North 29 degrees 42 minutes 26 seconds West, 3001 feet to a point;

**THENCE** departing said common survey line, South 59 degrees 39 minutes West, 1587 feet, South 60 degrees 20 minutes West, 349 feet, South 59 degrees 21 minutes West, 263 feet and South 60 degrees 44 minutes West, 630 feet to a point in the Easterly right-of-way (R/W) of State P.M. Highway No. 56 (formerly P.M. 201);

**THENCE** with said Easterly R/W, North 28 degrees 51 minutes West, 684-25/100 feet to the beginning of a curve to the left having a radius of 1492.39 and Northwesterly with the arc of said curve 321-3/10 feet to a point;

THENCE departing said Easterly R/W line, North 28 degrees 56 minutes West, 669-5/10 feet to a point in the North line of said Wm. Parker Survey;

THENCE with said North line, North 60 degrees 44 minutes East, 2858 feet to a point;

THENCE North 30 degrees 00 minutes West, 17 feet to a point in the fenced Northwesterly corner of said Wm. B. Smith Survey, Abstract 91, common to the Southwesterly corner of said James D. Elliott Survey, Abstract 170, Hood County, Texas;

THENCE departing said common corner, North 21 degrees 39 minutes East, 2801 feet and North 60 degrees 02 minutes East, 2083-55/100 feet to a point;

THENCE North 69 degrees 4 minutes 30 seconds West, 1199 feet to a point at elevation 770 feet, U.S.C.&G.S. Datum;

THENCE with said 770 foot contour, South 69 degrees 14 minutes 30 seconds West, 87-2/10 feet and North 44 degrees 26 minutes 30 seconds East, 62-75/100 feet;

THENCE departing said 770 foot contour, North 69 degrees 44 minutes 30 seconds West, 2043-75/100 feet to a point;

THENCE North 02 degrees 10 minutes 30 seconds West, 3682-25/100 feet to a point on the 790 foot contour, U.S.C.&G.S. Datum;

THENCE with said 790 foot contour;

South 83 degrees 32 minutes East, 96-4/10 feet,  
North 89 degrees 17 minutes East, 154-0/10 feet,  
South 83 degrees 31 minutes East, 104-90/100 feet,  
North 77 degrees 03 minutes East, 182-4/10 feet,  
North 89 degrees 06 minutes East, 263-15/100 feet,  
South 86 degrees 49 minutes East, 214-2/10 feet,  
South 80 degrees 32 minutes East, 231-0/10 feet,  
South 89 degrees 25 minutes 30 seconds East, 151-7/10 feet,  
North 35 degrees 47 minutes 30 seconds West, 138-4/10 feet,  
North 35 degrees 41 minutes 30 seconds West, 109-0/10 feet,  
North 29 degrees 56 minutes 30 seconds West, 101-3/10 feet,  
North 35 degrees 54 minutes 30 seconds West, 81-05/100 feet,  
North 24 degrees 36 minutes 30 seconds West, 109-75/100 feet,  
North 26 degrees 26 minutes 30 seconds West, 123-15/100 feet,  
North 25 degrees 45 minutes 30 seconds West, 166-5/10 feet,  
North 27 degrees 45 minutes 30 seconds West, 119-2/10 feet,  
North 18 degrees 11 minutes West, 139-4/10 feet, and  
North 61 degrees 06 minutes West, 92-3/10 feet to a point in the North line of said James D. Elliott Survey common to the South line of said R. Disney Survey, Hood County, Texas;

THENCE departing said 790 foot contour and with said common survey line, North 58 degrees 58 minutes East, 78-9/10 feet to a point on the 770 foot contour line, U.S.C.&G.S. Datum:

THENCE departing said common survey line and with said 770 foot contour line:

North 71 degrees 38 minutes West, 96-6/10 feet,  
North 83 degrees 51 minutes West, 74-3/10 feet,  
North 54 degrees 53 minutes East, 93-1/10 feet,  
North 65 degrees 48 minutes 30 seconds East, 94-0/10 feet,  
North 00 degrees 54 minutes 30 seconds East, 82-3/10 feet,  
North 22 degrees 49 minutes 30 seconds West, 111-8/10 feet,  
North 23 degrees 43 minutes 30 seconds West, 102-3/10 feet,  
North 28 degrees 36 minutes 30 seconds West, 87-5/10 feet,  
North 32 degrees 42 minutes 30 seconds West, 65-45/100 feet,  
North 43 degrees 57 minutes 30 seconds West, 154-7/10 feet,  
North 57 degrees 21 minutes 30 seconds West, 112-95/100 feet,  
North 66 degrees 07 minutes West, 134-65/100 feet,  
North 76 degrees 57 minutes 30 seconds West, 271-6/10 feet,  
North 80 degrees 45 minutes West, 111-65/100 feet,  
North 80 degrees 27 minutes West, 147-75/100 feet,  
North 89 degrees 40 minutes West, 102-05/100 feet,  
North 80 degrees 23 minutes 30 seconds West, 186-65/100 feet,  
South 59 degrees 21 minutes 30 seconds West, 96-5/10 feet,  
South 54 degrees 27 minutes 30 seconds West, 84-35/100 feet,  
South 51 degrees 25 minutes 30 seconds West, 100-0/10 feet,  
South 49 degrees 23 minutes 30 seconds West, 197-35/100 feet,  
South 40 degrees 06 minutes 30 seconds West, 132-7/10 feet,  
South 44 degrees 38 minutes 30 seconds West, 155-35/100 feet,  
South 28 degrees 22 minutes 30 seconds West, 125-9/10 feet,  
South 37 degrees 40 minutes 30 seconds West, 227-8/10 feet,  
South 62 degrees 25 minutes 30 seconds West, 425-9/10 feet,  
South 87 degrees 41 minutes 30 seconds West, 123-95/100 feet,  
North 66 degrees 07 minutes 30 seconds West, 78-2/10 feet,  
South 41 degrees 17 minutes West, 195-15/100 feet,  
North 80 degrees 04 minutes West, 137-4/10 feet,  
North 19 degrees 45 minutes 30 seconds West, 196-65/100 feet,  
North 39 degrees 00 minutes 30 seconds West, 145-95/100 feet,  
North 55 degrees 29 minutes 30 seconds West, 141-15/100 feet,  
North 80 degrees 24 minutes 30 seconds West, 82-5/10 feet,  
South 46 degrees 55 minutes 30 seconds West, 105-3/10 feet,  
South 66 degrees 44 minutes West, 75-95/100 feet,  
North 51 degrees 47 minutes East, 68-35/100 feet,  
North 41 degrees 06 minutes East, 112-75/100 feet,  
South 82 degrees 11 minutes 30 seconds East, 117-75/100 feet,  
South 69 degrees 16 minutes 30 seconds East, 125-4/10 feet,  
South 58 degrees 15 minutes East, 123-45/100 feet,  
South 23 degrees 02 minutes 30 seconds East, 98-4/10 feet,  
South 08 degrees 27 minutes 30 seconds East, 169-8/10 feet,

North 73 degrees 32 minutes 30 seconds East, 93-25/100 feet,  
 North 19 degrees 32 minutes 30 seconds East, 111-2/10 feet,  
 North 20 degrees 05 minutes 30 seconds East, 95-95/100 feet,  
 North 23 degrees 55 minutes 30 seconds West, 166-95/100 feet,  
 North 52 degrees 38 minutes 30 seconds West, 100-5/10 feet,  
 North 73 degrees 59 minutes 30 seconds East, 164-0/10 feet,  
 North 43 degrees 28 minutes 30 seconds East, 171-1/10 feet,  
 North 67 degrees 15 minutes 30 seconds East, 154-1/10 feet,  
 North 35 degrees 50 minutes East, 118-45/100 feet,  
 North 18 degrees 59 minutes East, 218-35/100 feet,  
 North 31 degrees 44 minutes East, 217-9/10 feet,  
 North 24 degrees 36 minutes East, 224-2/10 feet,  
 North 25 degrees 11 minutes East, 181-35/100 feet,  
 North 00 degrees 21 minutes West, 170-7/10 feet,  
 North 09 degrees 00 minutes East, 214-1/10 feet,  
 North 07 degrees 00 minutes 30 seconds East, 138-1/10 feet,  
 North 09 degrees 51 minutes 30 seconds East, 176-6/10 feet,  
 North 05 degrees 47 minutes 30 seconds East, 125-05/100 feet,  
 North 19 degrees 59 minutes 30 seconds West, 216-2/10 feet,  
 North 10 degrees 47 minutes 30 seconds West, 135-35/100 feet,  
 North 76 degrees 16 minutes 30 seconds West, 172-1/10 feet,  
 North 56 degrees 11 minutes 30 seconds East, 177-1/10 feet,  
 North 30 degrees 59 minutes West, 181-1/10 feet,  
 North 24 degrees 59 minutes West, 118-4/10 feet,  
 North 36 degrees 16 minutes West, 178-15/100 feet,  
 North 51 degrees 15 minutes West, 179-6/10 feet,  
 North 76 degrees 22 minutes West, 232-2/10 feet,  
 North 66 degrees 30 minutes West, 124-35/100 feet,  
 North 76 degrees 11 minutes East, 191-1/10 feet,  
 North 58 degrees 50 minutes East, 83-45/100 feet,  
 North 20 degrees 23 minutes West, 71-9/10 feet,  
 North 44 degrees 55 minutes 30 seconds West, 263-4/10 feet,  
 North 57 degrees 43 minutes 30 seconds West, 149-75/100 feet,  
 North 60 degrees 12 minutes 30 seconds West, 191-85/100 feet,  
 North 56 degrees 13 minutes 30 seconds West, 144-05/100 feet,  
 North 65 degrees 53 minutes 30 seconds West, 232-65/100 feet,  
 North 73 degrees 04 minutes 30 seconds West, 208-2/10 feet,  
 North 87 degrees 29 minutes 30 seconds West, 228-4/10 feet,  
 South 87 degrees 49 minutes 30 seconds West, 184-35/100 feet,  
 South 86 degrees 23 minutes 30 seconds West, 208-4/10 feet,  
 South 81 degrees 52 minutes 30 seconds West, 225-15/100 feet,  
 North 65 degrees 33 minutes East, 213-4/10 feet,  
 North 08 degrees 24 minutes East, 103-9/10 feet,  
 South 70 degrees 07 minutes West, 198-25/100 feet,  
 South 59 degrees 33 minutes West, 291-25/100 feet,  
 South 69 degrees 16 minutes West, 131-8/10 feet,  
 South 69 degrees 29 minutes West, 223-35/100 feet,  
 South 70 degrees 22 minutes West, 197-35/100 feet,  
 South 71 degrees 25 minutes West, 392-35/100 feet,  
 South 86 degrees 58 minutes West, 398-85/100 feet,

North 74 degrees 05 minutes West, 467-8/10 feet,  
North 26 degrees 19 minutes West, 411-75/100 feet,  
North 83 degrees 40 minutes East, 91-7/10 feet,  
South 14 degrees 17 minutes East, 216-75/100 feet,  
South 31 degrees 31 minutes East, 94-1/10 feet,  
South 46 degrees 19 minutes East, 145-4/10 feet,  
South 79 degrees 41 minutes East, 329-0/10 feet,  
South 86 degrees 00 minutes East, 183-65/100 feet,  
North 81 degrees 46 minutes East, 196-45/100 feet,  
North 70 degrees 18 minutes East, 501-4/10 feet,  
North 67 degrees 33 minutes 30 seconds East, 180-8/10 feet,  
North 73 degrees 05 minutes 30 seconds East, 172-35/100 feet,  
North 54 degrees 08 minutes 30 seconds East, 132-1/10 feet,  
North 38 degrees 00 minutes 30 seconds East, 221-15/100 feet,  
North 55 degrees 11 minutes East, 201-9/10 feet,  
North 59 degrees 25 minutes 30 seconds East, 241-95/100 feet,  
North 41 degrees 29 minutes East, 197-45/100 feet,  
North 84 degrees 28 minutes East, 262-05/100 feet,  
North 84 degrees 41 minutes East, 241-45/100 feet,  
North 51 degrees 07 minutes East, 133-1/10 feet,  
North 10 degrees 28 minutes West, 189-9/10 feet,  
South 46 degrees 53 minutes East, 224-05/100 feet,  
South 83 degrees 52 minutes 30 seconds East, 210-4/10 feet,  
South 66 degrees 33 minutes 30 seconds East, 148-2/10 feet,  
South 77 degrees 06 minutes 30 seconds East, 275-2/10 feet,  
North 79 degrees 41 minutes 30 seconds East, 232-0/10 feet,  
North 18 degrees 26 minutes 30 seconds East, 110-7/10 feet,  
North 12 degrees 12 minutes 30 seconds West, 85-4/10 feet,  
North 12 degrees 32 minutes 30 seconds West, 100-45/100 feet,  
North 53 degrees 40 minutes 30 seconds East, 231-15/100 feet,  
North 22 degrees 36 minutes 30 seconds East, 207-8/10 feet,  
South 11 degrees 05 minutes West, 185-0/10 feet,  
South 54 degrees 52 minutes 30 seconds West, 140-95/100 feet,  
South 39 degrees 30 minutes 30 seconds West, 115-3/10 feet,  
South 35 degrees 51 minutes 30 seconds East, 134-45/100 feet,  
South 19 degrees 30 minutes 30 seconds East, 104-05/100 feet,  
South 10 degrees 27 minutes 30 seconds East, 134-5/10 feet,  
North 49 degrees 36 minutes East, 169-05/100 feet,  
South 54 degrees 00 minutes 30 seconds East, 212-7/10 feet,  
South 37 degrees 22 minutes 30 seconds East, 192-5/10 feet,  
South 31 degrees 41 minutes 30 seconds East, 387-3/10 feet,  
South 22 degrees 12 minutes East, 144-6/10 feet,  
North 13 degrees 05 minutes West, 101-55/100 feet, and  
South 30 degrees 25 minutes East, 85-85/100 feet to a point in the  
centerline of an old road;

THENCE departing said 770 contour, South 26 degrees 48 minutes 30 seconds  
East, 86-25/100 feet to a corner in the Easterly line of said road;

THENCE with said Easterly line:

North 14 degrees 04 minutes West, 255-9/10 feet,  
North 00 degrees 18 minutes West, 1410-9/10 feet, and  
North 25 degrees 42 minutes West, 88 feet to its intersection with the 790  
contour, Squaw Creek Reservoir datum;

THENCE with said 790 foot contour:

South 05 degrees 53 minutes East, 1658-5/10 feet,  
South 09 degrees 30 minutes East, 91-7/10 feet,  
South 25 degrees 17 minutes East, 101-2/10 feet,  
South 17 degrees 07 minutes East, 148-2/10 feet,  
South 34 degrees 40 minutes East, 121-8/10 feet,  
South 78 degrees 32 minutes East, 58-3/10 feet,  
North 67 degrees 59 minutes East, 109-6/10 feet,  
South 26 degrees 49 minutes West, 66-2/10 feet,  
South 01 degree 17 minutes West, 147-7/10 feet,  
South 39 degrees 05 minutes East, 300-6/10 feet,  
South 30 degrees 33 minutes East, 149-4/10 feet,  
South 34 degrees 34 minutes East, 258-0/10 feet,  
North 81 degrees 54 minutes East, 63-4/10 feet,  
South 05 degrees 12 minutes West, 57-4/10 feet,  
South 44 degrees 15 minutes East, 324-8/10 feet,  
North 77 degrees 11 minutes East, 58-1/10 feet,  
South 48 degrees 39 minutes East, 113-1/10 feet,  
South 86 degrees 49 minutes East, 133-0/10 feet,  
North 46 degrees 27 minutes East, 265-2/10 feet,  
North 33 degrees 21 minutes East, 403-5/10 feet,  
North 02 degrees 41 minutes West, 395-1/10 feet,  
North 01 degree 18 minutes West, 402-5/10 feet,  
North 13 degrees 38 minutes East, 52-6/10 feet,  
North 35 degrees 38 minutes East, 116-8/10 feet,  
South 16 degrees 40 minutes East, 97-4/10 feet,  
North 63 degrees 21 minutes East, 90-5/10 feet,  
South 12 degrees 32 minutes West, 122-0/10 feet,  
South 16 degrees 55 minutes East, 333-9/10 feet,  
South 52 degrees 15 minutes East, 269-3/10 feet,  
North 83 degrees 00 minutes East, 135-7/10 feet,  
North 86 degrees 34 minutes East, 176-7/10 feet,  
South 43 degrees 53 minutes East, 45-8/10 feet,  
South 35 degrees 58 minutes West, 214-6/10 feet,  
South 05 degrees 14 minutes West, 105-8/10 feet,  
South 20 degrees 53 minutes East, 97-8/10 feet,  
South 54 degrees 20 minutes East, 276-1/10 feet,  
South 74 degrees 21 minutes West, 437-4/10 feet,  
South 59 degrees 52 minutes West, 120-0/10 feet,  
South 34 degrees 14 minutes West, 170-9/10 feet,  
South 17 degrees 03 minutes West, 384-8/10 feet,  
South 08 degrees 02 minutes West, 156-3/10 feet,

South 43 degrees 30 minutes East, 160-9/10 feet,  
South 72 degrees 06 minutes East, 390-0/10 feet,  
South 02 degrees 46 minutes West, 63-3/10 feet,  
South 39 degrees 44 minutes East, 438-5/10 feet, and  
South 28 degrees 36 minutes East, 323-9/10 feet,

THENCE South 26 degrees 35 minutes East at 10-5/10 feet crossing the line common to said R. Disney Survey and said James D. Elliott Survey in all 354-5/10 feet and continuing with said 790 foot contour;

South 53 degrees 48 minutes East, 184-2/10 feet,  
South 86 degrees 47 minutes East, 138-7/10 feet,  
North 50 degrees 54 minutes East, 173-2/10 feet,  
North 37 degrees 55 minutes East, 201-2/10 feet,  
North 56 degrees 44 minutes East, 105-5/10 feet,  
South 02 degrees 18 minutes East, 232-4/10 feet,  
South 43 degrees 07 minutes East, 264-4/10 feet,  
North 81 degrees 19 minutes East, 51-1/10 feet,  
South 14 degrees 44 minutes West, 172-0/10 feet,  
South 35 degrees 30 minutes West, 107-9/10 feet,  
South 08 degrees 29 minutes West, 182-5/10 feet,  
South 13 degrees 25 minutes East, 123-7/10 feet,  
South 37 degrees 15 minutes East, 130-7/10 feet,  
South 56 degrees 59 minutes East, 108-9/10 feet,  
South 81 degrees 28 minutes East, 172-5/10 feet,  
North 73 degrees 32 minutes East, 232-4/10 feet,  
South 53 degrees 07 minutes East, 73-2/10 feet,  
South 09 degrees 56 minutes West, 53-2/10 feet,  
South 27 degrees 15 minutes West, 141-1/10 feet,  
South 38 degrees 41 minutes West, 138-0/10 feet,  
South 47 degrees 19 minutes West, 197-6/10 feet,  
South 32 degrees 17 minutes West, 106-2/10 feet,  
South 17 degrees 17 minutes West, 338-7/10 feet,  
South 08 degrees 03 minutes West, 125-8/10 feet,  
South 09 degrees 14 minutes East, 274-4/10 feet,  
South 27 degrees 16 minutes East, 282-0/10 feet,  
South 47 degrees 41 minutes East, 268-6/10 feet,  
North 52 degrees 49 minutes East, 150-8/10 feet,  
North 29 degrees 41 minutes East, 324-7/10 feet,  
South 88 degrees 16 minutes East, 183-4/10 feet,  
North 65 degrees 02 minutes East, 121-8/10 feet,  
North 35 degrees 44 minutes East, 250-4/10 feet,  
North 31 degrees 32 minutes East, 157-8/10 feet,  
North 36 degrees 29 minutes East, 183-9/10 feet,  
North 25 degrees 15 minutes East, 319-3/10 feet,  
North 04 degrees 39 minutes West, 44-6/10 feet,  
North 32 degrees 46 minutes East, 32-1/10 feet, and

THENCE North 34 degrees 45 minutes East, 113-2/10 feet to a point in the East line of said James D. Elliott Survey common to the West line of said J. Grace Survey;

THENCE with said common line, North 36 degrees 53 minutes West, 571-61/100 feet;

THENCE departing said common line;

North 45 degrees 24 minutes East, 1469-25/100 feet,  
North 80 degrees 57 minutes East, 949-9/10 feet,  
North 59 degrees 23 minutes East, 2111-7/10 feet,  
South 29 degrees 59 minutes East, 438-9/10 feet,  
North 80 degrees 41 minutes East, 2771-6/10 feet, and  
South 35 degrees 32 minutes 15 seconds East, 1057-5/10 feet to a point in the North line of a road;

THENCE with said North line;

North 59 degrees 57 minutes East, 707-7/10 feet,  
North 55 degrees 13 minutes 15 seconds East, 122-3/10 feet,  
North 58 degrees 19 minutes East, 278-9/10 feet,  
North 61 degrees 00 minutes 30 seconds East, 1041-4/10 feet, and  
South 75 degrees 56 minutes East, 45-9/10 feet;

THENCE South 46 degrees 03 minutes East, 11-5/10 feet to a point on the South line of the Dan Walton Coates tract described in the deed recorded in Volume 255, Page 13, Deed Records, Hood County, Texas;

THENCE with said South line, South 59 degrees 53 minutes West, 1476 feet;

THENCE departing said Coates tract;

South 58 degrees 34 minutes West, 1383-2/10 feet,  
South 31 degrees 05 minutes East, 1261-5/10 feet,  
North 59 degrees 34 minutes East, 1891-8/10 feet, and  
South 30 degrees 15 minutes East, 2440-4/10 feet to a point in the line common to said John C. Grace Survey, Abstract 203 and the Galveston County School Land Survey, Abstract 36;

THENCE with said common line, South 62 degrees 27 minutes West, 76-7/10 feet to a point;

THENCE departing said common survey line;

South 30 degrees 49 minutes East, 2608-7/10 feet,  
North 03 degrees 56 minutes West, 460-0/10 feet,  
North 57 degrees 57 minutes West, 168-7/10 feet,  
North 18 degrees 53 minutes West, 97-1/10 feet,  
North 49 degrees 19 minutes East, 1013-0/10 feet.



South 08 degrees 33 minutes West, 1811-5/10 feet,  
South 30 degrees 49 minutes East, 305-4/10 feet,  
North 60 degrees 51 minutes East, 1359-86/100 feet,  
South 38 degrees 10 minutes East, 390 feet,  
North 59 degrees 36 minutes East, 586-65/100 feet,  
North 59 degrees 59 minutes 30 seconds East, 1530-2/10 feet,  
South 12 degrees 59 minutes West, 1163-8/10 feet,  
South 83 degrees 05 minutes East, 878-9/10 feet,  
South 09 degrees 06 minutes West, 211-1/10 feet, and  
South 13 degrees 12 minutes East crossing the line common to said Hood and  
Somervell counties in all 400-5/10 feet to a point;

THENCE South 51 degrees 05 minutes 30 seconds West, 861-05/100 feet,  
South 28 degrees 53 minutes East, 1052-0/10 feet,  
North 79 degrees 04 minutes East, 668-4/10 feet,  
South 15 degrees 29 minutes 30 seconds East, 488-3/10 feet to a point on  
the line common to said Galveston County School Land Survey, Abstract 36  
and said Jose Antonio Hernandez Survey, Abstract 42, Somervell County,  
Texas and with said common survey line, South 60 degrees 05 minutes 10  
seconds West, 112-1/10 feet;

THENCE departing said common survey line;

South 01 degree 35 minutes 15 seconds East, 558-85/100 feet,  
South 06 degrees 55 minutes East, 208-15/100 feet,  
South 19 degrees 56 minutes 30 seconds West, 1134-75/100 feet,  
South 08 degrees 16 minutes 30 seconds East, 3018-55/100 feet,  
South 01 degree 06 minutes 25 seconds West, 1261-25/100 feet to a point  
in the line common to said J. Hernandez Survey, Abstract 42 and said S.  
McKelvy Survey, Abstract 68, Somervell County, Texas;

THENCE departing said common survey line, South 29 degrees 25 minutes  
East, 2075-1/10 feet;

THENCE South 59 degrees 12 minutes West, 3644-3/10 feet to a point in the  
centerline of Squaw Creek, and Southerly with said centerline some 900  
feet;

THENCE departing said Squaw Creek centerline, South 60 degrees West some  
100 feet;

THENCE North 47 degrees 34 minutes West, 280-44/100 feet,  
North 80 degrees 21 minutes West, 160-43/100 feet,  
North 12 degrees 17 minutes East, 28-56/100 feet,  
North 80 degrees 48 minutes West, 484-61/100 feet,  
North 45 degrees 32 minutes West, 1442-85/100 feet,  
South 63 degrees 44 minutes 35 seconds West, 3934-24/100 feet,  
South 26 degrees 15 minutes 25 seconds East, 300-0/10 feet,  
South 63 degrees 45 minutes 35 seconds West, 543-65/100 feet,  
North 26 degrees 15 minutes 25 seconds West, 284-8/10 feet.

South 63 degrees 44 minutes 35 seconds West, 450-54/100 feet to a point in the line common to said S. McKelvy Survey, Abstract 68 and the Wm. W. Parker Survey, Abstract 82, Somervell County, Texas, and continuing with said common survey line, North 31 degrees 21 minutes 40 seconds West, 16-04/100 feet to a point in the South line of said Jose Antonio Hernandez Survey, Abstract 42, Somervell County, Texas;

THENCE with the line common to said J. Hernandez Survey, Abstract 42 and said Wm. Parker Survey, Abstract 82, South 59 degrees 21 minutes 44 seconds West, 1311-50/100 feet to the Southerly corner common to said J. Hernandez Survey, Abstract 42 and said John W. Fogg Survey, Abstract 27, Somervell County, Texas;

THENCE continuing with the line common to said John W. Fogg Survey, Abstract 27 and said Wm. Parker Survey, Abstract 82, Somervell County, Texas, South 58 degrees 54 minutes 17 seconds West, 2136-22/100 feet to the place of beginning.

Save and except those certain two (2) 10.07 acre tracts conveyed to Billie Williams Durant, et al, and Alma Williams Andrews, et al, described in Volume 1000, Page 533 through 545, Deed Records, Hood County, Texas.

EXHIBIT A

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ASSIGNMENT AGREEMENT

between

BRAZOS ELECTRIC POWER COOPERATIVE, INC.

Brazos

and

TEXAS UTILITIES ELECTRIC COMPANY

TU Electric

dated as of \_\_\_\_\_

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## ASSIGNMENT AGREEMENT

This **ASSIGNMENT AGREEMENT** is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 1988 by and between the following parties:

**BRAZOS ELECTRIC POWER COOPERATIVE, INC.**, a Texas non-profit electric cooperative corporation, having its principal office at 2404 LaSalle Avenue, Waco, McLennan County, Texas ("Brazos"), and **TEXAS UTILITIES ELECTRIC COMPANY**, a Texas corporation, having its principal office at 2001 Bryan Street, Suite 1900, Dallas, Dallas County, Texas ("TU Electric").

### DEFINITIONS

As used in this Assignment Agreement, unless otherwise specified herein, the following terms shall have the following meanings:

- (a) "Agreement" means the Agreement dated as of July 5, 1988 between Brazos and TU Electric providing for the sale by Brazos and purchase by TU Electric of the Purchased Assets.
- (b) "Assignment" means the form of Assignment attached hereto as Exhibit A.
- (c) "Assignment Agreement" means this Assignment Agreement and all Schedules and Exhibits attached to this Assignment Agreement.
- (d) "Brazos Comanche Peak Debt" means the aggregate of the indebtedness of Brazos to the REA, the CFC and the FFB with respect only to Comanche Peak, which at the date hereof is the unpaid principal amount of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), and is detailed on Schedule A attached hereto.
- (e) "Business Day" means a day on which banks in Dallas, Texas are open for regular banking business.
- (f) "CFC" means the National Rural Utilities Cooperative Finance Corporation, or its successor.

- (g) "Closing" means the consummation, pursuant to the Agreement, of the sale by Brazos and the purchase by TU Electric of the Purchased Assets, as described therein.
- (h) "Closing Date" means the Closing Date defined in the Agreement.
- (i) "Comanche Peak" means the nuclear-fueled electric generating facility under construction on certain lands situated in Hood and Somervell Counties, Texas, and consisting of two units having a nominal capacity of 1,150 megawatts each, and related properties, and is the aggregate and combination of the Station, Fuel and Transmission Facilities, as defined in the Agreement, and all other rights and interests associated with or relating to all of the same.
- (j) "FFB" means the Federal Financing Bank, or its successor.
- (k) "Government" means the United States Government acting by and through the Administrator of the REA.
- (l) "Government Obligations" means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.
- (m) "Guaranty" means the Guaranty of TUC attached as Exhibit B to the Agreement.
- (n) "Mortgage" means the purchase money mortgage in the form of the Deed of Trust and Security Agreement given to secure payment of the Note, in the form attached to the Agreement as Exhibit D, creating a first lien on the real property and granting to Brazos a first and prior security interest in the personal property and fixtures, the aggregate of which comprise the Purchased Assets.
- (o) "Note" means the non-negotiable promissory note, in the form attached to the Agreement as Exhibit E, to be made and delivered at Closing by TU Electric as provided in Section 1.5(c) of the Agreement.

- (p) "Other Brazos Debt" means the aggregate of the indebtedness of Brazos to the REA, the CFC and the FFB other than the Brazos Comanche Peak Debt.
- (q) "Purchased Assets" means the aggregate of all that part of Comanche Peak (as Comanche Peak exists and is constituted on the Closing Date) owned by Brazos or to which Brazos has a right, title or interest, as further defined in the Agreement.
- (r) "REA" means the Rural Electrification Administration of the United States Department of Agriculture, or its successor.
- (s) "Special Warranty Deed" means the form of Special Warranty Deed with Vendor's Lien and Bill of Sale attached to the Agreement as Exhibit F.
- (t) "Transfer of Lien" means the form of Transfer of Lien of the Mortgage attached hereto as Exhibit B.
- (u) "TUC" means Texas Utilities Company, a Texas corporation, which is the corporate parent of TU Electric.
- (v) "Vendors Lien" means the vendors lien retained in the Special Warranty Deed.

#### RECITALS

- A. Brazos and TU Electric have previously entered into the Agreement.
- B. Brazos owns an undivided interest in Comanche Peak, which is being purchased by TU Electric on the Closing Date pursuant to the Agreement, and in connection therewith as partial payment therefor, TU Electric is delivering to Brazos the Note, the payment of which will be secured by the purchase money lien of the Mortgage and the Vendors Lien.
- C. Brazos wishes to assign the Note and all payments thereunder to the Government in order to provide thereby for the payment of the Brazos Comanche Peak Debt, it being understood that a portion of the payments under the Note will also be used to pay a portion of the Other Brazos Debt.

- D. To secure the making of the payments under the Note, Brazos wishes to transfer and assign the liens and rights provided for under the Mortgage and the Special Warranty Deed to the Government under and pursuant to the Transfer of Lien.
- E. TU Electric is willing to permit such assignment of the Note, the Mortgage and the Vendors Lien.
- F. Brazos and TU Electric wish to provide with respect to the terms and circumstances in the event of the prepayment of the Note.

NOW, THEREFORE, for and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Brazos and TU Electric do hereby agree as follows:

1. Assignment of Note and Guaranty. Brazos does hereby assign the Note and Guaranty to the Government under and pursuant to terms and conditions of, and as evidenced by, the Assignment; and TU Electric does hereby consent to such Assignment as evidenced by its execution of the Consent to Assignment appearing on the Assignment. Brazos does hereby acknowledge that all payments made by TU Electric in accordance with the Note to the Government as assignee thereof shall be considered to be in full and complete satisfaction of TU Electric's obligation under the Note to Brazos as the original payee thereof or otherwise under the Agreement to the extent of all such payments. It is understood and agreed that assignment of the Note by Brazos to the Government is being accepted by the Government not in extinguishment, but as a mechanism for payment, of the Brazos Comanche Peak Debt and a portion of the Other Brazos Debt.

2. Assignment of Mortgage. Brazos does hereby assign the Mortgage and the Vendors Lien to the Government under and pursuant to the Transfer of Lien as replacement security for the liens of the mortgages of the CFC, the FFB and the REA covering the Purchased Assets securing the payment of the Brazos Comanche Peak Debt which are being released incident to the closing under the Agreement of the purchase of

the Purchased Assets by TU Electric from Brazos, it being understood that the Government shall exercise for itself and on behalf of Brazos all rights accruing to the mortgagee in the event of default under the Note or the Mortgage.

3. Payment of Other Brazos Debt. It is understood and agreed that from henceforth, Brazos will pay the Other Brazos Debt by paying to the Government, contemporaneously with payments by TU Electric under the Note, such additional amounts in addition to the payments made by TU Electric under the Note as will fully pay the Brazos Comanche Peak Debt and the Other Brazos Debt in the aggregate at the times they become due and payable, and that nonpayment of such additional amounts by Brazos will not constitute a default or event of default under either the Note or the Mortgage or with respect to the Vendors Lien or in any way be the basis for an acceleration of the indebtedness represented by the Note or foreclosure of the lien provided for in the Mortgage, the Vendors Lien or any other lien in favor of the Government or Brazos with respect to the Purchased Assets, the Government being relegated thereby to its remedies under Brazos' notes to the CFC, the FFB and the REA and with respect to the remaining security of Brazos for such debt.

4. Prepayment of Note. TU Electric may prepay the Note at any time in accordance with the provisions thereof. In such event, however, if such prepayment is not permissible at such time, in whole or in part to any extent, under the terms of the Brazos Comanche Peak Debt or the Other Brazos Debt, it is understood and agreed that TU Electric may make a prepayment in full and complete satisfaction of all of its remaining obligations under the Note so as to require release of the lien of the Mortgage, the Vendors Lien and any other lien retained in favor of the Government or Brazos with respect to the Purchased Assets, by irrevocably depositing in a trust account with a trustee, which shall be a national bank with capital of at least \$50 million selected by TU Electric and Brazos, and acceptable to the Government, in trust, and irrevocably set



aside exclusively for such payment, money sufficient to make payment, or Government Obligations which will mature as to principal and interest at a rate of 8 1/2% per annum thereafter (and the interest rate provided for in the Note will thereby be deemed to be changed to 8 1/2% thereafter and ipso facto modified to such extent) in such amount and at such times as will ensure the availability, without reinvestment, of sufficient money to make payment, of the remaining principal and interest (at the rate of 8 1/2% per annum) payments due under the Note. Contemporaneously with the deposit of such money or Government Obligations in trust, TU Electric shall make payment of the prepayment premium under the Note directly to Brazos in full satisfaction of all of its obligations with respect thereto under the Note, and by its execution of the Consent attached hereto the Government does hereby consent to such method of payment of the prepayment premium under the Note. At such time as such money or Government Obligations shall have been deposited in trust with such trustee and the referenced prepayment premium shall have been paid to Brazos, the Note will be deemed to be fully paid and all obligations of TU Electric in connection therewith, under the Mortgage and with respect to the Vendors Lien fully satisfied, and any rights of the Government or Brazos with respect thereto terminated and fully relinquished, and the Government and Brazos will execute and deliver to TU Electric appropriate releases with respect thereto and with respect to any other liens covering the Purchased Assets in their favor. Such deposit in trust may thereafter be terminated at any time or partially from time to time by TU Electric at its option at such time or times as the underlying Brazos Comanche Peak Debt becomes prepayable, by the release to REA from such deposit in trust by TU Electric of sufficient funds to prepay any of such Brazos Comanche Peak Debt in accordance with the terms thereof, including prepayment of applicable prepayment penalties if any; provided, however, that any partial prepayment shall not be made if thereafter the weighted average annual interest rate on the remaining Brazos Comanche Peak Debt shall exceed 8 1/2% per annum.

5. Notices and Payments. All notices, requests, demands and other communications under this Assignment Agreement shall be in writing and shall be deemed to have been duly given (a) if served personally on the party to whom notice is to be given at the addresses and to the attention of the persons named as follows, or (b) if sent by telex or nationally recognized overnight delivery service, or (c) by first class mail, postage prepaid, certified and return receipt requested, and properly addressed as follows:

(a) To Brazos at:

Brazos Electric Power Cooperative, Inc.  
P. O. Box 2585  
Waco, Texas 76702-2585

Attention: Richard E. McCaskill

(b) To TU Electric at:

Texas Utilities Electric Company  
2001 Bryan Street  
Suite 1900  
Dallas, Texas 75201

Attention: Treasurer

As a result of the assignment of the Note, all payments made by TU Electric under the Note shall be made by wire transfer to the Rural Electrification Administration, 02103000410 Treas NYC (12310100) for credit to account of the Rural Electrification Administration, U.S. Department of Agriculture, Washington, D.C. 20250.

In the event the Government desires to provide for a change in the place of payment of the Note, it shall notify TU Electric thereof in writing received at least five (5) Business Days in advance of the next payment date under the Note.

6. Entire Agreement, Amendments. This Assignment Agreement, and the other documents delivered pursuant hereto or specifically referred to herein, constitute the entire agreement between Brazos and TU Electric relating to the subject matter hereof

and supersede all other prior agreements, representations and understandings between the parties. No supplement to, or modification or amendment of, this Assignment Agreement shall be binding, unless executed in writing by both Brazos and TU Electric.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment Agreement as of the date set forth at the outset hereof.

TEXAS UTILITIES ELECTRIC COMPANY

(Corporate Seal)

By: \_\_\_\_\_  
Its: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_  
Its: \_\_\_\_\_

BRAZOS ELECTRIC POWER  
COOPERATIVE, INC.

(Corporate Seal)

By: \_\_\_\_\_  
Its: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_  
Its: \_\_\_\_\_

CONSENT TO ASSIGNMENT AGREEMENT

The undersigned hereby accepts, consents to and approves the terms, conditions and obligations set forth in the foregoing Assignment Agreement.

UNITED STATES OF AMERICA

By: \_\_\_\_\_

Its: Administrator  
Rural Electrification Administration

**EXHIBIT A**  
**ASSIGNMENT**

FOR VALUE RECEIVED, BRAZOS ELECTRIC POWER COOPERATIVE, INC. ("Brazos"), hereby ASSIGNS, TRANSFERS, CONVEYS and SETS OVER to the Rural Electrification Administration, or its successor, all its right, title and interest in and to the attached note dated \_\_\_\_\_, 1988, in the original principal sum of \$ \_\_\_\_\_, executed by Texas Utilities Electric Company ("TU Electric"), hereinafter referred to as the "Note", with full recourse at law or equity to which extent assignee shall specifically have the right of recourse against assignor, its successors and assigns.

This assignment of the Note by Brazos to the Rural Electrification Administration is for the purpose of establishing a mechanism for payment of Brazos' Comanche Peak Debt and a portion of Other Brazos Debt as defined in the Assignment Agreement to which this form of Assignment has been attached as Exhibit "A". The Note is not for the purpose of evidencing or creating any additional indebtedness on the part of Brazos, and if assignee ever exercises its right to recourse as set out hereinabove, assignor, its successors or assigns, reserves the right, at its option, to fulfill its obligations created by the exercise of such right of recourse by paying any payments remaining unpaid on the Note as of the date of the exercise of recourse created hereunder is exercised, to the assignee as said payments become due and payable under the terms of the Note with the right to direct that any such payments be credited to assignor's, its successors' or assigns', payment obligations on Brazos Comanche Peak Debt or Other Brazos Debt.

And, provided further, that this assignment is made subject to assignor's retainage and reservation for itself of an amount equal to one percent (1%) per annum of the principal balance unpaid from time to time on the Note until the no prepayment penalty time shown on Exhibit A attached to the Note is reached, which retainage and all amounts

owing thereon shall at all times remain the sole right, title and interest of assignor but which shall be paid by the Borrower to Assignee in accordance with the Assignment Agreement in full satisfaction and extinguishment of any right or claim Brazos may have against TU Electric with respect thereto.

THIS ASSIGNMENT IS WITH THE CONSENT OF TU ELECTRIC AND IS NOT TO OPERATE OTHERWISE AS A NEGOTIATION OF THE NOTE NOR TO GIVE THE ASSIGNEE THE RIGHT TO COMPEL A NEGOTIATION.

BRAZOS ELECTRIC POWER COOPERATIVE, INC.

By: \_\_\_\_\_  
Richard E. McCaskill  
Executive Vice President and  
General Manager

**CONSENT TO ASSIGNMENT**

The undersigned hereby acknowledges that it is the Borrower set out in the Note and hereby consents to the assignment of the Note to the Rural Electrification Administration upon the terms herein stated.

TEXAS UTILITIES ELECTRIC COMPANY

By: \_\_\_\_\_

Its: \_\_\_\_\_

EXHIBIT B

TRANSFER OF LIENS

THE STATE OF TEXAS :  
COUNTIES OF HOOD & SOMERVELL : KNOW ALL MEN BY THESE PRESENTS:

THAT the undersigned, of the County of McLennan, and State of Texas, the present legal and equitable owner and holder of that one certain promissory note in the original principal sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), dated \_\_\_\_\_, 1988, executed by TEXAS UTILITIES ELECTRIC COMPANY, payable to the order of BRAZOS ELECTRIC POWER COOPERATIVE, INC., more fully described in a Special Warranty Deed with Vendor's Lien and Bill of Sale, duly recorded in Volume \_\_\_\_\_, Page \_\_\_\_\_, of the Deed Records of Hood County, Texas, and Volume \_\_\_\_\_, Page \_\_\_\_\_, of Somervell County, Texas; and in a Deed of Trust, duly recorded in Volume \_\_\_\_\_, Page \_\_\_\_\_, of the Deed of Trust Records of Hood County, Texas, and Volume \_\_\_\_\_, Page \_\_\_\_\_, of Somervell County, Texas; said note being secured by said Vendor's Lien and Deed of Trust Lien against the following described property, to-wit:

See Attached Exhibit "A"

for good and valuable consideration paid to the undersigned, the receipt and sufficiency of which are hereby acknowledged, has TRANSFERRED, ASSIGNED, GRANTED and CONVEYED and by these presents TRANSFERS, ASSIGNS, GRANTS and CONVEYS unto the Rural Electrification Administration of Washington, D.C., the above described note, together with the Vendor's Lien and Deed of Trust Lien and all liens, and any superior title, held by the undersigned securing the payment thereof. This Transfer of Liens is subject to the terms of that one certain Assignment of even date herewith by and between the parties thereto.

EXECUTED this \_\_\_\_\_ day of \_\_\_\_\_, 1988.

BRAZOS ELECTRIC POWER COOPERATIVE, INC.

By: \_\_\_\_\_

Richard E. McCaskill,  
Executive Vice President and  
General Manager

THE STATE OF TEXAS

:

COUNTY OF McLENNAN

:

:

This instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1988,  
by the said Richard E. McCaskill, Executive Vice President and General Manager of  
Brazos Electric Power Cooperative, Inc.

\_\_\_\_\_  
Notary Public, State of Texas

My Commission Expires: \_\_\_\_\_



**EXHIBIT B**  
**GUARANTY**

Due and punctual payment of all sums to be paid by Texas Utilities Electric Company to Brazos Electric Power Cooperative, Inc., in accordance with the terms of that certain promissory note of even date herewith in the original principal amount of \$ \_\_\_\_\_, is hereby unconditionally guaranteed to Brazos Electric Power Cooperative, Inc., by the undersigned. The undersigned agrees that its obligations hereunder shall not be released, diminished, impaired, reduced, or affected by the occurrence of any one or more of the following events: (a) the taking or accepting of any additional security or other guaranty for any or all of the referenced indebtedness; (b) any release, surrender, exchange, subordination, or loss of any security at any time existing in connection with any or all of such indebtedness; (c) the modification of, amendment to, or waiver of compliance with any terms of the referenced promissory note agreed to by the Borrower thereunder without the notification or consent of the undersigned; or (d) any renewal, extension, and/or rearrangement of the payment of any or all of the referenced indebtedness agreed to by said Borrower.

Executed this \_\_\_\_\_ day of \_\_\_\_\_, 1988.

TEXAS UTILITIES COMPANY

By: \_\_\_\_\_

Title: \_\_\_\_\_

## EXHIBIT C

### ELECTRIC COOPERATIVES THAT ARE MEMBERS OF BRAZOS ELECTRIC POWER COOPERATIVE, INC.

1. Bartlett Electric Cooperative, Inc.
2. B-K Electric Cooperative, Inc.
3. Belfalls Electric Cooperative, Inc.
4. Comanche County Electric Cooperative Assn.
5. Cooke County Electric Cooperative Assn.
6. Denton County Electric Cooperative, Inc.
7. Dickens Electric Cooperative, Inc.
8. Erath County Electric Cooperative Assn.
9. Fort Belknap Electric Cooperative, Inc.
10. Gate City Electric Cooperative, Inc.
11. Hamilton County Electric Cooperative Assn.
12. Hill County Electric Cooperative, Inc.
13. J-A-C Electric Cooperative, Inc.
14. Johnson County Electric Cooperative Assn.
15. McLennan County Electric Cooperative, Inc.
16. Mid-South Electric Cooperative Assn.
17. Navarro County Electric Cooperative, Inc.
18. Navasota Valley Electric Cooperative, Inc.
19. Tri-County Electric Cooperative, Inc.
20. Wise Electric Cooperative, Inc.

EXHIBIT D

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DEED OF TRUST  
AND SECURITY AGREEMENT

made by and between

TEXAS UTILITIES ELECTRIC COMPANY

and

\_\_\_\_\_, TRUSTEE

for the benefit of

BRAZOS ELECTRIC POWER COOPERATIVE, INC.

Dated as of \_\_\_\_\_, 1988

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**DEED OF TRUST AND SECURITY AGREEMENT**, dated as of \_\_\_\_\_, 1988 (hereinafter called the "Mortgage"), made by and between **TEXAS UTILITIES ELECTRIC COMPANY**, a corporation existing under the laws of the State of Texas (hereinafter called the "Mortgagor"), and \_\_\_\_\_ (hereinafter called "Trustee"), for the benefit of **BRAZOS ELECTRIC POWER COOPERATIVE, INC.**, a corporation existing under the laws of the State of Texas (hereinafter called "Mortgagee").

NOW, THEREFORE, this Deed of Trust and Security Agreement

**WITNESSETH:**

WHEREAS, Mortgagor has entered into an Agreement with Mortgagee dated July 5, 1988 (the "Agreement") providing for the purchase by Mortgagor from Mortgagee of certain properties and assets (the "Purchased Assets") described in the Agreement and the payment of a portion of the purchase price thereof by Mortgagor to Mortgagee under and pursuant to a Promissory Note of even date herewith from Mortgagor to Mortgagee in the original principal amount of \$ \_\_\_\_\_ (the "Note");

WHEREAS, in order to facilitate the purchase by Mortgagor of the Purchased Assets and in order to secure the payment of the Note, Mortgagee is willing to transfer the Purchased Assets to Mortgagor and accept the Note in partial payment therefor, only upon the condition, inter alia, that Mortgagor shall have executed and delivered this Mortgage as a purchase money mortgage to secure payment of the Note;

NOW, THEREFORE, in order to secure the payment of the principal of and interest on the Note (representing a portion of the purchase price under the Agreement), according to its tenor and effect, and further to secure the due performance of the covenants, agreements and provisions contained in this Mortgage and to declare the terms and conditions upon which the Note is to be secured, the Mortgagor, in consideration of the premises has executed and delivered this Mortgage, and has granted, bargained, sold,

conveyed, warranted, assigned, transferred, mortgaged, pledged and set over, and by these presents does hereby grant, bargain, sell, convey, warrant, assign, transfer, mortgage, pledge and set over, unto the Trustee in trust for the benefit of the Mortgagee, and their respective successors and assigns, all and singular the following-described property (hereinafter sometimes called the "Mortgaged Property"):

I.

All right, title and interest of the Mortgagee conveyed to the Mortgagor on the date hereof in and to the Purchased Assets, which includes real and personal property, including fixtures, and which is the property described on Exhibit A attached hereto, as well as all appurtenances, betterments and additions thereto, substitutions therefor, and all improvements now or hereafter placed thereon;

II.

To the extent the same constitute a part of the Purchased Assets, the right, title and interest of the Mortgagor in, to and under any and all grants, privileges, rights of way and easements now owned, held, leased, enjoyed or exercised, or which may hereafter be owned, held, leased, acquired, enjoyed or exercised, by the Mortgagor for the purposes of, or in connection with, the construction or operation by or on behalf of the Mortgagor of the Purchased Assets, wherever located;

III.

To the extent the same constitute a part of the Purchased Assets, the right, title and interest of the Mortgagor in, to and under any and all licenses, franchises, ordinances, privileges and permits heretofore granted, issued or executed, or which may hereafter be granted, issued or executed, to it by the United States of America, or by any state, or by any county, township, municipality, village or other political subdivision thereof, or by

any agency, board, commission or department of any of the foregoing, authorizing the construction, acquisition, or operation of the Purchased Assets, insofar as the same may by law be assigned, granted, bargained, sold, conveyed, transferred, mortgaged, or pledged;

IV.

All right, title and interest of the Mortgagor in, to and under any and all accounts, contract rights and general intangibles (as such terms are defined in the applicable Uniform Commercial Code) heretofore or hereafter acquired by the Mortgagor and which are part of the Purchased Assets;

V.

Together with all rents, income, revenues, profits and benefits at any time derived, received or had from any and all of the above-described property of the Mortgagor.

TO HAVE AND TO HOLD all and singular the Mortgaged Property unto the Mortgagee and its assigns forever, to secure the payment of the principal of and interest on the Note, according to its tenor and effect, without preference, priority or distinction as to interest or principal (except as otherwise specifically provided herein) or as to lien, to secure the due performance of the covenants, agreements and provisions herein, and for the uses and purposes and upon the terms, conditions, provisos and agreements hereinafter expressed and declared.

**ARTICLE I**

**PARTICULAR COVENANTS OF THE MORTGAGOR**

The Mortgagor covenants with the Mortgagee and any other permitted holder of the Note (hereinafter sometimes collectively called the "Noteholder") as follows:

SECTION 1. The Mortgagor is duly authorized under its articles of incorporation and by-laws and the laws of the State of Texas and all other applicable provisions of law to execute and deliver the Note and this Mortgage; all corporate action on its part for the

execution and delivery of the Note and this Mortgage has been duly and effectively taken; and the Note and this Mortgage are the valid and enforceable obligations of the Mortgagor in accordance with their respective terms.

SECTION 2. The Mortgagor warrants that it has good right and lawful authority to mortgage the property described in the granting clauses of this Mortgage for the purposes herein expressed, and that said property is free and clear of any deed of trust, mortgage, lien, charge or encumbrance thereon or affecting the title thereto, except (i) the lien of this Mortgage and the vendors lien retained by Mortgagee, and any liens for taxes, assessments or similar governmental charges not yet due; (ii) deposits or pledges to secure payment of workmen's compensation, unemployment insurance, old age pensions or other social security; (iii) deposits or pledges to secure performance of bids, tenders, contracts (other than contracts for the payment of borrowed money), leases, public or statutory obligations, surety or appeal bonds, or other deposits or pledges for purposes of like general nature in the ordinary course of business and liens, controls, obligations, restrictions or rights in favor of, reserved to or vested in any municipal, public or other governmental authority (iv) liens (existing or inchoate) in favor of mechanics, materialmen, laborers and suppliers of materials, goods, services, equipment, inventory and labor; (v) matters affecting the title to all or any part of the Mortgaged Property created by the acts or omissions of (a) Mortgagee, or (b) the parties owning interests in the project of which the Mortgaged Property is a part, or (c) Mortgagor as Project Manager acting for the owners of the project of which the Mortgaged Property is a part; (vi) matters of record affecting the Mortgaged Property; and (vii) the Joint Ownership Agreement dated January 2, 1979, as modified and amended, to which Mortgagor and Mortgagee are parties relating to the Mortgaged Property and all licenses, permits, leases, franchises and contracts relating thereto. The Mortgagor will, so long as the Note shall be outstanding, maintain and preserve the lien of this Mortgage superior to all other liens affecting the Mortgaged Property, except to the extent referenced in the preceding

sentence, and will forever warrant and defend the title to the property described as being mortgaged hereby to the Mortgagee against any and all claims and demands whatsoever by, through or under Mortgagor. The Mortgagor will promptly pay or discharge any and all obligations for or on account of which any such lien or charge might exist or could be created and any and all lawful taxes, rates, levies, assessments, liens, claims or other charges imposed upon or accruing upon any of the Mortgaged Property (whether taxed to the Mortgagor or to the Noteholder), as and when the same shall become due and payable; and whenever called upon so to do the Mortgagor will furnish to the Mortgagee or to any Noteholder adequate proof of such payment or discharge; provided, however, that this provision shall not be deemed to require the payment or discharge of any tax, rate, levy, assessment or other governmental charge while the Mortgagor is contesting the validity thereof by appropriate proceedings in good faith and so long as it shall have set aside on its books adequate reserves with respect thereto.

SECTION 3. The Mortgagor will not, without the consent in writing of the Mortgagee, charge, pledge, mortgage, or otherwise encumber any of the Mortgaged Property in any manner so as to adversely affect the priority of the lien established hereby.

SECTION 4. The Mortgagor will duly and punctually pay the principal of and interest on the Note at the dates and in the manner provided therein, according to the true intent and meaning thereof, and all other sums becoming due hereunder. The Mortgagor may at any time make prepayments on account of all or part of the principal of the Note to the extent and in the manner provided therein.

SECTION 5. The Mortgagor will at all times, so long as any portion of the Note shall be outstanding, take or cause to be taken all such action as from time to time may be necessary to preserve its corporate existence and use its best efforts to preserve and renew all rights of way, easements and similar real property rights now or hereafter granted to it or conferred upon it relating to the Mortgaged Property, and will comply



with all valid laws, ordinances, regulations and requirements applicable to the Mortgaged Property, so long as the Mortgagor is not contesting the validity of any thereof in good faith. The Mortgagor will not without the approval in writing of the Noteholder consolidate with or merge into any other corporation or permit any other corporation to merge into the Mortgagor or acquire all or substantially all of the business or assets of another corporation if such acquisition is analogous in purpose or effect to a merger or consolidation, or so consolidate or merge or permit any such merger or so acquire any such business or assets without the approval in writing of the Noteholder unless the corporation surviving such transaction shall have assumed the obligations of the Mortgagor under the Note.

SECTION 6. The Mortgagor will, upon completion, at all times maintain and preserve the Mortgaged Property, as part of an operating system, in good repair, working order and condition, ordinary wear and tear excepted and subject to operating contingencies and maintenance requirements, and in compliance with all applicable laws, regulations and orders, which are not being contested in good faith, and will from time to time make all needful and proper repairs, renewals and replacements, and useful and proper alterations, additions, betterments and improvements, so that the operations of the Mortgaged Property as part of an operating system shall be conducted properly and advantageously. Nothing herein contained, however, shall be held to prevent the Mortgagor from permanently discontinuing the construction or operation, or reducing the capacity, of the plant of which the Mortgaged Property is a part, if, in the judgment of the Mortgagor, any such action (which affects the Mortgaged Property) is necessary or desirable in the conduct of the business of the Mortgagor, or if the Mortgagor fails to obtain the necessary regulatory approvals or is ordered so to do by regulatory authority having jurisdiction in the premises, or if the Mortgagor intends to sell or dispose of the same subject to the lien of this Mortgage or otherwise and within a reasonable time shall endeavor to effectuate such sale; nor shall anything herein contained be construed to

prevent the Mortgagor from taking such action with respect to the use of the plant of which the Mortgaged Property is a part as is proper under the circumstances, including the cessation or omission to exercise rights, permits, licenses, privileges or franchises which, in the judgment of the Mortgagor, can no longer be profitably exercised or availed of. In the event that any regulatory authority having jurisdiction over the Mortgagor shall determine that the expenditures for repairs and maintenance necessary to make good any such maintenance deficiency as shall have been so determined would be excessive or shall, by order or regulation, prohibit, in whole or in part, such expenditures for repairs and maintenance, then, upon filing with the Trustee a certified copy of such order or a copy of such regulation, as the case may be, the Mortgagor shall, so long as such order or such regulation remains in effect, be relieved from compliance with the covenant contained herein, in regard to the maintenance of the Mortgaged Property, to the extent that such expenditures for repairs and maintenance shall have been held excessive or shall be prohibited.

SECTION 7. The Mortgagor agrees that it will keep or cause to be kept the Mortgaged Property insured by property insurance to the extent that the plant of which it is a part is so insured, or that it will, in lieu of or supplementing such insurance in whole or in part, adopt some other method or plan of protection against loss at least equal in protection to the method or plan of protection against loss of companies similarly situated and operating properties subject to similar hazards. The Mortgagor will, upon request of the Mortgagee, submit to the Mortgagee a schedule of its insurance in effect as required herein on the date specified in such request and, upon request of the Mortgagee, will provide certificates of insurance relating thereto. In the event of damage to or the destruction or loss of any portion of the Mortgaged Property which shall be covered by insurance, unless the Mortgagee shall otherwise agree, to the extent possible with available insurance proceeds, the Mortgagor shall replace or restore such damaged,

destroyed or lost portion so that the Mortgaged Property shall be in substantially the same condition as it was in prior to such damage, destruction or loss, ordinary wear and tear excepted. The Mortgagor shall replace the loss or shall commence such restoration promptly after such damage, destruction or loss shall have occurred and receipt of the insurance proceeds, and shall complete such replacement or restoration as expeditiously as practicable, and shall pay or cause to be paid out of the proceeds of such insurance all costs and expenses in connection therewith so that such replacement or restoration shall be so completed that the portion of the Mortgaged Property so replaced or restored shall be free and clear of all mechanics' liens and other claims.

SECTION 8. In the event of the failure of the Mortgagor in any respect to comply with the covenants and conditions herein contained with respect to the procuring of insurance, the payment of taxes, assessments and other charges, the keeping of the Mortgaged Property in repair and free of liens and other claims or to comply with any other covenant contained in this Mortgage, the Mortgagee shall have the right (without prejudice to any other rights arising by reason of such default) to advance or expend moneys for the purpose of procuring such insurance, or for the payment of insurance premiums, taxes, assessments or other charges, or to save the Mortgaged Property from sale or forfeiture for any unpaid tax or assessment, or otherwise, or to redeem the same from any tax or other sale, or other encumbrance thereon, or to make repairs thereon or to comply with any other covenant herein contained or to prosecute or defend any suit in relation to the Mortgaged Property or in any manner to protect the Mortgaged Property and the title thereto, and all sums so advanced for any of the aforesaid purposes shall be deemed a charge upon the Mortgaged Property in the same manner as the Note is secured and shall be forthwith paid to the Mortgagee making such advance or advances upon demand. It shall not be obligatory for the Mortgagee in making any such advances or expenditures to inquire into the validity of any such tax title, or of any of such taxes or

assessments or sales therefor, or of any such mechanics' liens or other encumbrances. The Mortgagee acting hereunder shall not be liable to the Mortgagor or the Noteholder except for losses resulting from negligence or wilful misfeasance.

SECTION 9. The Mortgagor will at all times keep, and safely preserve, proper books records and accounts in which full and true entries will be made of all of the dealings, business and affairs with respect to the Mortgaged Property.

SECTION 10. The Mortgagor will from time to time upon written demand of the Noteholder make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered all such further and supplemental indentures of mortgage, deeds of trust, mortgages, financing statements, continuation statements, security agreements, instruments and conveyances as may reasonably be requested by the Noteholder, and take or cause to be taken all such further action as may reasonably be requested by the Noteholder to effectuate the intention of these presents and to provide for the securing and payment of the principal of and interest on the Note according to the terms thereof and for the purpose of fully conveying, transferring and confirming unto the Mortgagee the property hereby conveyed, mortgaged and pledged, or intended so to be, now owned by the Mortgagor and to reflect the assignment of the rights or interests of the Noteholder. The Mortgagor will cause this Mortgage and any and all supplemental indentures of mortgage, mortgages and deeds of trust and every security agreement, financing statement, continuation statement and every additional instrument which shall be executed pursuant to the foregoing provisions forthwith upon execution to be recorded and filed and rerecorded and refiled as conveyances and mortgages and deeds of trust of and security interests in real and personal property in such manner and in such places as may be required by law or reasonably requested by the Mortgagee in order fully to preserve the security for the Note and to perfect and maintain the superior lien of this Mortgage and all supplemental indentures of mortgage, mortgages and deeds of trust and the rights and remedies of the Noteholder.

## ARTICLE II

### REMEDIES OF THE MORTGAGEE

SECTION 1. If one or more of the following events (hereinafter called "events of default") shall happen, that is to say:

- (a) default shall be made under the Note; or
- (b) any representation or warranty made by the Mortgagor herein or in any certificate delivered hereunder shall prove to have been incorrect or untrue in any material respect; or
- (c) default shall be made in the due observance or performance of any other of the covenants, conditions or agreements on the part of the Mortgagor in this Mortgage contained, and such default shall continue for a period of thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been received by the Mortgagor, unless such default cannot be remedied within such period in which event Mortgagor shall have such period of time to remedy such default as shall be reasonably necessary provided it begins to remedy such default within such thirty (30) day period and proceeds diligently thereafter in such regard; or
- (d) the expiration of a period of ninety (90) days following the entry of a decree or order by a court having jurisdiction in the premises for relief in respect of the Mortgagor under the Federal Bankruptcy Act or any other applicable Federal or State law of a similar nature, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of or for the Mortgagor or any substantial part of the Mortgaged Property, or ordering the winding up or liquidation of its affairs unless during such period such decree, order or appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official shall be vacated or shall be stayed on appeal or otherwise or shall have otherwise ceased to continue in effect; or
- (e) the commencement by the Mortgagor of a voluntary case, or the institution by it of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement or relief under the Federal Bankruptcy Act or any other applicable Federal or state law of a similar nature, or the consent or acquiescence by it to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Mortgagor or any substantial part of the Mortgaged Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Mortgagor in furtherance of any such action;

then in each and every such case the Trustee, to the extent permitted by applicable state law on behalf of the Mortgagee, may, in its discretion

- (aa) without protest, presentment or demand, declare all unpaid principal of and accrued interest on the Note to be due and payable immediately, and upon any such declaration all such unpaid principal and accrued interest so declared to be due and payable shall become and be due and payable immediately, anything contained herein or in the Note to the contrary notwithstanding;
- (bb) proceed to protect and enforce the rights of the Mortgagee under this Mortgage by suits or actions in equity or at law in any court or courts of competent jurisdiction, whether for specific performance of any covenant or any agreement contained herein or in aid of the execution of any power herein granted or for the foreclosure hereof or hereunder or for the sale of the Mortgaged Property, or any part thereof, or to collect the debts hereby secured or for the enforcement of such other or additional appropriate legal or equitable remedies as may be deemed most effectual to protect and enforce the rights and remedies herein granted or conferred;
- (cc) sell or offer for sale the Mortgaged Property in such portions, order and parcels as the Mortgagee may determine, to the highest bidder for cash at public auction, such sale to be made at the courthouse door of the counties wherein such property (or that portion thereof to be sold) is situated (whether the parts or parcels thereof, if any, in different counties are contiguous or not, and without the necessity of having any personal property hereby mortgaged present at such sale) on the first Tuesday of any month between the hours of 10:00 a.m. and 4:00 p.m. after posting a written or printed notice or notices of the place, time and terms of the sale for twenty-one (21) days prior to the date of the sale at the courthouse door of the county in which the sale is to be made and at the courthouse door of any other county in which a portion of the property may be situated and filing a copy of such notice(s) in the office of the county clerk in each of such counties, and by serving written notice of the proposed sale at least twenty-one (21) days preceding the date of sale by certified mail on Mortgagor, service of such notice being completed upon deposit of the notice, enclosed in a postpaid wrapper, properly stamped and addressed to the Mortgagor at its most recent address as shown by the records of the Mortgagee, in a post office or official depository under the care and custody of the United States;
- (dd) in lieu of the foregoing, the sale may be accomplished by following the procedures permitted or required by Tex. Prop. Code Ann. §51.002 (Vernon 1984), as same may be amended from time to time, relating to the sale of real estate and/or by Chapter 9 of the Tex. Prop. Code relating to the sale of personal property collateral after default by a debtor (as said Section and Chapter may now exist or may hereafter be amended or succeeded), or by any other present or subsequent articles or enactments relating to the same, it being understood that nothing

contained herein shall be construed to limit in any way the Trustee's rights to sell such properties by private sale, if, and to the extent, that such private sale is permitted under the laws of the State of Texas or by public or private sale after entry of judgment by any court of competent jurisdiction ordering the same, and at any such sale (i) whether made under power herein contained, the aforesaid §51.002, the Code, any other legal requirement or by virtue of any judicial procedure or any other legal right, remedy or recourse, it shall not be necessary for the Trustee to have physically present, or to have constructive possession of, the Mortgaged Property, and the title to any such property shall pass to the purchaser thereof as completely as if the same had been actually present and delivered to the purchaser at such sale, (ii) each instrument of conveyance executed by the Trustee shall contain a warranty of title, binding upon the Mortgagor, (iii) each and every recital contained in any instrument of conveyance made by the Trustee shall conclusively establish the truth and accuracy of the matters recited therein and the advertisement and conduct of such sale in the manner provided herein, (iv) any and all prerequisites to the validity thereof shall be conclusively presumed to have been performed, and (v) the receipt of the Trustee or of such other party or officer making the sale shall be a sufficient discharge to the purchaser or purchasers for his or their purchase money and no such purchaser or purchasers, or his or their assigns or personal representatives, shall thereafter be obligated to see to the application of such purchase money or be in any way answerable for any loss, misapplication or nonapplication thereof.

SECTION 2. At any public sale hereunder the Mortgagee shall have the right to bid for and purchase the Mortgaged Property, or such part thereof as shall be offered for sale.

SECTION 3. Any proceeds of funds arising from the exercise of any rights or the enforcement of any remedies herein provided after the payment or provision for the payment of any and all costs and expenses in connection with the exercise of such rights or the enforcement of such remedies and any other sums received by the Mortgagee, the disposition of which is not otherwise herein specifically provided for, shall be applied first, to the payment of indebtedness hereby secured other than the principal of or interest on the Note; second, to the payment of interest which shall have accrued on the Note and which shall be unpaid; third, to the payment of or on account of the unpaid principal of the Note; and the balance, if any, shall be paid to the Mortgagor or whosoever else shall be legally entitled thereto.

SECTION 4. Every right or remedy herein conferred upon or reserved to the Mortgagee shall be cumulative and shall be in addition to every other right and remedy given hereunder or now or hereafter existing at law, or in equity, or by statute. The pursuit of any right or remedy hereunder shall not be deemed to be an election and shall not preclude the pursuit of any other right or remedy.

SECTION 5. If at any time after an event of default and prior to the institution of foreclosure proceedings, all payments in respect of principal and interest which shall have become due and payable by the terms of the Note shall be paid to the Noteholder, and all other defaults hereunder and under the Note shall have been cured, together with reimbursement for any resulting expense or damage, then and in every such case, such default or defaults shall be waived, but no such waiver shall extend to or affect any subsequent default or impair any right consequent thereon.

SECTION 6. If, after the occurrence of any event of default hereunder and pursuit of the remedies provided for hereinbefore, Noteholder should obtain ownership of the Mortgaged Property, it is understood that the Joint Ownership Agreement as defined in the Agreement may be reinstated as between such Noteholder and Mortgagor so as from thenceforth to apply to and control the relationship of the Noteholder as owner of the Mortgaged Property and the Mortgagor as owner of its interest in the plant and other facilities of which the Mortgaged Property is a part, it being understood that the Mortgagor shall have no right to reimbursement from the Noteholder of any amount that the Mortgagor has expended with respect to the Mortgaged Property prior to the resumption of ownership thereof by the Noteholder.

### **ARTICLE III**

#### **POSSESSION UNTIL DEFAULT-DEFEASANCE CLAUSE**

SECTION 1. Until some one or more of the events of default shall have happened, the Mortgagor shall be suffered and permitted to retain actual possession of the



Mortgaged Property, and to manage, operate and use the same and any part thereof, with the rights and franchises appertaining thereto, and to collect, receive, take, use and enjoy the rents, revenues, issues, earnings, income, products and profits thereof or therefrom.

SECTION 2. If the Mortgagor shall well and truly pay or cause to be paid the whole amount of the principal of and interest on the Note at the times and in the manner therein provided, according to the true intent and meaning thereof, and shall also pay or cause to be paid all other sums payable hereunder by the Mortgagor and shall well and truly keep and perform, according to the true intent and meaning of this Mortgage, all covenants herein required to be kept and performed by it, or if the Mortgagor shall comply with the provisions of section 4 of that certain Assignment Agreement of even date herewith between the Mortgagor and the Mortgagee, then and in that case, all property, right and interests hereby conveyed or assigned or pledged shall revert to the Mortgagor and the estate, right, title and interest of the Mortgagee and any Noteholder shall thereupon cease, determine and become void and the Mortgagee and such Noteholder, in such case, on written demand of the Mortgagor but at the Mortgagor's cost and expense, shall enter satisfaction of this Mortgage, and all other liens including vendors liens in favor of the Noteholder with respect to the Mortgaged Property, upon the record. In any event, the Noteholder and, if appropriate, the Trustee upon payment in full to him by the Mortgagor of all principal of and interest on the Note and the payment and discharge by the Mortgagor of all charges due to the Noteholder hereunder, shall execute and deliver to the Mortgagor such instruments of satisfaction, discharge or release as shall be required by law in the circumstances. In the event of a partial prepayment of the Note, the Noteholder and, if appropriate, the Trustee shall, upon written demand of the Mortgagor but at the Mortgagor's cost and expense, execute and deliver to the Mortgagor such instruments of satisfaction, discharge or release of an undivided interest in the Mortgaged Property as shall be equal to, and in proportion with, that portion of the remaining principal amount due under the Note which has been prepaid at the time of such

prepayment. In addition, the Noteholder agrees to release to such extent any and all other liens including vendors liens in favor of the Noteholder with respect to the Mortgaged Property by such instruments of satisfaction, discharge and release as shall be required by law in the circumstances.

#### ARTICLE IV

##### SUBSTITUTE TRUSTEE

SECTION 1. In case of the resignation of the Trustee, or the inability (through death or otherwise), refusal or failure of the Trustee to act, or at the option of the Mortgagee, for any other reason (which reason need not be stated), a Substitute Trustee may be named, constituted and appointed by the Mortgagee without other formality than an appointment and designation in writing executed by the Mortgagee, which appointment and designation shall be full evidence of the right and authority to make the same and of all facts therein recited, and this conveyance shall vest in the Substitute Trustee the title, powers and duties herein conferred on the Trustee originally named herein, and the conveyance by the Substitute Trustee to the purchaser(s) at any sale of the Mortgaged Property or any part thereof shall be equally valid and effective. The right to appoint a Substitute Trustee shall exist as often and whenever the Trustee, original or Substitute, resigns or cannot, will not or does not act, or the Mortgagee desires to appoint a new Trustee. No bond shall ever be required of the Trustee, original or Substitute. The recitals in any conveyance made by the Trustee, original or Substitute, shall be accepted and construed in court and elsewhere as prima facie evidence and proof of the facts recited, and no other proof shall be required as to the request by the Mortgagee to the Trustee to enforce this Trust, or as to the notice of or holding of the sale, or as to any particulars thereof, or as to the resignation of the Trustee, original or Substitute, or as to the inability, refusal or failure of the Trustee, original or Substitute, to act, or as to the election of the Mortgagee to appoint a new Trustee, or as to appointment of a Substitute Trustee, and all prerequisites of said sale shall be presumed to have been performed. The

Trustee, original or Substitute, is hereby authorized and empowered to appoint any one or more persons as attorney-in-fact to act as trustee under him and in his name, place and stead in order to take any actions that the Trustee is authorized and empowered to do hereunder, such appointment to be evidenced by an instrument signed and acknowledged by the Trustee, original or Substitute; and all acts done by said attorney-in-fact shall be valid, lawful and binding as if done by the Trustee, original or Substitute, in person.

## ARTICLE V

### MISCELLANEOUS

SECTION 1. All of the covenants, stipulations, promises, undertakings and agreements herein contained by or on behalf of the Mortgagor shall bind its successors and assigns, whether so specified or not, and all titles, rights and remedies hereby granted to or conferred upon the Mortgagee shall pass to and inure to the benefit of the successors and assigns (to the extent permitted) of the Mortgagee and shall be deemed to be granted or conferred for the benefit and security of all who shall from time to time be the holder of the Note.

SECTION 2. The descriptive headings of the various articles of this Mortgage were formulated and inserted for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

SECTION 3. All demands, notices, reports, approvals, designations, or directions required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given if mailed by registered mail addressed to the proper party or parties at the following addresses:

As to the Mortgagor:

Texas Utilities Electric Company  
2001 Bryan Street  
Suite 1900  
Dallas, Texas 75201  
Attention: Erle Nye

(with copy to)

Worsham, Forsythe, Sampels & Wooldridge  
32nd Floor, 2001 Bryan Tower  
Dallas, Texas 75201  
Attention: Robert A. Wooldridge

As to the Trustee:

As to the Mortgagee:

Brazos Electric Power Cooperative, Inc.  
P. O. Box 2582  
Waco, Texas 76702-2585  
Attention: Richard E. McCaskill

For Federal Express:

Brazos Electric Power Cooperative, Inc.  
2404 LaSalle Avenue  
Waco, Texas 76706  
Attention: Richard E. McCaskill

(with copy to)

Joseph Robert Riley, Esq.  
Law Offices of Joseph Robert Riley  
500 RepublicBank Tower  
P. O. Box 153  
Waco, Texas 76703

SECTION 4. The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions of this Mortgage shall not affect the remaining portions hereof.

SECTION 5. To the extent that any of the property described or referred to in this Mortgage is governed by the provision of the Uniform Commercial Code this Mortgage is hereby deemed a "security agreement" under the Uniform Commercial Code, and a "financing statement" under the Uniform Commercial Code for said security agreement. The mailing addresses of the Mortgagor as debtor, and of the Mortgagee as secured party, are as set forth in Section 3 of this Article V.

SECTION 6. This Mortgage may be simultaneously executed in any number of counterparts, and all said counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF, **TEXAS UTILITIES ELECTRIC COMPANY**, as Mortgagor, has caused this Deed of Trust and Security Agreement to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, \_\_\_\_\_, as Trustee, has caused this Deed of Trust and Security Agreement to be signed in his name, and **BRAZOS ELECTRIC POWER COOPERATIVE, INC.**, as Mortgagee, has caused this Deed of Trust and Security Agreement to be duly executed in its behalf, all as of the day and year first above written.

TEXAS UTILITIES ELECTRIC COMPANY

(SEAL)

By: \_\_\_\_\_

Its: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_

Its: \_\_\_\_\_

TRUSTEE

\_\_\_\_\_

BRAZOS ELECTRIC POWER COOPERATIVE, INC.

(SEAL)

By: \_\_\_\_\_

Its: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_

Its: \_\_\_\_\_

THE STATE OF TEXAS :  
: COUNTY OF \_\_\_\_\_ :

THIS INSTRUMENT was acknowledged before me on \_\_\_\_\_, 1988,  
by \_\_\_\_\_ of TEXAS  
UTILITIES ELECTRIC COMPANY, a Texas corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public in and for  
the State of Texas

Printed Name of Notary: \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

THE STATE OF TEXAS :  
: COUNTY OF \_\_\_\_\_ :

THIS INSTRUMENT was acknowledged before me on \_\_\_\_\_, 1988,  
by \_\_\_\_\_, as Trustee, in the capacity and for the purposes  
stated.

\_\_\_\_\_  
Notary Public in and for  
the State of Texas

Printed Name of Notary: \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

THE STATE OF TEXAS :  
:  
COUNTY OF \_\_\_\_\_ :

THIS INSTRUMENT was acknowledged before me on \_\_\_\_\_, 1988,  
by \_\_\_\_\_, \_\_\_\_\_ of BRAZOS  
ELECTRIC POWER COOPERATIVE, INC., a Texas corporation, on behalf of said  
corporation.

\_\_\_\_\_  
Notary Public in and for  
the State of Texas

Printed Name of Notary: \_\_\_\_\_

My Commission Expires: \_\_\_\_\_



EXHIBIT E

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PROMISSORY NOTE

made by

TEXAS UTILITIES ELECTRIC COMPANY

to

BRAZOS ELECTRIC POWER COOPERATIVE, INC.

Dated as of \_\_\_\_\_, 1988

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PROMISSORY NOTE

Dallas, Texas

\_\_\_\_\_, 1988

1. For value received, **TEXAS UTILITIES ELECTRIC COMPANY** (the "Borrower"), a corporation organized and existing under the laws of the State of Texas, promises to pay to **BRAZOS ELECTRIC POWER COOPERATIVE, INC.** ("Brazos"), a corporation organized and existing under the laws of the State of Texas, at the times, in the manner, and with interest at the rate, hereinafter provided, the sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), pursuant to an Agreement (the "Agreement") between the Borrower and Brazos, dated as of July 5, 1988 (reference to which is made for all pertinent purposes), with interest payable from the date hereof, on the unpaid principal balance until paid, at the rate of nine and one half percent (9 1/2%) per annum until \_\_\_\_\_ and at the rate of eight and one half percent (8 1/2%) per annum for the remainder of the term of this note.

2. The principal of this note shall be payable at the times and in the amounts set forth on Exhibit A attached hereto. Interest shall be due and payable at the rate provided for hereinbefore on the unpaid principal balance hereof during the term hereof with each installment payment of principal in the amounts set forth on Exhibit A attached hereto. If at the time set forth for the first payment of combined principal and interest, interest is due and accrued for a period less than a quarterly installment period, as referenced on said Exhibit A, the first said payment of interest shall be decreased to a prorated amount of interest payable for the portion of the quarterly period remaining. The unpaid principal balance shall bear interest after maturity of any installment at the rate of twelve and one half percent (12 1/2%) per annum.

3. Each payment made on this note shall be applied first to the payment of interest and then on account of principal and shall be in such funds as are then legal tender for the payment of debts.

4. This note represents a portion of the purchase price paid by the Borrower for the transfer to it of certain properties and assets described in the Agreement. Accordingly, the Borrower acknowledges that this note does not represent a loan or advance to, or investment in, the Borrower in an original or primary manner, but rather indebtedness to Brazos incurred as a portion of such purchase price. The payment of this note is secured by a purchase money mortgage and security interest under a Deed of Trust and Security Agreement of even date herewith from the Borrower to \_\_\_\_\_, Trustee (the "Mortgage"), for the benefit of the holder of this note which constitutes a lien on, and represents a security interest in, certain property located in Hood and Somervell Counties, Texas.

5. This note may be prepaid at any time in whole or in part, without premium or penalty, except that if this note is prepaid at any time prior to the no prepayment premium time shown on Exhibit A attached hereto, the Borrower shall pay as a prepayment penalty the applicable amount shown on such Exhibit A. Reference is hereby made to the Assignment Agreement of even date herewith (the "Assignment Agreement") between the parties hereto and the United States Government (the "Government") acting by and through the Administrator of the Rural Electrification Administration providing for an assignment of this note, a vendors lien in favor of Brazos referenced in the Assignment Agreement (the "Vendors Lien") and the Mortgage to the Government, the terms of which are hereby incorporated herewith by reference. The holder hereof agrees that prepayment in part at any time of this note shall result in a partial release of the Vendors Lien and the lien of the Mortgage pro rata to the extent of the amount of such prepayment. In addition, in accordance with the terms of the Assignment Agreement, it is understood that if this note is prepaid in whole or in part by depositing funds in trust as provided for in section 4 of the Assignment Agreement, the rate of interest payable hereunder on the funds so deposited shall thereafter become 8 1/2% per annum.

6. The principal of and all accrued interest on this note shall become due and payable at the option of the holder hereof if one or more of the following events shall occur:

- (i) Default shall be made by the Borrower in the payment of any installment of the principal of or interest on this note when and as the same shall become due and such default shall continue for a period of fifteen (15) days after receipt of written notice thereof by the Borrower from the holder hereof; or
- (ii) an Event of Default shall occur under the Mortgage.

Said option shall continue until all such defaults have been cured. In case any one or more of the events of default specified hereinbefore shall have happened and be continuing, the holder of this note may proceed to protect and enforce its rights either by suit in equity and/or by action at law, or by other appropriate proceedings, whether for the specific performance (to the extent permitted by law) of any covenant or agreement contained in this note, or in aid of the exercise of any power granted in this note, or may proceed to enforce the payment of this note or to enforce any other legal or equitable right of the holder of this note. In the event of any such default, the holder of this note may, at its option, declare the entire principal and all interest accrued on this note to be, and this note shall thereupon become, forthwith due and payable, without any presentment, demand, protest or other notice or diligence of any kind, all of which are hereby expressly waived. In such event, the Borrower shall forthwith pay to the holder of this note the entire principal of, and all interest accrued on, this note. No right, power or remedy conferred by this note or otherwise available in connection herewith shall be exclusive of any other right, power or remedy hereinafter available to the holder hereof. No failure or delay on the part of the holder of this note in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

7. This note shall not be assignable, negotiable or transferable without the consent in writing of the Borrower, except that it is understood that this note is being assigned on the date hereof in accordance with the terms of the Assignment Agreement. Any other assignment or transfer of this note shall be void ab initio.

8. Notwithstanding anything to the contrary contained herein, or in the Agreement, the Mortgage or any other agreement entered into in connection herewith, it is agreed that the aggregate of all interest and any other charges constituting interest, or adjudicated as constituting interest, under the laws of the State of Texas and contracted for, chargeable or receivable under this note or otherwise in connection with this transaction shall under no circumstances exceed the maximum amount of interest permitted by applicable law, and any excess shall be deemed a mistake by all parties and cancelled automatically, and if theretofore paid shall, at the option of the holder hereof, be refunded to the Borrower or credited to the principal amount owing hereon. In the event the maturity of this note is accelerated by reason of an election by the holder hereof resulting from a default hereunder, or in the event of voluntary prepayment in accordance herewith by the Borrower, then earned interest may never include more than the maximum amount permitted by law, computed from the date hereof until maturity or prepayment, and any unearned interest in excess of the maximum amount permitted by law, computed from the date hereof until maturity or prepayment, shall be cancelled automatically and if theretofore paid shall, at the option of the holder hereof, be refunded to the Borrower or credited on the principal amount owing hereon. All sums paid or agreed to be paid to the holder hereof for the use, forbearance or detention of the indebtedness of the Borrower to the holder hereof shall, if necessary, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the actual rate of interest on account of such indebtedness is uniform throughout the actual term of this note and does

not exceed the maximum lawful rate throughout the entire term of this note. The terms and provisions of this paragraph shall control and supersede every other provision of all agreements between the Borrower and the original holder hereof.

This note shall be construed and enforced in accordance with, and governed by, the laws of the State of Texas. This note shall be binding upon and inure to the benefit of the Borrower and Brazos and their respective successors and assigns (to the extent permitted).

IN WITNESS WHEREOF, the Borrower has caused this note to be signed in its corporate name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the date and year first above written.

**TEXAS UTILITIES ELECTRIC COMPANY**

(SEAL)

By: \_\_\_\_\_

Its: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_

Its: \_\_\_\_\_

## EXHIBIT 4

(To be attached to the Note if the Note is executed and delivered after 6/30/88 and prior to 9/30/88.)

Line No.	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
0	Beginning Balance	\$194,690,350.14				
1	93088	\$194,458,493.79	\$231,856.35	\$4,623,893.82	\$4,855,750.17	\$15,431,054.40
2	123188	\$194,271,758.73	\$186,735.06	\$4,618,389.23	\$4,805,124.29	\$15,272,813.07
3	33189	\$193,911,138.89	\$360,619.84	\$4,613,954.27	\$4,974,574.11	\$15,111,666.76
4	63089	\$193,618,110.92	\$293,027.97	\$4,605,389.55	\$4,898,417.52	\$14,946,031.54
5	93089	\$193,355,436.25	\$262,674.67	\$4,598,430.13	\$4,861,104.80	\$14,781,631.93
6	123189	\$193,022,756.97	\$332,679.28	\$4,592,291.61	\$4,924,870.89	\$14,612,353.02
7	33190	\$192,626,302.13	\$396,154.84	\$4,584,290.48	\$4,980,745.32	\$14,440,309.63
8	63090	\$192,231,772.30	\$394,529.63	\$4,574,874.66	\$4,969,404.51	\$14,265,599.43
9	93090	\$191,816,781.79	\$414,990.51	\$4,565,504.59	\$4,980,495.10	\$14,088,163.99
10	123190	\$191,387,519.85	\$429,261.94	\$4,555,648.57	\$4,984,910.51	\$13,907,995.61
11	33191	\$190,911,561.04	\$475,958.81	\$4,545,453.60	\$5,021,412.41	\$13,726,071.60
12	63091	\$190,423,082.46	\$488,478.58	\$4,534,149.57	\$5,022,628.15	\$13,539,450.49
13	93091	\$189,875,588.73	\$547,493.73	\$4,522,548.21	\$5,070,041.94	\$13,351,106.11
14	123191	\$189,343,369.80	\$531,918.93	\$4,509,545.23	\$5,041,464.16	\$13,160,128.14
15	33192	\$188,720,155.92	\$623,513.88	\$4,496,912.16	\$5,120,426.04	\$12,966,421.69
16	63092	\$188,084,021.97	\$636,133.95	\$4,482,103.70	\$5,118,237.65	\$12,770,157.76
17	93092	\$187,478,729.14	\$605,292.83	\$4,466,995.52	\$5,072,288.35	\$12,571,313.56
18	123192	\$186,861,105.84	\$617,623.30	\$4,452,619.82	\$5,070,243.12	\$12,369,757.15
19	33193	\$186,154,704.58	\$706,401.26	\$4,437,951.26	\$5,144,352.52	\$12,165,461.71
20	63093	\$185,477,462.92	\$677,241.66	\$4,421,174.23	\$5,098,415.89	\$11,958,591.02
21	93093	\$184,829,722.18	\$647,740.74	\$4,405,089.74	\$5,052,830.48	\$11,749,017.43
22	123193	\$184,298,089.17	\$531,633.01	\$4,389,705.90	\$4,921,338.91	\$11,536,609.74
23	33194	\$183,411,432.01	\$8,6657.16	\$4,377,079.62	\$5,263,736.78	\$11,321,017.47
24	63094	\$182,678,486.08	\$732,945.93	\$4,356,021.51	\$5,088,967.44	\$11,103,060.52
25	93094	\$181,973,256.34	\$705,229.74	\$4,338,614.04	\$5,043,843.78	\$10,882,304.34
26	123194	\$181,381,009.26	\$592,247.08	\$4,321,864.84	\$4,914,111.92	\$10,658,620.16
27	33195	\$180,437,634.23	\$943,375.03	\$4,307,798.97	\$5,251,174.00	\$10,431,663.32
28	63095	\$179,644,179.65	\$793,454.58	\$4,285,393.81	\$5,078,848.39	\$10,202,242.05
29	93095	\$178,960,415.32	\$683,764.33	\$4,266,549.27	\$4,950,313.60	\$9,969,929.27
30	123195	\$178,178,659.19	\$781,756.13	\$4,250,309.86	\$5,032,065.99	\$9,734,389.23
31	33196	\$177,287,492.87	\$891,166.32	\$4,231,743.16	\$5,122,909.48	\$9,495,798.36
32	63096	\$176,419,620.87	\$867,872.00	\$4,210,577.96	\$5,078,449.96	\$9,254,365.34
33	93096	\$175,534,049.26	\$885,571.61	\$4,189,966.00	\$5,075,537.61	\$9,009,971.55
34	123196	\$174,671,332.44	\$862,716.82	\$4,168,933.67	\$5,031,650.49	\$8,762,598.32
35	33197	\$173,719,448.20	\$951,884.24	\$4,148,444.15	\$5,100,328.39	\$8,512,125.21
36	63097	\$172,788,867.82	\$930,580.38	\$4,125,836.89	\$5,056,417.27	\$8,258,709.25
37	93097	\$171,879,650.81	\$909,217.01	\$4,103,735.61	\$5,012,952.62	\$8,002,234.65
38	123197	\$170,951,659.52	\$927,991.29	\$4,082,141.71	\$5,010,133.00	\$7,742,583.01
39	33198	\$169,924,481.99	\$1,027,177.53	\$4,060,101.91	\$5,087,279.44	\$7,479,733.75
40	63098	\$168,916,189.44	\$1,008,292.55	\$4,035,706.45	\$5,043,999.00	\$7,213,866.65
41	93098	\$167,926,754.26	\$989,435.18	\$4,011,759.50	\$5,001,194.68	\$6,944,871.08
42	123198	\$166,916,838.44	\$1,009,915.82	\$3,988,260.41	\$4,998,176.23	\$6,672,632.71
43	33199	\$165,807,811.44	\$1,109,027.00	\$3,964,274.91	\$5,073,301.71	\$6,397,134.05
44	63099	\$164,715,035.69	\$1,092,775.73	\$3,937,935.52	\$5,030,711.27	\$6,118,553.60
45	93099	\$163,638,388.29	\$1,076,647.40	\$3,911,982.10	\$4,988,629.50	\$5,836,785.30
46	123199	\$162,654,156.41	\$984,231.66	\$3,886,411.72	\$4,870,643.60	\$5,551,721.02
47	33100	\$161,373,187.09	\$1,280,969.32	\$3,863,036.21	\$5,144,005.53	\$5,263,059.70
48	63000	\$160,179,838.82	\$1,193,346.27	\$3,832,613.19	\$5,025,961.46	\$4,971,466.75
49	93000	\$159,074,369.21	\$1,105,469.61	\$3,804,271.17	\$4,909,740.75	\$4,676,660.82
50	123100	\$157,871,323.49	\$1,203,045.70	\$3,778,016.27	\$4,981,061.99	\$4,378,353.94
51	33101	\$156,578,302.19	\$1,293,021.30	\$3,749,443.73	\$5,042,465.23	\$4,076,715.65

## EXHIBIT A

To be attached to the Note or the Note is executed and delivered  
after 6/30/86 and prior to 9/30/86.

LINE No	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
52	63001	\$155,295,599.26	\$1,282,702.93	\$3,715,734.65	\$5,001,437.61	\$3,771,900.11
53	93001	\$153,966,408.82	\$1,309,190.44	\$3,688,270.48	\$4,997,460.92	\$3,463,813.95
54	123101	\$152,650,166.56	\$1,336,240.26	\$3,657,177.21	\$4,993,417.47	\$3,152,454.21
55	33102	\$151,286,303.80	\$1,363,864.76	\$3,625,441.50	\$4,989,306.26	\$2,837,818.23
56	63002	\$149,894,227.27	\$1,392,076.53	\$3,593,049.72	\$4,985,126.25	\$2,519,906.11
57	93002	\$148,473,338.84	\$1,420,888.43	\$3,559,987.90	\$4,980,876.33	\$2,198,718.55
58	123102	\$147,057,942.82	\$1,449,396.02	\$3,526,241.80	\$4,941,637.82	\$1,874,257.97
59	33103	\$145,543,751.80	\$1,514,191.02	\$3,492,626.14	\$5,006,817.16	\$1,546,441.10
60	63003	\$144,032,718.25	\$1,511,033.55	\$3,456,664.11	\$4,967,697.66	\$1,215,443.59
61	93003	\$142,524,244.10	\$1,508,474.15	\$3,420,777.06	\$4,929,251.21	\$881,189.97
62	123103	\$140,984,159.63	\$1,540,084.47	\$3,384,950.80	\$4,925,035.27	\$543,604.65
63	33104	\$139,370,314.75	\$1,613,844.88	\$3,348,373.79	\$4,962,218.67	\$202,695.55
64	63004	\$137,723,015.49	\$1,647,299.26	\$2,961,619.19	\$4,608,918.45	\$0.00
65	93004	\$136,073,925.63	\$1,649,089.86	\$2,926,614.08	\$4,575,703.94	\$0.00
66	123104	\$134,486,545.14	\$1,587,380.49	\$2,891,570.92	\$4,478,951.41	\$0.00
67	33105	\$132,619,074.42	\$1,867,470.72	\$2,857,839.08	\$4,725,309.80	\$0.00
68	63005	\$130,839,458.76	\$1,779,615.66	\$2,818,155.33	\$4,597,770.99	\$0.00
69	93005	\$129,053,644.80	\$1,785,813.96	\$2,780,338.50	\$4,566,152.46	\$0.00
70	123105	\$127,321,668.48	\$1,731,976.32	\$2,742,389.95	\$4,474,366.27	\$0.00
71	33106	\$125,311,432.68	\$2,010,235.80	\$2,705,585.46	\$4,715,821.26	\$0.00
72	63006	\$123,379,425.21	\$1,932,007.47	\$2,662,867.94	\$4,594,875.41	\$0.00
73	93006	\$121,494,598.76	\$1,884,826.45	\$2,621,812.79	\$4,506,639.24	\$0.00
74	123106	\$119,511,692.35	\$1,982,906.41	\$2,581,760.22	\$4,564,666.63	\$0.00
75	33107	\$117,430,309.27	\$2,081,383.08	\$2,539,623.46	\$4,621,006.54	\$0.00
76	63007	\$115,333,627.70	\$2,096,681.57	\$2,495,394.07	\$4,592,075.64	\$0.00
77	93007	\$113,193,042.11	\$2,140,585.59	\$2,450,839.59	\$4,591,425.18	\$0.00
78	123107	\$111,007,605.72	\$2,185,436.39	\$2,405,352.14	\$4,590,788.53	\$0.00
79	33108	\$108,769,802.48	\$2,237,803.24	\$2,358,911.62	\$4,596,714.86	\$0.00
80	63008	\$106,485,173.43	\$2,284,629.05	\$2,311,358.30	\$4,595,987.35	\$0.00
81	93008	\$104,177,932.81	\$2,307,240.62	\$2,262,809.94	\$4,570,050.56	\$0.00
82	123108	\$101,821,854.84	\$2,356,077.97	\$2,213,781.07	\$4,569,859.04	\$0.00
83	33109	\$99,373,528.76	\$2,448,326.08	\$2,163,714.42	\$4,612,040.50	\$0.00
84	63009	\$96,897,899.09	\$2,475,629.67	\$2,111,687.49	\$4,587,317.16	\$0.00
85	93009	\$94,393,250.36	\$2,504,648.73	\$2,059,080.36	\$4,563,729.09	\$0.00
86	123109	\$91,835,311.38	\$2,557,938.98	\$2,005,856.57	\$4,563,795.55	\$0.00
87	33110	\$89,179,100.31	\$2,656,211.07	\$1,951,500.37	\$4,607,711.44	\$0.00
88	63010	\$86,488,766.82	\$2,690,333.49	\$1,895,055.88	\$4,585,389.37	\$0.00
89	93010	\$83,762,343.55	\$2,726,423.27	\$1,837,886.29	\$4,564,309.56	\$0.00
90	123110	\$81,037,865.45	\$2,724,478.10	\$1,779,949.80	\$4,504,477.90	\$0.00
91	33111	\$78,098,187.18	\$2,939,678.27	\$1,722,054.64	\$4,661,732.91	\$0.00
92	63011	\$75,173,890.12	\$2,924,297.06	\$1,659,586.48	\$4,583,883.54	\$0.00
93	93011	\$72,205,784.06	\$2,968,106.06	\$1,597,445.17	\$4,565,551.33	\$0.00
94	123111	\$69,226,153.79	\$2,979,630.27	\$1,534,372.91	\$4,514,003.18	\$0.00
95	33112	\$66,093,455.90	\$3,132,697.89	\$1,471,055.77	\$4,603,753.66	\$0.00
96	63012	\$62,911,142.20	\$3,182,313.70	\$1,404,485.94	\$4,586,799.64	\$0.00
97	93012	\$59,661,630.32	\$3,249,611.88	\$1,336,861.77	\$4,586,473.65	\$0.00
98	123112	\$56,343,152.67	\$3,318,377.65	\$1,267,807.52	\$4,586,185.17	\$0.00
99	33113	\$52,957,903.49	\$3,385,249.18	\$1,197,291.99	\$4,582,541.17	\$0.00
100	63013	\$49,500,733.52	\$3,457,169.97	\$1,125,355.45	\$4,582,525.42	\$0.00
101	93013	\$45,970,066.88	\$3,530,666.64	\$1,051,890.59	\$4,582,557.23	\$0.00
102	123113	\$42,375,522.81	\$3,594,544.07	\$976,863.92	\$4,571,407.99	\$0.00
103	33114	\$39,732,907.94	\$2,642,614.87	\$900,479.86	\$3,543,094.73	\$0.00



## EXHIBIT A

[To be attached to the Note if the Note is executed and delivered after 6/30/88 and prior to 9/30/88.]

Line No.	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
104	63014	\$37,041,049.11	\$2,691,858.93	\$644,324.29	\$3,536,183.12	\$0.00
105	93014	\$34,297,477.66	\$2,743,571.45	\$767,122.29	\$3,530,693.74	\$0.00
106	123114	\$31,515,813.16	\$2,781,664.48	\$728,621.40	\$3,510,485.88	\$0.00
107	33115	\$29,120,418.66	\$2,395,394.52	\$669,711.03	\$3,065,105.55	\$0.00
108	63015	\$26,680,551.87	\$2,439,866.79	\$618,825.90	\$3,058,675.69	\$0.00
109	93015	\$24,191,435.45	\$2,489,116.42	\$566,961.73	\$3,056,078.15	\$0.00
110	123115	\$21,643,967.24	\$2,547,468.21	\$514,065.00	\$3,061,536.21	\$0.00
111	33116	\$19,541,143.77	\$2,102,823.47	\$459,934.30	\$2,562,757.77	\$0.00
112	63016	\$17,391,942.58	\$2,149,201.19	\$415,249.31	\$2,564,450.50	\$0.00
113	93016	\$15,199,480.22	\$2,192,462.36	\$369,575.78	\$2,562,041.14	\$0.00
114	123116	\$12,969,014.69	\$2,230,465.53	\$322,955.95	\$2,553,454.48	\$0.00
115	33117	\$11,259,200.36	\$1,709,814.33	\$275,591.56	\$1,985,405.89	\$0.00
116	63017	\$9,522,055.43	\$1,737,144.93	\$239,255.01	\$1,976,402.94	\$0.00
117	93017	\$7,751,155.48	\$1,770,899.95	\$202,343.68	\$1,973,243.63	\$0.00
118	123117	\$6,002,540.24	\$1,746,615.24	\$164,712.05	\$1,913,327.29	\$0.00
119	33118	\$4,926,641.74	\$1,075,898.50	\$127,553.98	\$1,203,452.48	\$0.00
120	63018	\$3,830,336.35	\$1,046,305.39	\$104,691.14	\$1,200,996.53	\$0.00
121	93018	\$2,711,881.85	\$1,118,454.50	\$81,394.65	\$1,199,849.15	\$0.00
122	123118	\$1,570,827.84	\$1,141,054.01	\$57,627.49	\$1,198,681.50	\$0.00
123	33119	\$1,310,088.63	\$260,739.21	\$33,362.09	\$294,119.30	\$0.00
124	63019	\$1,044,308.38	\$265,780.25	\$27,839.38	\$293,619.63	\$0.00
125	93019	\$773,389.41	\$270,918.97	\$22,191.55	\$293,110.52	\$0.00
126	123119	\$497,404.67	\$275,984.74	\$16,434.52	\$292,419.26	\$0.00
127	33120	\$439,600.56	\$57,804.11	\$10,569.85	\$68,373.96	\$0.00
128	63020	\$380,588.77	\$59,011.79	\$9,341.51	\$68,353.30	\$0.00
129	93020	\$320,431.45	\$60,157.32	\$8,057.51	\$68,244.83	\$0.00
130	123120	\$259,003.47	\$61,427.98	\$6,829.17	\$68,237.15	\$0.00
131	33121	\$196,173.70	\$62,829.77	\$5,523.82	\$68,333.59	\$0.00
132	63021	\$132,087.29	\$64,086.41	\$4,168.69	\$68,255.10	\$0.00
133	93021	\$66,688.70	\$65,398.59	\$2,826.85	\$68,205.44	\$0.00
134	123121	(\$0.00)	\$66,688.70	\$1,417.13	\$68,105.83	\$0.00

## EXHIBIT A

To be attached to the Note if the Note is executed and delivered  
after 9/30/88 and prior to 12/31/88.

Line No.	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
0	Beginning Balance	\$194,458,493.79				
1	123188	\$194,271,758.73	\$186,735.06	\$4,618,389.23	\$4,805,124.29	\$15,272,818.07
2	33189	\$193,911,138.89	\$360,619.84	\$4,613,954.27	\$4,974,574.11	\$15,111,688.06
3	63089	\$193,618,110.92	\$293,027.97	\$4,605,389.55	\$4,898,417.52	\$14,948,021.54
4	93089	\$193,355,436.23	\$262,674.67	\$4,598,430.13	\$4,861,104.80	\$14,781,631.97
5	123189	\$193,122,756.97	\$332,679.28	\$4,592,191.61	\$4,924,870.89	\$14,612,353.00
6	33190	\$192,626,302.13	\$396,454.84	\$4,584,290.46	\$4,980,745.32	\$14,440,308.67
7	63090	\$192,231,772.30	\$394,629.83	\$4,574,874.68	\$4,969,404.51	\$14,265,699.43
8	93090	\$191,816,781.79	\$414,990.51	\$4,565,504.59	\$4,980,495.10	\$14,088,163.99
9	123190	\$191,387,519.85	\$429,261.94	\$4,555,648.57	\$4,984,910.51	\$13,927,995.50
10	33191	\$190,911,561.04	\$475,958.81	\$4,545,453.60	\$5,021,412.41	\$13,775,071.63
11	63091	\$190,423,082.46	\$488,478.58	\$4,534,149.57	\$5,022,628.15	\$13,639,450.50
12	93091	\$189,875,588.73	\$547,493.73	\$4,522,548.21	\$5,070,041.94	\$13,511,106.11
13	123191	\$189,343,669.80	\$531,918.93	\$4,509,545.23	\$5,041,464.16	\$13,160,128.13
14	33192	\$188,720,155.92	\$623,513.88	\$4,496,912.16	\$5,120,426.04	\$12,966,421.69
15	63092	\$188,084,021.97	\$636,133.95	\$4,482,103.70	\$5,118,237.65	\$12,770,157.77
16	93092	\$187,478,729.14	\$605,292.83	\$4,466,995.52	\$5,072,288.35	\$12,571,313.56
17	123192	\$186,861,105.84	\$617,623.30	\$4,452,619.82	\$5,070,243.12	\$12,369,757.15
18	33193	\$186,154,704.58	\$706,401.26	\$4,437,951.26	\$5,144,352.52	\$12,165,461.73
19	63093	\$185,477,462.92	\$677,241.66	\$4,421,174.23	\$5,098,415.89	\$11,958,591.03
20	93093	\$184,829,722.18	\$647,740.74	\$4,405,089.74	\$5,052,830.48	\$11,749,017.43
21	123193	\$184,298,089.17	\$531,633.01	\$4,389,705.90	\$4,921,338.91	\$11,536,609.75
22	33194	\$183,411,432.01	\$886,657.16	\$4,377,079.62	\$5,263,736.78	\$11,321,017.48
23	63094	\$182,678,486.08	\$732,945.93	\$4,356,021.51	\$5,088,967.44	\$11,103,060.52
24	93094	\$181,973,256.34	\$705,229.74	\$4,338,614.04	\$5,043,843.78	\$10,882,304.34
25	123194	\$181,381,009.26	\$592,247.08	\$4,321,864.84	\$4,914,111.92	\$10,658,620.17
26	33195	\$180,437,634.23	\$943,375.03	\$4,307,798.97	\$5,251,174.00	\$10,431,663.32
27	63095	\$179,644,179.65	\$793,454.58	\$4,285,393.81	\$5,078,848.39	\$10,202,242.08
28	93095	\$178,960,415.32	\$683,764.33	\$4,266,549.27	\$4,950,313.60	\$9,969,929.25
29	123195	\$178,178,659.19	\$781,756.13	\$4,250,309.86	\$5,032,065.99	\$9,734,389.24
30	33196	\$177,287,492.87	\$891,166.32	\$4,231,743.16	\$5,122,909.48	\$9,495,798.36
31	63096	\$176,419,620.87	\$867,872.00	\$4,210,577.96	\$5,078,449.96	\$9,254,365.34
32	93096	\$175,534,049.26	\$885,571.61	\$4,189,966.00	\$5,075,537.61	\$9,009,971.56
33	123196	\$174,671,332.44	\$862,716.82	\$4,168,933.67	\$5,031,650.49	\$8,762,598.33
34	33197	\$173,719,448.20	\$951,884.24	\$4,148,444.15	\$5,100,328.39	\$8,512,125.21
35	63097	\$172,788,867.82	\$930,580.38	\$4,125,836.89	\$5,056,417.27	\$8,258,709.25
36	93097	\$171,879,650.81	\$909,217.01	\$4,103,735.61	\$5,012,952.62	\$8,002,234.65
37	123197	\$170,951,659.52	\$927,991.29	\$4,082,141.71	\$5,010,133.00	\$7,742,583.01
38	33198	\$169,924,481.99	\$1,027,177.53	\$4,060,101.91	\$5,087,279.44	\$7,479,733.75
39	63098	\$168,916,189.44	\$1,008,292.55	\$4,035,706.45	\$5,043,999.00	\$7,213,866.89
40	93098	\$167,926,754.26	\$989,435.18	\$4,011,759.50	\$5,001,194.68	\$6,944,871.09
41	123198	\$166,916,838.44	\$1,009,915.82	\$3,988,260.41	\$4,998,176.23	\$6,672,632.71
42	33199	\$165,807,811.44	\$1,109,027.00	\$3,964,274.91	\$5,073,301.91	\$6,397,134.06
43	63099	\$164,715,035.69	\$1,092,775.75	\$3,937,935.52	\$5,030,711.27	\$6,118,553.63
44	93099	\$163,638,388.29	\$1,076,647.40	\$3,911,982.10	\$4,988,629.50	\$5,836,785.31
45	123199	\$162,654,156.41	\$984,231.88	\$3,886,411.72	\$4,870,643.60	\$5,551,721.03
46	33200	\$161,373,167.09	\$1,280,969.32	\$3,863,036.21	\$5,144,005.53	\$5,263,059.71
47	63000	\$160,179,838.82	\$1,193,348.27	\$3,832,613.19	\$5,025,961.46	\$4,971,466.75
48	93000	\$159,074,369.21	\$1,105,169.61	\$3,804,271.17	\$4,909,740.76	\$4,676,660.80
49	123200	\$157,871,323.49	\$1,203,045.72	\$3,778,016.27	\$4,981,061.99	\$4,378,353.95
50	33201	\$156,578,302.19	\$1,293,021.30	\$3,749,443.93	\$5,042,465.23	\$4,076,715.66
51	63001	\$155,295,599.26	\$1,282,702.92	\$3,718,734.68	\$5,001,437.61	\$3,771,900.11

## EXHIBIT 4

To be attached to the Note if the Note is executed and delivered after 9/30/86 and prior to 12/31/88.

Line No.	Quarter	Outstanding Principle Balance	Principle Payment	Interest Payment	Total Payment	Prepayment Premium
50	93001	\$153,986,408.82	\$1,309,190.44	\$3,688,270.45	\$4,997,460.92	\$3,463,813.99
51	123101	\$152,650,168.56	\$1,336,240.26	\$3,657,177.21	\$4,993,417.47	\$3,152,454.00
52	33102	\$151,286,303.80	\$1,363,864.76	\$3,626,441.81	\$4,989,306.26	\$2,837,818.21
53	63002	\$149,894,227.27	\$1,392,076.53	\$3,593,049.70	\$4,985,126.25	\$2,519,906.12
54	93002	\$148,473,338.84	\$1,420,888.43	\$3,559,987.90	\$4,980,876.33	\$2,198,716.56
55	123102	\$147,057,942.82	\$1,449,396.02	\$3,526,241.80	\$4,941,637.82	\$1,874,257.95
56	33103	\$145,543,751.80	\$1,514,191.02	\$3,492,626.14	\$5,006,817.16	\$1,546,441.11
57	63003	\$144,032,718.25	\$1,511,033.55	\$3,456,664.11	\$4,967,697.66	\$1,215,443.60
58	93003	\$142,524,244.10	\$1,508,474.15	\$3,420,777.06	\$4,929,251.21	\$881,189.95
59	123103	\$140,984,159.63	\$1,560,084.47	\$3,384,950.80	\$4,925,035.27	\$543,604.66
60	33104	\$139,370,314.75	\$1,613,844.88	\$3,348,373.79	\$4,962,218.67	\$202,695.86
61	63004	\$137,723,015.49	\$1,647,299.26	\$2,961,619.19	\$4,608,918.45	\$0.00
62	93004	\$136,073,925.63	\$1,649,089.86	\$2,926,614.05	\$4,575,703.94	\$0.00
63	123104	\$134,486,545.14	\$1,587,380.49	\$2,891,570.92	\$4,478,951.41	\$0.00
64	33105	\$132,619,074.42	\$1,667,470.72	\$2,857,839.08	\$4,725,309.80	\$0.00
65	63005	\$130,839,458.76	\$1,779,615.66	\$2,818,155.33	\$4,597,770.99	\$0.00
66	93005	\$129,053,644.80	\$1,785,813.96	\$2,780,338.50	\$4,566,152.46	\$0.00
67	123105	\$127,321,668.48	\$1,731,976.32	\$2,742,389.95	\$4,474,366.27	\$0.00
68	33106	\$125,311,432.68	\$2,010,235.80	\$2,705,585.46	\$4,715,821.26	\$0.00
69	63006	\$123,379,425.21	\$1,932,007.47	\$2,662,867.94	\$4,594,875.41	\$0.00
70	93006	\$121,494,598.76	\$1,884,826.45	\$2,621,812.79	\$4,506,639.24	\$0.00
71	123106	\$119,511,692.35	\$1,982,906.41	\$2,581,760.22	\$4,564,666.63	\$0.00
72	33107	\$117,430,309.27	\$2,081,383.08	\$2,539,623.46	\$4,621,006.54	\$0.00
73	63007	\$115,333,627.70	\$2,096,681.57	\$2,495,394.07	\$4,592,075.64	\$0.00
74	93007	\$113,193,042.11	\$2,140,585.59	\$2,450,839.59	\$4,591,425.18	\$0.00
75	123107	\$111,007,605.72	\$2,185,436.39	\$2,405,352.14	\$4,590,788.53	\$0.00
76	33108	\$108,769,802.48	\$2,237,803.24	\$2,358,911.62	\$4,596,714.86	\$0.00
77	63008	\$106,485,173.43	\$2,284,629.05	\$2,311,358.30	\$4,595,987.35	\$0.00
78	93008	\$104,177,932.81	\$2,307,240.62	\$2,262,809.94	\$4,570,050.56	\$0.00
79	123108	\$101,821,854.84	\$2,356,077.97	\$2,213,781.07	\$4,569,859.04	\$0.00
80	33109	\$99,373,528.76	\$2,448,326.08	\$2,163,714.42	\$4,612,040.50	\$0.00
81	63009	\$96,897,899.09	\$2,475,629.67	\$2,111,687.49	\$4,587,317.16	\$0.00
82	93009	\$94,393,250.36	\$2,504,648.73	\$2,059,080.36	\$4,563,729.09	\$0.00
83	123109	\$91,835,311.38	\$2,557,938.98	\$2,005,856.57	\$4,563,795.55	\$0.00
84	33110	\$89,179,100.31	\$2,656,211.07	\$1,951,500.37	\$4,607,711.44	\$0.00
85	63010	\$86,488,766.82	\$2,690,333.49	\$1,895,055.88	\$4,585,389.37	\$0.00
86	93010	\$83,762,343.55	\$2,726,423.27	\$1,837,886.29	\$4,564,309.56	\$0.00
87	123110	\$81,037,865.45	\$2,724,478.10	\$1,779,949.80	\$4,504,427.90	\$0.00
88	33111	\$78,098,187.18	\$2,939,678.27	\$1,722,054.64	\$4,661,732.51	\$0.00
89	63011	\$75,173,890.12	\$2,924,297.06	\$1,659,586.48	\$4,583,883.54	\$0.00
90	93011	\$72,205,784.06	\$2,968,106.06	\$1,597,445.17	\$4,565,551.23	\$0.00
91	123111	\$69,226,153.79	\$2,979,630.27	\$1,534,372.91	\$4,514,003.18	\$0.00
92	33112	\$66,093,455.90	\$3,132,697.89	\$1,471,055.77	\$4,603,753.66	\$0.00
93	63012	\$62,911,142.20	\$3,182,313.70	\$1,404,485.94	\$4,586,799.64	\$0.00
94	93012	\$59,661,530.32	\$3,249,611.88	\$1,336,861.77	\$4,586,473.65	\$0.00
95	123112	\$56,343,152.67	\$3,318,377.65	\$1,267,807.52	\$4,586,185.17	\$0.00
96	33113	\$52,957,903.49	\$3,385,249.18	\$1,197,291.99	\$4,582,541.17	\$0.00
97	63013	\$49,500,733.52	\$3,457,169.97	\$1,126,355.45	\$4,582,525.42	\$0.00
98	93013	\$45,970,066.88	\$3,530,666.64	\$1,051,890.59	\$4,582,557.23	\$0.00
99	123113	\$42,375,522.81	\$3,594,544.07	\$976,663.92	\$4,571,407.99	\$0.00
100	33114	\$39,732,907.94	\$2,642,614.87	\$900,479.81	\$3,543,094.73	\$0.00
101	63014	\$37,041,049.11	\$2,691,858.83	\$844,324.29	\$3,536,183.12	\$0.00

## EXHIBIT A

[To be attached to the Note if the Note is executed and delivered after 9/30/88 and prior to 12/31/88.]

Line No.	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
104	93014	\$34,297,477.66	\$2,743,571.45	\$787,122.29	\$3,530,693.74	\$0.00
105	123114	\$31,515,813.18	\$2,781,664.48	\$728,821.40	\$3,510,485.88	\$0.00
106	33115	\$29,120,418.66	\$2,395,394.52	\$669,711.03	\$3,065,105.55	\$0.00
107	63015	\$26,680,551.87	\$2,439,866.79	\$618,808.90	\$3,058,675.69	\$0.00
108	93015	\$24,191,435.45	\$2,489,116.42	\$566,961.73	\$3,056,078.15	\$0.00
109	123115	\$21,643,967.24	\$2,547,468.21	\$514,068.00	\$3,061,536.21	\$0.00
110	33116	\$19,541,143.77	\$2,102,823.47	\$459,934.30	\$2,562,757.77	\$0.00
111	63016	\$17,391,942.58	\$2,149,201.19	\$415,249.31	\$2,564,450.50	\$0.00
112	93016	\$15,199,480.22	\$2,192,462.36	\$369,578.78	\$2,562,041.14	\$0.00
113	123116	\$12,969,014.69	\$2,230,465.53	\$322,988.95	\$2,553,454.48	\$0.00
114	33117	\$11,259,200.36	\$1,709,814.33	\$275,591.56	\$1,985,405.89	\$0.00
115	63017	\$9,522,055.43	\$1,737,144.93	\$239,258.01	\$1,976,402.94	\$0.00
116	93017	\$7,751,155.48	\$1,770,899.95	\$202,343.68	\$1,973,243.63	\$0.00
117	123117	\$6,002,540.24	\$1,748,615.24	\$164,712.05	\$1,913,327.29	\$0.00
118	33118	\$4,926,641.74	\$1,075,898.50	\$127,553.98	\$1,203,452.48	\$0.00
119	63018	\$3,830,336.35	\$1,096,305.39	\$104,691.14	\$1,200,996.53	\$0.00
120	93018	\$2,711,881.85	\$1,116,454.50	\$81,394.65	\$1,199,849.15	\$0.00
121	123118	\$1,570,827.84	\$1,141,054.01	\$57,627.49	\$1,198,681.50	\$0.00
122	33119	\$1,310,088.63	\$260,739.21	\$33,380.09	\$294,119.30	\$0.00
123	63019	\$1,044,308.38	\$265,780.25	\$27,839.38	\$293,619.63	\$0.00
124	93019	\$773,389.41	\$270,918.97	\$22,191.55	\$293,110.52	\$0.00
125	123119	\$497,404.67	\$275,984.74	\$16,434.52	\$292,419.26	\$0.00
126	33120	\$439,600.56	\$57,804.11	\$10,569.85	\$68,373.96	\$0.00
127	63020	\$380,588.77	\$59,011.79	\$9,341.51	\$68,353.30	\$0.00
128	93020	\$320,431.45	\$60,157.32	\$8,087.51	\$68,244.83	\$0.00
129	123120	\$259,003.47	\$61,427.98	\$6,809.17	\$68,237.15	\$0.00
130	33121	\$196,173.70	\$62,829.77	\$5,503.82	\$68,333.59	\$0.00
131	63021	\$132,087.29	\$64,086.41	\$4,168.69	\$68,255.10	\$0.00
132	93021	\$66,688.70	\$65,398.59	\$2,806.85	\$68,205.44	\$0.00
133	123121	(\$0.00)	\$66,688.70	\$1,417.13	\$68,105.83	\$0.00

To be attached to the Note if the Note is executed and is verified after 12/31/68 and prior to 3/31/69.

Line No.	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Credit
1	Beginning Balance	\$194,271,758.73				
2	33189	\$193,911,138.89	\$360,619.84	\$4,613,954.27	\$4,974,574.11	\$15,101,666.61
3	63089	\$193,616,110.92	\$293,027.97	\$4,605,389.55	\$4,898,417.52	\$14,956,214.16
4	93089	\$193,355,436.25	\$262,674.67	\$4,598,430.13	\$4,861,104.80	\$14,792,030.96
5	123189	\$193,022,756.97	\$332,679.26	\$4,592,191.61	\$4,924,870.89	\$14,622,973.01
6	33190	\$192,626,302.13	\$396,454.84	\$4,584,290.68	\$4,980,745.32	\$14,451,154.31
7	63090	\$192,231,772.30	\$394,529.83	\$4,574,874.68	\$4,969,404.51	\$14,276,675.56
8	93090	\$191,816,781.79	\$414,990.51	\$4,565,504.59	\$4,980,495.10	\$14,099,475.51
9	123190	\$191,387,519.85	\$429,261.94	\$4,555,648.57	\$4,984,910.51	\$13,919,547.41
10	33191	\$190,911,561.04	\$475,958.81	\$4,545,453.60	\$5,021,412.41	\$13,736,868.95
11	63091	\$190,423,082.46	\$488,478.56	\$4,534,149.57	\$5,022,628.13	\$13,551,496.55
12	93091	\$189,875,588.73	\$547,493.73	\$4,522,548.21	\$5,070,041.94	\$13,363,410.17
13	123191	\$189,343,669.80	\$531,918.93	\$4,509,545.23	\$5,041,464.16	\$13,172,693.66
14	33192	\$188,720,155.92	\$623,513.88	\$4,496,912.16	\$5,120,426.04	\$12,979,254.25
15	63092	\$188,084,021.97	\$636,133.95	\$4,482,103.70	\$5,118,237.65	\$12,783,263.01
16	93092	\$187,476,729.14	\$605,292.83	\$4,466,995.52	\$5,072,288.35	\$12,584,697.29
17	123192	\$186,861,105.84	\$617,623.30	\$4,452,619.82	\$5,070,243.12	\$12,383,425.09
18	33193	\$186,154,704.58	\$706,401.26	\$4,437,951.26	\$5,144,352.52	\$12,179,420.31
19	63093	\$185,477,462.92	\$677,241.66	\$4,421,174.23	\$5,098,415.89	\$11,972,846.23
20	93093	\$184,829,722.18	\$647,740.74	\$4,405,089.74	\$5,052,830.48	\$11,763,575.56
21	123193	\$184,298,089.17	\$531,633.01	\$4,389,705.90	\$4,921,338.91	\$11,551,477.23
22	33194	\$183,411,432.01	\$886,657.16	\$4,377,079.62	\$5,263,736.78	\$11,336,200.91
23	63094	\$182,678,486.08	\$732,945.93	\$4,356,021.51	\$5,088,967.44	\$11,118,566.59
24	93094	\$181,973,256.34	\$705,229.74	\$4,338,614.04	\$5,043,843.78	\$10,898,139.91
25	123194	\$181,381,009.26	\$592,247.08	\$4,321,864.84	\$4,914,111.92	\$10,674,792.25
26	33195	\$180,437,634.23	\$943,375.03	\$4,307,798.97	\$5,251,174.00	\$10,448,179.06
27	63095	\$179,644,179.65	\$793,454.58	\$4,285,393.81	\$5,078,848.39	\$10,219,108.75
28	93095	\$178,960,415.32	\$683,764.33	\$4,266,549.27	\$4,950,313.60	\$9,987,154.39
29	123195	\$178,178,659.19	\$781,756.13	\$4,250,309.86	\$5,032,065.99	\$9,751,980.36
30	33196	\$177,287,492.87	\$891,166.32	\$4,231,743.16	\$5,122,909.48	\$9,513,763.31
31	63096	\$176,419,620.87	\$867,872.00	\$4,210,377.96	\$5,078,449.96	\$9,272,712.05
32	93096	\$175,534,049.26	\$885,571.61	\$4,189,966.00	\$5,075,537.61	\$9,028,708.13
33	123196	\$174,671,332.44	\$862,716.82	\$4,168,933.67	\$5,031,650.49	\$8,781,733.06
34	33197	\$173,719,448.20	\$951,884.24	\$4,148,444.15	\$5,100,328.39	\$8,531,666.55
35	63097	\$172,708,867.82	\$930,580.38	\$4,125,836.89	\$5,056,417.27	\$8,278,665.85
36	93097	\$171,879,650.81	\$909,217.01	\$4,103,735.61	\$5,012,952.62	\$8,022,615.33
37	123197	\$170,951,659.52	\$927,991.29	\$4,082,141.71	\$5,010,133.00	\$7,763,396.76
38	33198	\$169,924,481.99	\$1,027,177.53	\$4,060,101.91	\$5,087,279.44	\$7,500,989.81
39	63098	\$168,916,189.44	\$1,008,292.55	\$4,035,706.45	\$5,043,999.00	\$7,235,574.64
40	93098	\$167,926,754.26	\$989,435.18	\$4,011,759.50	\$5,001,194.68	\$6,967,040.13
41	123198	\$166,916,838.44	\$1,009,915.82	\$3,988,260.41	\$4,998,176.23	\$6,695,272.84
42	33199	\$165,807,811.44	\$1,109,027.00	\$3,964,274.91	\$5,073,301.91	\$6,420,255.29
43	63099	\$164,715,035.69	\$1,092,775.75	\$3,937,935.52	\$5,030,711.27	\$6,142,166.19
44	93099	\$163,638,388.29	\$1,076,647.40	\$3,911,982.10	\$4,988,629.50	\$5,860,899.63
45	123199	\$162,654,156.41	\$984,231.88	\$3,886,411.72	\$4,870,643.60	\$5,576,347.75
46	33100	\$161,373,187.09	\$1,280,969.32	\$3,863,036.21	\$5,144,005.53	\$5,288,209.76
47	63000	\$160,179,838.82	\$1,193,348.27	\$3,832,613.19	\$5,025,961.46	\$4,997,151.27
48	93000	\$159,074,369.21	\$1,105,469.61	\$3,804,271.17	\$4,909,740.78	\$4,702,891.14
49	123100	\$157,871,323.49	\$1,203,045.72	\$3,776,016.27	\$4,981,061.99	\$4,405,141.65
50	33101	\$156,578,302.19	\$1,293,021.30	\$3,749,443.93	\$5,042,465.23	\$4,104,072.61
51	63001	\$155,295,599.26	\$1,282,702.93	\$3,718,734.68	\$5,001,437.61	\$3,799,838.39
52	93001	\$153,986,408.82	\$1,309,190.44	\$3,688,270.48	\$4,997,460.92	\$3,492,345.96

EXHIBIT A

[To be attached to the Note if the Note is executed and delivered after 12/31/88 and prior to 3/31/89.]

Line No.	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
52	123101	\$152,650,168.56	\$1,336,240.26	\$3,657,177.21	\$4,993,417.47	\$3,181,552.05
53	33102	\$151,286,303.80	\$1,363,864.76	\$3,625,441.50	\$4,989,306.26	\$2,867,575.77
54	63002	\$149,894,227.27	\$1,392,076.53	\$3,593,049.72	\$4,985,126.25	\$2,550,295.52
55	93002	\$148,473,338.84	\$1,420,888.43	\$3,559,987.90	\$4,980,876.33	\$2,229,754.18
56	123102	\$147,057,942.82	\$1,449,396.02	\$3,526,241.80	\$4,941,637.82	\$1,905,957.07
57	33103	\$145,543,751.80	\$1,514,191.02	\$3,492,626.14	\$5,006,817.16	\$1,578,809.70
58	63003	\$144,032,718.25	\$1,511,033.55	\$3,456,664.11	\$4,967,697.66	\$1,248,500.08
59	93003	\$142,524,244.10	\$1,508,474.15	\$3,420,777.06	\$4,929,251.21	\$914,948.88
60	123103	\$140,984,159.63	\$1,540,084.47	\$3,384,950.80	\$4,925,035.27	\$578,080.93
61	33104	\$139,370,314.75	\$1,613,844.88	\$3,348,373.79	\$4,962,218.67	\$237,904.75
62	63004	\$137,723,015.49	\$1,647,299.26	\$3,310,044.98	\$4,608,919.45	\$0.00
63	93004	\$136,073,925.63	\$1,649,089.86	\$3,270,921.62	\$4,575,703.94	\$0.00
64	123104	\$134,486,545.14	\$1,587,380.49	\$3,231,755.73	\$4,478,951.41	\$0.00
65	33105	\$132,619,074.42	\$1,867,470.72	\$3,194,055.45	\$4,725,309.80	\$0.00
66	63005	\$130,839,456.76	\$1,779,615.66	\$3,149,703.02	\$4,597,770.99	\$0.00
67	93005	\$129,053,644.80	\$1,785,813.96	\$3,107,437.15	\$4,566,152.46	\$0.00
68	123105	\$127,321,668.48	\$1,731,976.32	\$2,742,389.95	\$4,474,366.27	\$0.00
69	33106	\$125,311,432.68	\$2,010,235.80	\$2,705,585.46	\$4,715,821.26	\$0.00
70	63006	\$123,379,425.21	\$1,932,007.47	\$2,662,867.94	\$4,594,875.41	\$0.00
71	93006	\$121,494,598.76	\$1,884,826.45	\$2,621,812.79	\$4,506,639.24	\$0.00
72	123106	\$119,511,692.35	\$1,982,906.41	\$2,581,760.22	\$4,564,666.63	\$0.00
73	33107	\$117,430,309.27	\$2,081,383.08	\$2,539,623.46	\$4,621,006.54	\$0.00
74	63007	\$115,333,627.70	\$2,096,681.57	\$2,495,394.07	\$4,592,075.64	\$0.00
75	93007	\$113,193,042.11	\$2,140,585.59	\$2,450,839.59	\$4,591,425.18	\$0.00
76	123107	\$111,007,605.72	\$2,185,436.39	\$2,405,352.14	\$4,590,788.53	\$0.00
77	33108	\$108,769,802.48	\$2,237,803.24	\$2,358,911.62	\$4,596,714.86	\$0.00
78	63008	\$106,485,173.43	\$2,284,629.05	\$2,311,358.30	\$4,595,987.35	\$0.00
79	93008	\$104,177,932.81	\$2,307,240.62	\$2,262,809.94	\$4,570,050.56	\$0.00
80	123108	\$101,821,854.84	\$2,356,077.97	\$2,213,781.07	\$4,569,859.04	\$0.00
81	33109	\$99,373,528.76	\$2,448,326.08	\$2,163,714.42	\$4,612,040.50	\$0.00
82	63009	\$96,897,899.09	\$2,475,629.67	\$2,111,687.49	\$4,587,317.16	\$0.00
83	93009	\$94,393,250.36	\$2,504,648.73	\$2,059,080.36	\$4,563,729.09	\$0.00
84	123109	\$91,835,311.38	\$2,557,938.98	\$2,005,856.57	\$4,563,795.55	\$0.00
85	33110	\$89,179,100.31	\$2,656,211.07	\$1,951,500.37	\$4,607,711.44	\$0.00
86	63010	\$86,488,766.82	\$2,690,333.49	\$1,895,055.88	\$4,585,389.37	\$0.00
87	93010	\$83,762,343.55	\$2,726,423.27	\$1,837,886.29	\$4,564,309.56	\$0.00
88	123110	\$81,037,865.45	\$2,724,478.10	\$1,779,949.80	\$4,504,427.90	\$0.00
89	33111	\$78,098,187.18	\$2,939,678.27	\$1,722,054.64	\$4,661,732.91	\$0.00
90	63011	\$75,173,890.12	\$2,924,297.06	\$1,659,586.48	\$4,583,883.54	\$0.00
91	93011	\$72,205,784.06	\$2,968,106.06	\$1,597,445.17	\$4,565,551.23	\$0.00
92	123111	\$69,226,153.79	\$2,979,630.27	\$1,534,372.91	\$4,514,003.18	\$0.00
93	33112	\$66,093,455.90	\$3,132,697.89	\$1,471,055.77	\$4,603,753.66	\$0.00
94	63012	\$62,911,142.20	\$3,182,313.70	\$1,404,485.94	\$4,586,799.64	\$0.00
95	93012	\$59,661,530.32	\$3,249,611.88	\$1,336,861.77	\$4,586,473.65	\$0.00
96	123112	\$56,343,152.67	\$3,318,377.65	\$1,267,807.52	\$4,586,185.17	\$0.00
97	33113	\$52,957,903.49	\$3,365,249.18	\$1,197,291.99	\$4,562,541.17	\$0.00
98	63013	\$49,500,733.52	\$3,457,169.97	\$1,125,355.45	\$4,582,525.42	\$0.00
99	93013	\$45,970,066.88	\$3,530,666.64	\$1,051,890.59	\$4,582,557.23	\$0.00
100	123113	\$42,375,522.81	\$3,594,544.07	\$976,863.92	\$4,571,407.99	\$0.00
101	33114	\$39,732,907.94	\$2,642,614.87	\$900,479.86	\$3,543,094.73	\$0.00
102	63014	\$37,041,049.11	\$2,691,858.83	\$844,324.09	\$3,536,183.12	\$0.00
103	93014	\$34,297,477.66	\$2,743,571.45	\$787,122.29	\$3,530,693.74	\$0.00

## EXHIBIT A

To be attached to the Note if the Note is executed and delivered  
after 12/31/66 and prior to 3/31/69.

Line No.	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
104	123114	\$31,515,813.15	\$2,781,664.48	\$728,621.40	\$3,510,485.88	\$0.00
105	33115	\$29,120,416.65	\$2,395,394.50	\$669,711.03	\$3,065,105.53	\$0.00
106	63015	\$26,680,551.87	\$2,439,866.79	\$618,808.90	\$3,058,675.69	\$0.00
107	93015	\$24,191,435.45	\$2,489,116.40	\$566,961.73	\$3,056,078.13	\$0.00
108	123115	\$21,643,967.24	\$2,547,468.21	\$514,068.00	\$3,061,536.21	\$0.00
109	33116	\$19,541,143.77	\$2,102,823.47	\$459,934.30	\$2,562,757.77	\$0.00
110	63016	\$17,391,942.58	\$2,149,201.19	\$415,249.31	\$2,564,450.50	\$0.00
111	93016	\$15,199,480.22	\$2,192,462.36	\$369,578.78	\$2,562,041.14	\$0.00
112	123116	\$12,969,014.69	\$2,230,465.53	\$322,988.95	\$2,553,454.48	\$0.00
113	33117	\$11,259,200.36	\$1,709,814.33	\$275,591.56	\$1,985,405.89	\$0.00
114	63017	\$9,522,055.43	\$1,737,144.93	\$239,258.01	\$1,976,402.94	\$0.00
115	93017	\$7,751,155.48	\$1,770,899.95	\$202,343.68	\$1,973,243.63	\$0.00
116	123117	\$6,002,540.24	\$1,748,615.24	\$164,712.05	\$1,913,327.29	\$0.00
117	33118	\$4,926,641.74	\$1,075,898.50	\$127,553.95	\$1,203,452.46	\$0.00
118	63018	\$3,830,336.35	\$1,096,305.39	\$104,691.14	\$1,200,996.53	\$0.00
119	93018	\$2,711,661.85	\$1,118,454.50	\$81,394.65	\$1,199,849.15	\$0.00
120	123118	\$1,570,827.84	\$1,141,054.01	\$57,627.49	\$1,196,681.50	\$0.00
121	33119	\$1,310,088.63	\$260,739.21	\$33,380.09	\$294,119.30	\$0.00
122	63019	\$1,044,308.38	\$265,780.25	\$27,839.38	\$293,619.63	\$0.00
123	93019	\$773,389.41	\$270,918.97	\$22,191.55	\$293,110.52	\$0.00
124	123119	\$497,404.67	\$275,984.74	\$16,434.52	\$292,419.26	\$0.00
125	33120	\$439,600.56	\$57,804.11	\$10,569.85	\$68,373.96	\$0.00
126	63020	\$380,588.77	\$59,011.79	\$9,341.51	\$68,353.30	\$0.00
127	93020	\$320,431.45	\$60,157.32	\$8,087.51	\$68,244.83	\$0.00
128	123120	\$259,003.47	\$61,427.98	\$6,809.17	\$68,237.15	\$0.00
129	33121	\$196,173.70	\$62,829.77	\$5,503.82	\$68,333.59	\$0.00
130	63021	\$132,087.29	\$64,086.41	\$4,168.69	\$68,255.10	\$0.00
131	93021	\$66,688.70	\$65,398.59	\$2,806.85	\$68,205.44	\$0.00
132	123121	(\$0.00)	\$66,688.70	\$1,417.13	\$68,105.83	\$0.00

[To be attached to the Note if the Note is executed and delivered after 5/31/89 and prior to 6/30/89.]

Line No	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
0	Beginning Balance	\$193,911,138.89				
1	63089	\$193,618,110.92	\$293,027.97	\$4,605,389.55	\$4,898,417.52	\$4,978,270.55
2	93089	\$193,355,436.25	\$262,674.67	\$4,598,430.13	\$4,861,104.80	\$4,812,513.52
3	123189	\$193,022,756.97	\$332,679.28	\$4,592,191.61	\$4,924,870.89	\$4,843,891.12
4	33190	\$192,626,302.13	\$396,454.84	\$4,584,290.48	\$4,980,745.32	\$4,472,518.95
5	63090	\$192,231,772.30	\$394,529.83	\$4,574,874.68	\$4,969,404.51	\$4,298,492.11
6	93090	\$191,816,781.79	\$414,952.51	\$4,565,504.59	\$4,980,459.10	\$4,121,755.74
7	123190	\$191,387,519.85	\$429,261.94	\$4,555,648.57	\$4,984,910.51	\$3,942,301.29
8	33191	\$190,911,561.04	\$475,958.81	\$4,545,453.60	\$5,021,412.41	\$3,760,106.19
9	63091	\$190,423,082.46	\$488,478.58	\$4,534,149.57	\$5,022,628.15	\$3,575,229.55
10	93091	\$189,875,588.73	\$547,493.77	\$4,522,548.21	\$5,070,041.94	\$3,387,845.17
11	123191	\$189,343,669.80	\$531,918.93	\$4,509,545.23	\$5,041,464.16	\$3,197,443.52
12	33192	\$188,720,155.92	\$623,513.88	\$4,496,912.16	\$5,120,426.04	\$3,004,530.17
13	63092	\$188,084,021.97	\$636,133.95	\$4,482,103.70	\$5,118,237.65	\$2,809,076.75
14	93092	\$187,478,729.14	\$605,292.83	\$4,466,995.52	\$5,072,288.35	\$2,611,059.17
15	123192	\$186,861,105.84	\$617,623.30	\$4,452,619.82	\$5,070,243.12	\$2,410,347.32
16	33193	\$186,154,704.58	\$706,401.26	\$4,437,951.26	\$5,144,352.52	\$2,206,914.17
17	63093	\$185,477,462.92	\$677,241.66	\$4,421,174.23	\$5,098,415.89	\$2,000,924.64
18	93093	\$184,829,722.18	\$647,740.74	\$4,405,089.74	\$5,052,830.48	\$1,792,250.64
19	123193	\$184,298,089.17	\$531,633.01	\$4,389,705.90	\$4,921,338.91	\$1,580,761.62
20	33194	\$183,411,432.01	\$886,657.16	\$4,377,079.62	\$5,263,736.78	\$1,366,107.62
21	63094	\$182,678,486.08	\$732,945.93	\$4,356,021.51	\$5,088,967.44	\$1,149,108.63
22	93094	\$181,973,256.34	\$705,229.74	\$4,338,614.04	\$5,043,843.78	\$1,029,331.17
23	123194	\$181,381,009.26	\$592,247.08	\$4,321,864.84	\$4,914,111.92	\$1,006,646.21
24	33195	\$180,437,634.23	\$943,375.03	\$4,307,798.97	\$5,251,174.00	\$1,480,710.11
25	63095	\$179,644,179.65	\$793,454.58	\$4,285,393.81	\$5,078,848.39	\$1,252,331.11
26	93095	\$178,960,415.32	\$683,764.33	\$4,266,549.27	\$4,950,313.60	\$1,021,082.62
27	123195	\$178,178,659.19	\$781,756.13	\$4,250,309.86	\$5,032,065.99	\$9,786,629.59
28	33196	\$177,287,492.87	\$891,166.32	\$4,231,743.16	\$5,122,909.48	\$9,549,148.52
29	63096	\$176,419,620.87	\$867,872.00	\$4,210,577.96	\$5,078,449.96	\$9,308,849.51
30	93096	\$175,534,049.26	\$885,571.61	\$4,189,966.00	\$5,075,537.61	\$9,065,613.51
31	123196	\$174,671,332.44	\$862,716.82	\$4,168,933.67	\$5,031,650.49	\$8,819,422.62
32	33197	\$173,719,448.20	\$951,884.24	\$4,148,444.15	\$5,100,328.39	\$8,570,157.12
33	63097	\$172,788,867.82	\$930,580.38	\$4,125,836.89	\$5,056,417.27	\$8,317,974.25
34	93097	\$171,879,650.81	\$909,217.01	\$4,103,735.61	\$5,012,952.62	\$8,062,759.12
35	123197	\$170,951,659.52	\$927,991.29	\$4,082,141.71	\$5,010,133.00	\$7,804,393.52
36	33198	\$169,924,481.99	\$1,027,177.53	\$4,060,101.91	\$5,087,279.44	\$7,542,857.75
37	63098	\$168,916,189.44	\$1,008,292.55	\$4,035,706.45	\$5,043,999.00	\$7,278,332.32
38	93098	\$167,920,754.26	\$989,435.18	\$4,011,759.50	\$5,001,194.68	\$7,010,706.39
39	123198	\$166,916,838.44	\$1,009,915.82	\$3,988,260.41	\$4,998,176.23	\$6,739,867.11
40	33199	\$165,807,811.44	\$1,109,027.00	\$3,964,274.91	\$5,073,301.91	\$6,465,797.19
41	63099	\$164,715,035.69	\$1,092,775.75	\$3,937,935.52	\$5,030,711.27	\$6,188,675.75
42	93099	\$163,638,388.29	\$1,076,647.40	\$3,911,982.10	\$4,988,629.50	\$5,908,397.51
43	123199	\$162,654,156.41	\$984,231.88	\$3,886,411.72	\$4,870,643.60	\$5,624,855.11
44	33100	\$161,637,187.09	\$1,280,969.32	\$3,863,036.21	\$5,144,005.53	\$5,337,747.75
45	63000	\$160,179,838.82	\$1,193,348.27	\$3,832,613.19	\$5,025,961.46	\$5,047,741.55
46	93000	\$159,074,369.21	\$1,105,469.61	\$3,804,271.17	\$4,909,740.78	\$4,754,558.57
47	123100	\$157,871,323.49	\$1,203,045.72	\$3,778,016.27	\$4,981,061.99	\$4,457,903.11
48	33101	\$156,578,302.19	\$1,293,021.30	\$3,749,443.93	\$5,042,465.23	\$4,157,757.19
49	63001	\$155,295,599.26	\$1,262,722.93	\$3,718,734.68	\$5,001,437.61	\$3,854,868.11
50	93001	\$153,986,408.82	\$1,309,190.44	\$3,688,270.48	\$4,997,460.92	\$3,548,545.11
51	123101	\$152,650,168.56	\$1,336,240.26	\$3,657,177.21	\$4,993,417.47	\$3,238,985.11



## EXHIBIT A

To be attached to the Note in the Note is executed and delivered  
after 3/31/69 and prior to 6/30/69.

Line No.	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
52	33102	\$1,128,303.80	\$1,363,864.78	\$3,625,441.50	\$4,989,306.26	\$2,926,188.84
53	63002	\$149,894,227.27	\$1,392,076.53	\$3,593,049.72	\$4,985,126.25	\$2,610,154.60
54	93002	\$148,473,338.84	\$1,420,888.43	\$3,559,957.90	\$4,980,876.33	\$2,290,884.51
55	123102	\$147,057,942.82	\$1,415,396.02	\$3,526,241.80	\$4,941,637.82	\$1,968,382.77
56	33103	\$145,543,751.80	\$1,514,191.02	\$3,492,626.14	\$5,006,817.16	\$1,642,566.09
57	63003	\$144,032,718.25	\$1,511,033.55	\$3,456,664.11	\$4,967,697.66	\$1,313,611.00
58	93003	\$142,524,244.10	\$1,508,474.15	\$3,420,777.06	\$4,929,251.21	\$981,443.84
59	123103	\$140,984,159.63	\$1,540,084.47	\$3,384,950.80	\$4,925,035.27	\$645,988.70
60	33104	\$139,370,314.75	\$1,613,844.88	\$3,346,373.79	\$4,962,218.67	\$307,255.57
61	63004	\$137,723,015.49	\$1,647,299.26	\$3,310,044.98	\$4,608,918.45	\$0.00
62	93004	\$136,073,925.63	\$1,649,089.66	\$3,270,921.62	\$4,575,703.94	\$0.00
63	123104	\$134,486,545.14	\$1,587,380.49	\$3,231,755.73	\$4,478,951.41	\$0.00
64	33105	\$132,619,074.42	\$1,667,470.72	\$3,194,055.45	\$4,725,309.80	\$0.00
65	63005	\$130,839,458.76	\$1,779,615.66	\$3,149,703.02	\$4,597,770.99	\$0.00
66	93005	\$129,053,644.80	\$1,785,813.96	\$3,107,407.15	\$4,566,152.46	\$0.00
67	123105	\$127,321,668.48	\$1,731,976.32	\$3,065,024.06	\$4,474,366.27	\$0.00
68	33106	\$125,311,432.68	\$2,010,235.80	\$3,023,889.63	\$4,715,821.26	\$0.00
69	63006	\$123,379,425.21	\$1,932,007.47	\$2,662,867.94	\$4,594,875.41	\$0.00
70	93006	\$121,494,598.76	\$1,884,826.45	\$2,621,810.79	\$4,506,639.24	\$0.00
71	123106	\$119,511,692.35	\$1,982,906.41	\$2,581,760.22	\$4,564,666.63	\$0.00
72	33107	\$117,430,309.27	\$2,081,383.08	\$2,539,623.46	\$4,621,006.54	\$0.00
73	63007	\$115,333,627.70	\$2,096,681.57	\$2,495,394.07	\$4,592,075.64	\$0.00
74	93007	\$113,193,042.11	\$2,140,585.59	\$2,450,839.59	\$4,591,425.18	\$0.00
75	123107	\$111,007,605.72	\$2,185,436.39	\$2,405,352.14	\$4,590,788.53	\$0.00
76	33108	\$108,769,802.48	\$2,237,803.24	\$2,358,911.62	\$4,596,714.86	\$0.00
77	63008	\$106,485,173.43	\$2,284,629.05	\$2,311,356.30	\$4,595,987.35	\$0.00
78	93008	\$104,177,932.81	\$2,307,240.62	\$2,262,809.94	\$4,570,050.56	\$0.00
79	123108	\$101,821,854.84	\$2,356,077.97	\$2,213,781.07	\$4,569,859.04	\$0.00
80	33109	\$99,373,528.76	\$2,448,326.08	\$2,163,714.42	\$4,612,040.50	\$0.00
81	63009	\$96,897,899.09	\$2,475,629.67	\$2,111,687.49	\$4,587,317.16	\$0.00
82	93009	\$94,393,250.36	\$2,504,648.73	\$2,059,080.36	\$4,563,729.09	\$0.00
83	123109	\$91,835,311.38	\$2,557,938.98	\$2,005,856.57	\$4,563,795.55	\$0.00
84	33110	\$89,179,100.31	\$2,656,211.07	\$1,951,500.37	\$4,607,711.44	\$0.00
85	63010	\$86,488,766.82	\$2,690,333.49	\$1,895,055.88	\$4,585,389.37	\$0.00
86	93010	\$83,762,343.55	\$2,726,423.27	\$1,837,886.29	\$4,564,309.56	\$0.00
87	123110	\$81,037,865.45	\$2,724,478.10	\$1,779,949.80	\$4,504,427.90	\$0.00
88	33111	\$78,098,187.18	\$2,939,678.27	\$1,722,054.64	\$4,661,732.91	\$0.00
89	63011	\$75,173,890.12	\$2,924,297.06	\$1,659,586.48	\$4,583,883.54	\$0.00
90	93011	\$72,205,784.06	\$2,968,106.06	\$1,597,445.17	\$4,565,551.23	\$0.00
91	123111	\$69,226,153.79	\$2,979,630.27	\$1,534,372.91	\$4,514,003.18	\$0.00
92	33112	\$66,093,455.90	\$3,132,697.89	\$1,471,055.77	\$4,603,753.66	\$0.00
93	63012	\$62,911,142.20	\$3,182,313.70	\$1,404,485.94	\$4,586,799.64	\$0.00
94	93012	\$59,661,530.32	\$3,249,611.88	\$1,336,861.77	\$4,586,473.65	\$0.00
95	123112	\$56,343,152.67	\$3,318,377.65	\$1,267,807.52	\$4,586,185.17	\$0.00
96	33113	\$52,957,903.49	\$3,385,249.16	\$1,197,291.99	\$4,582,541.17	\$0.00
97	63013	\$49,500,733.52	\$3,457,169.97	\$1,125,355.45	\$4,582,525.42	\$0.00
98	93013	\$45,970,066.88	\$3,530,666.64	\$1,051,890.59	\$4,582,557.23	\$0.00
99	123113	\$42,375,522.81	\$3,594,544.07	\$976,863.92	\$4,571,407.99	\$0.00
100	33114	\$39,732,907.94	\$2,642,614.87	\$900,479.86	\$3,543,094.73	\$0.00
101	63014	\$37,041,049.11	\$2,691,858.83	\$844,324.29	\$3,536,183.12	\$0.00
102	93014	\$34,297,477.66	\$2,743,571.45	\$787,100.09	\$3,530,693.74	\$0.00
103	123114	\$31,515,813.18	\$2,781,664.48	\$728,801.40	\$3,510,485.88	\$0.00

## EXHIBIT A

To be attached to the Note if the Note is executed and delivered  
after 3/31/89 and prior to 6/30/89.

Line No.	Quarter	Outstanding Principal Balance	Principal Payment	Interest Payment	Total Payment	Prepayment Premium
104	33118	\$29,120,418.66	\$2,395,374.50	\$669,711.03	\$3,065,105.53	\$0.00
105	63018	\$26,680,551.87	\$2,439,866.79	\$618,808.90	\$3,058,675.69	\$0.00
106	93018	\$24,191,435.48	\$2,489,116.40	\$566,961.73	\$3,056,078.13	\$0.00
107	123118	\$21,643,967.24	\$2,547,468.21	\$514,068.00	\$3,061,536.21	\$0.00
108	33118	\$19,541,143.77	\$2,102,823.47	\$459,934.30	\$2,562,757.77	\$0.00
109	63018	\$17,391,942.58	\$2,149,201.19	\$415,249.31	\$2,564,450.50	\$0.00
110	93018	\$15,199,480.22	\$2,192,462.36	\$369,578.78	\$2,562,041.14	\$0.00
111	123118	\$12,969,014.69	\$2,230,465.53	\$322,988.95	\$2,553,454.48	\$0.00
112	33117	\$11,259,200.36	\$1,709,814.33	\$275,591.56	\$1,985,405.89	\$0.00
113	63017	\$9,522,055.42	\$1,737,144.93	\$239,258.01	\$1,976,402.94	\$0.00
114	93017	\$7,751,155.48	\$1,770,899.95	\$202,343.68	\$1,973,243.63	\$0.00
115	123117	\$6,002,540.24	\$1,748,615.24	\$164,712.05	\$1,913,327.29	\$0.00
116	33116	\$4,926,641.74	\$1,075,898.50	\$127,553.98	\$1,203,452.48	\$0.00
117	63016	\$3,830,336.35	\$1,096,305.39	\$104,691.14	\$1,200,996.53	\$0.00
118	93016	\$2,711,881.85	\$1,118,454.50	\$81,394.65	\$1,199,849.15	\$0.00
119	123116	\$1,570,827.84	\$1,141,054.01	\$57,627.49	\$1,198,681.50	\$0.00
120	33119	\$1,310,088.63	\$260,739.21	\$33,380.09	\$294,119.30	\$0.00
121	63019	\$1,044,308.38	\$265,780.25	\$27,839.38	\$293,619.63	\$0.00
122	93019	\$773,389.41	\$270,918.97	\$22,191.55	\$293,110.52	\$0.00
123	123119	\$497,404.67	\$275,984.74	\$16,434.52	\$292,419.26	\$0.00
124	33120	\$439,600.56	\$57,804.11	\$10,569.85	\$68,373.96	\$0.00
125	63020	\$380,588.77	\$59,011.79	\$9,341.51	\$68,353.30	\$0.00
126	93020	\$320,431.45	\$60,157.32	\$8,087.51	\$68,244.83	\$0.00
127	123120	\$259,003.47	\$61,427.98	\$6,809.17	\$68,237.15	\$0.00
128	33121	\$196,173.70	\$62,829.77	\$5,503.82	\$68,333.59	\$0.00
129	63021	\$132,087.29	\$64,086.41	\$4,168.69	\$68,255.10	\$0.00
130	93021	\$66,688.70	\$65,398.59	\$2,806.85	\$68,205.44	\$0.00
131	123121	(\$0.00)	\$66,688.70	\$1,417.13	\$68,105.83	\$0.00



Grantee or its predecessors) in and to the Purchased Assets as defined in that certain Agreement dated July 5, 1988 (the "Agreement") between Grantor and Grantee, a copy of such definition being attached hereto as Exhibit A-II and incorporated herein, to the full extent that such Purchased Assets or relevant parts thereof may be personal property according to the laws of the State of Texas, together with the rights and appurtenances thereto in anywise belonging (collectively, the "Group I Personal Property");

- (c) all of Grantor's right, title and interest as tenant in common (such right, title and interest being that which was conveyed and transferred to Grantor by Grantee or its predecessors as such right, title and interest may, by agreement of the parties involved, have heretofore been adjusted or be subject to adjustment hereafter) in and to that part of the Transmission Facilities (as defined in the Agreement) which is real property according to the laws of the State of Texas including, without limitation, the following (collectively, the "Group II Real Property");
  - (i) that certain land, and those easements and rights of way affecting land, located in Hood and Somervell Counties of the State of Texas, more particularly described on Exhibit A-III attached hereto and incorporated herein for all purposes,
  - (ii) all buildings and other structures, fixtures and improvements located on such land, including, without limitation, the Comanche Peak-DeCordova 345 kV electrical transmission line approximately 14.4 miles in length to the full extent that such transmission line or relevant parts thereof may be real property according to the laws of the State of Texas,
  - (iii) the estates, rights, privileges and appurtenances belonging or in anywise appertaining to such land, such easements and rights of way and such buildings, structures and improvements, and,
  - (iv) all subsurface rights, oil, gas and mineral interests, air rights and development rights; and
- (d) all of Grantor's right, title and interest as tenant in common (such right, title and interest being that which was conveyed and transferred to Grantor by Grantee or its predecessors as such right, title and interest may, by agreement of the parties involved, have heretofore been adjusted or be subject to adjustment hereafter) in and to that part of the Transmission Facilities (as defined in the Agreement) to the full extent that the same or relevant parts thereof may be personal property according to the laws of the State of Texas including, without limitation, all equipment and also including the Comanche Peak-DeCordova 345 kV electrical transmission line approximately 14.4 miles in length to the full extent that such transmission line or relevant parts thereof may be personal property according to the laws of the State of Texas (collectively, the "Group II Personal Property").

The Group I Real Property and the Group I Personal Property shall be referred to herein collectively as the "Group I Property". The Group II Real Property and the Group II Personal Property shall be referred to herein collectively as the "Group II Property". The

Group I Real Property, the Group I Personal Property, the Group II Real Property and the Group II Personal Property shall be referred to herein collectively as the "Subject Property".

THIS CONVEYANCE IS MADE SUBJECT, however, to the Joint Ownership Agreement (as defined in the Agreement) including, without limitation, Section 3.03 thereof which contains a waiver by the parties thereto of the right to partition, and subject also to the other matters identified on Exhibit B-I attached hereto and incorporated herein. The Joint Ownership Agreement (including the amendments thereto but excluding the exhibits to such agreement or amendments) is attached hereto and incorporated herein as Exhibit B-II (the matters set forth on Exhibit B-I together with the Joint Ownership Agreement shall be referred to herein collectively as the "Permitted Encumbrances").

TO HAVE AND TO HOLD the Subject Property unto said Grantee forever; and subject to the Permitted Encumbrances, Grantor does hereby bind itself and its successors and assigns to WARRANT AND FOREVER DEFEND all and singular the Subject Property unto the said Grantee, against every person whomsoever lawfully claiming or to claim the same or any part thereof by, through and under Grantor, but not otherwise.

By delivery of this Special Warranty Deed With Vendor's Lien and Bill of Sale, Grantor delivers possession, dominion and control over its right, title and interest in and to the Subject Property. Grantor warrants the Subject Property to be identical to the interests conveyed and transferred by Grantee to Grantor unless and except (i) the same have been increased, whether by Grantor or otherwise, or (ii) the same have been diminished by joint activities of Grantor with all other Owners (as defined in the Agreement) or activities by, through, or under the Project Manager (as defined in the Agreement). But it is expressly agreed that a Vendor's Lien, as well as the Superior Title in and to the Subject Property, is retained against the Subject Property until that certain Note of even date herewith executed and delivered by Grantee and payable to Grantor in

the original sum of \_\_\_\_\_ Dollars (\$) \_\_\_\_\_) and all interest thereon are fully paid according to the face, tenor, effect and reading thereof, when this Special Warranty Deed With Vendor's Lien and Bill of Sale shall become absolute.

THE SUBJECT PROPERTY IS BEING SOLD "AS IS". GRANTOR MAKES NO WARRANTIES CONCERNING THE MERCHANTABILITY OR CONDITION OR FITNESS FOR ANY PARTICULAR PURPOSE OF THE SUBJECT PROPERTY EXCEPT AS EXPRESSLY PROVIDED IN THE AGREEMENT.

All capitalized terms used herein, and not otherwise defined, have the meanings ascribed to them in the Agreement.

EXECUTED on the date of the acknowledgement hereto, to be effective for all purposes on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_.

BRAZOS ELECTRIC POWER  
COOPERATIVE, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_

Its: \_\_\_\_\_

THE STATE OF TEXAS

COUNTY OF \_\_\_\_\_

Before me, the undersigned authority, on this day appeared \_\_\_\_\_,  
known to me to be the person whose name is subscribed to the foregoing instrument, and  
acknowledged to me that he/she executed the instrument by proper authority in the  
capacity therein stated and for the purposes and consideration expressed in the  
instrument.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on \_\_\_\_\_  
1988.

\_\_\_\_\_  
Notary Public in and for the State of Texas

\_\_\_\_\_  
Typed/Printed Name of Notary

My Commission Expires:  
\_\_\_\_\_

EXHIBIT A-1

[Description to be attached prior to Closing]



EXHIBIT A-II

[Description of Purchased Assets, as set forth  
in subparagraph (ee) of the Definitions  
in the Agreement, to be attached prior  
to Closing]

EXHIBIT A-III

[Description to be attached prior to Closing]

EXHIBIT B-I

[List of Permitted Exceptions, as set forth  
in subparagraph (aa) of the Definitions  
in the Agreement, to be attached prior  
to Closing]

EXHIBIT B-II

[Joint Ownership Agreement to be attached  
prior to Closing]

EXHIBIT G

[On the Letterhead of Seller]

Texas Municipal Power Agency  
P. O. Box 7000  
Bryan, Texas 77805  
Attn: Mr. Ed Wagoner,  
General Manager

(Certified Mail, Return Receipt  
Requested, No. \_\_\_\_\_)

Tex-La Electric Cooperative of Texas, Inc.  
P. O. Box 398  
Quitman, Texas 75783  
Attn: Mr. Juan D. Nichols,  
President

(Certified Mail, Return Receipt  
Requested, No. \_\_\_\_\_)

Re: Notice of Brazos Electric Power Cooperative, Inc.'s  
Intention to Transfer its Ownership Interest  
in the Comanche Peak Steam Electric Station  
and in the Fuel to Texas Utilities Electric Company.

Gentlemen:

Each of you are hereby notified, pursuant to Section 16 of the Joint Ownership Agreement [being that certain instrument entitled on the cover page thereof "Joint Ownership Agreement Between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc. for Comanche Peak Steam Electric Station," executed on January 2, 1979, together with and as modified by that certain instrument entitled on the cover page thereof "Modification of Joint Ownership Agreement Between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc. For Comanche Peak Steam Electric Station," executed on June 1, 1979, together with and as amended by (i) the Amendment of Joint Ownership Agreement, executed on December 9, 1980, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency (hereinafter referred to as "TMPA"), Brazos Electric Power Cooperative, Inc. (hereinafter referred to as "Brazos") and Tex-La Electric Cooperative of Texas, Inc. (hereinafter referred to as "Tex-La"), together with and as amended by (ii) the Second Amendment of Joint Ownership Agreement, executed on February 12, 1982, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos and Tex-La] that Brazos intends to transfer its entire 3.8% undivided ownership interest in the Project and the Fuel (as said terms are defined in Paragraphs 1.16 and 1.09, respectively, of the said Joint Ownership Agreement) to Texas Utilities Electric Company ("TU Electric") which is ready, able and willing to acquire same. Brazos, which desires to make such transfer, has

obtained a written offer from TU Electric as the prospective transferee, which written offer sets forth the consideration and other terms of the offer; a true and correct copy of said written offer, being the Agreement dated July 5, 1988, by and between Brazos and TU Electric, is enclosed herewith.

You will please notice that the bona fide written offer from TU Electric, as the prospective transferee, is in cash, payable in installments as specified in the enclosed written offer, together with the requirement that the Brazos JOA Debt, as described in Section 5.3(b) of the enclosed written offer, be paid.

You are hereby notified that Brazos extends to you (either of you and both of you) a right of first refusal to acquire all or any part of Brazos' said ownership interest in the said Project and Fuel on similar terms and for similar consideration. While not subject to any first right of refusal under the Joint Ownership Agreement, if either of you are interested, Brazos will sell you its ownership interest in the Comanche Peak-DeCordova 345kV electrical transmission line, described in subparagraph (oo) of the Definitions of the enclosed written offer.

The intended transfer is proposed to be consummated on or before February 16, 1989, by the delivery of instruments of conveyance to Brazos' 3.8% undivided ownership interest in said Project and Fuel to TU Electric, all in accordance with the enclosed written offer. Should you (either of you or both of you) desire to exercise your option and first right of refusal to acquire all or any part of Brazos' 3.8% undivided ownership interest in the said Project and Fuel, you must exercise your option and first right of refusal by serving written notice of your intention upon Brazos and upon all of the other Owners of the Project (TU Electric, Texas Municipal Power Agency and Tex-La Electric Cooperative of Texas, Inc.) within three months after service of this written notice. Your failure to exercise said option and first right of refusal as provided in Section 16 of the Joint Ownership Agreement within the time period specified shall be conclusively deemed to be an election not to exercise said option and first right of refusal.

Very truly yours,

BRAZOS ELECTRIC POWER  
COOPERATIVE, INC.

By:

Richard E. McCaskill, Executive Vice  
President and General Manager

CC: Texas Utilities Electric Company  
1900 Bryan Tower  
Dallas, Texas 75201  
Attn: Mr. Erle Nye

EXHIBIT H

[ For the letterhead of Joseph Robert Riley ]

\_\_\_\_\_, 198\_\_

Texas Utilities Electric Company  
2001 Bryan Street  
Suite 1900  
Dallas, Texas 75201

Gentlemen:

I have acted as counsel for Brazos Electric Power Cooperative, Inc., a Texas corporation ("Brazos"), in connection with that certain Agreement dated July 5, 1988 (the "Agreement") by and between Brazos and Texas Utilities Electric Company (the "Company").

This opinion is delivered to you pursuant to section 6.4 of the Agreement. Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Agreement.

In connection with this opinion, I have reviewed executed copies of the Agreement, the Assignment Agreement of even date hereof between the Company and Brazos (the "Assignment Agreement"), the Assignment of even date hereof from Brazos to the Rural Electrification Administration (the "REA") (the "Assignment"), the Transfer of Lien of even date hereof from Brazos to the REA (the "Transfer of Lien"), the Amendment of even date hereof to the Transmission Agreement between the Company and Brazos executed on July 25, 1979 (the "Transmission Agreement Amendment"), the Indemnity Agreement of even date hereof from Brazos to the Company (the "Indemnity Agreement"), the Release of even date hereof from Brazos in favor of the Company (the "Release"), the Covenant Not To Sue of even date hereof from Brazos in favor of the Company (the "Covenant Not To Sue") and the Special Warranty Deed With Vendor's Lien and Bill of Sale of even date hereof from Brazos to the Company (the "Deed") (the Agreement, the Assignment Agreement, the Assignment, the Transfer of Lien, the Transmission Agreement Amendment, the Indemnity Agreement, the Release, the Covenant Not To Sue and the Deed are hereinafter sometimes referred to collectively as the "Agreements"). I have also examined originals or copies, certified or otherwise identified to my satisfaction, of such corporate records certificates and other documents of Brazos and made such investigations of law (subject to the limitations hereinafter set forth) as I have deemed necessary or appropriate as a basis for the opinions expressed below.

As to questions of fact material to my opinions expressed herein, I have, when relevant facts were not independently established, relied upon certificates of, and information received from, officers of Brazos and have assumed the accuracy of the statements of fact contained in all of the documents reviewed by me. I have not

independently investigated or verified the facts represented in such certificates or information and do not opine as to the accuracy of any such facts. With respect to certain matters set forth in paragraphs 1 and 5 below, I have also relied upon certificates and other documents from, and conversations with, public officials.

In rendering the following opinions, I have assumed, but not independently verified, the authenticity of any document or other instrument submitted to me as an original, the conformity to the originals of any document or other instrument submitted to me as a copy, and the genuineness of all signatures, except signatures made on behalf of Brazos. I have also assumed, but not independently verified, that all documents executed by a party other than Brazos were duly and validly authorized, executed and delivered by such party, which had requisite power and authority with respect thereto, and are legal, valid and binding obligations of such party enforceable against such party in accordance with their respective terms.

To the extent that my opinions in paragraph 2 below relate to consent requirements which may be contained in any agreement or contract to which Brazos is a party or by which it is bound, the opinion is based solely on certificates of officers of Brazos without any independent investigation.

Based upon the foregoing and subject to the qualifications set forth herein, I am of the opinion that:

1. Brazos is a non-profit electric cooperative corporation duly organized, validly existing and in good standing under the laws of the State of Texas with requisite corporate power and authority to carry on its business as now conducted and to own, sell and transfer the Purchased Assets as provided for in the Agreement.

2. Brazos has requisite corporate power and authority to execute, deliver and perform the Agreements and to carry out its obligations thereunder. Brazos has full, requisite corporate power and authority to act for itself and the other persons or entities, private and governmental, acting by, through and under Brazos, in connection with the Agreements. The Agreements have been duly authorized, executed and delivered by Brazos, and constitute valid and legally binding obligations of Brazos and the other persons or entities, private or governmental, acting by, through and under Brazos, enforceable against such parties in accordance with their respective terms. The execution, delivery and performance of the Agreements by Brazos does not conflict with or result in any violation of, or constitute a default under, (i) the Articles of Incorporation or by-laws of Brazos, or (ii) to my knowledge, any material provision of any mortgage, indenture, lease, agreement or other instrument, including any evidence of indebtedness, including without limitation the Brazos Comanche Peak Debt, to which Brazos, or any of Brazos' properties or assets, is subject or a party, or (iii) or to my knowledge, any permit, concession, grant, franchise, license, judgment, order or decree, applicable to Brazos or any of its property; or with the passage of time or the giving of notice or the taking of any action by any third party, have any of the effects described herein.

3. Brazos has obtained all necessary consents, approvals, orders and authorizations of, and has made all necessary registrations, declarations and filings with, each governmental authority or other entity required in connection with the execution, delivery, and performance by Brazos of the Agreements, except for any such required to be obtained by the Project Manager. No other filing or registration with, and no other consent, approval, authorization, permit, certificate or order of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or other entity is required by any applicable statute or other law or by any judgment, order or decree or any



rule or regulation of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or agreement with any other entity to permit Brazos to execute, deliver or perform the Agreements.

4. No provision of any obligation or liability, including with respect to any evidence of indebtedness, of Brazos, whether accrued, absolute, contingent or otherwise, will cause the Company to assume or otherwise become liable for, or will cause the Purchased Assets to become encumbered by, any liability of Brazos as a result of the purchase by the Company of the Purchased Assets, except such as currently exist with respect to Comanche Peak and which were entered into or incurred by (a) all parties owning interests in Comanche Peak at the time involved acting collectively, or (b) the Project Manager or the Company or both. The opinion set forth in this paragraph 4 assumes the Company's forgiveness of the Brazos JOA Debt as described in section 5.3(b) of the Agreement.

5. Apart from all taxes and similar charges owed by the Project Manager on behalf of all the Owners collectively, Brazos owes no taxes or similar charges or impositions with respect, or the nonpayment of which would apply, to, or result in any lien, or other encumbrance upon, the Purchased Assets to any taxing authority. Further, no tax charge, tax expense or tax claim against the Purchased Assets originating with or caused by the action or inaction of Brazos individually or in combination with any of the Owners other than the Company or the Project Manager will attach to or affect any portion of the Purchased Assets conveyed after the Closing.

6. Brazos has such title in and to the Site and all real property interests therein and the real property interests included in the Transmission Facilities as was conveyed to Brazos by or through the Company or the Company's predecessors-in-title. Except in combination with, or in conjunction with action by, all of the Owners of the Site and the real property interests included in the Transmission Facilities acting collectively either directly or through the Project Manager, Brazos has not encumbered the Site or any of the real property interests therein or the real property interests included in the Transmission Facilities with any mortgages, liens, claims, charges, security interests or encumbrances that have not heretofore been fully released.

Brazos, separately or in combination with any or all of the Owners other than the Company or the Project Manager, has not taken any action which would result in the structures, improvements and fixtures on such real property constituting a part of the Site not being in conformity with all applicable Federal, state and local zoning, building, health, safety and environmental laws, ordinances, rules or regulations. No notice from any governmental body, which has not otherwise been disclosed to the Company or the Project Manager in writing, has been served upon Brazos claiming any violation of any such law, ordinance, rule or regulation or requiring any work, repairs, construction, alterations or installations on or in connection with such real property or the buildings, structures, fixtures or improvements thereon, nor to my knowledge has any such violation, which has not otherwise been disclosed to the Company or the Project Manager in writing, been claimed or action with respect thereto threatened.

7. Brazos has the title to such interest as was conveyed to Brazos by or through the Company or the Company's predecessors-in-title in all of the equipment, vehicles, fixtures, machinery and other items of personal property, tangible or intangible, to the extent the same are parts of the Purchased Assets. Except in combination or in conjunction with action by the Company, the Project Manager or all of the Owners acting collectively, Brazos has not encumbered the equipment, vehicles, fixtures, machinery and other items of personal property, tangible or intangible, which are part of the Purchased Assets, with any mortgages, liens, claims, charges, security interests, encumbrances or other restrictions or limitations, assuming payment by the Company of any and all

transfer taxes that may become due on account of the transfer of the Purchased Assets, that have not heretofore been fully released, except for the liens for ad valorem taxes not yet due and payable.

8. There are no claims, suits or proceedings, administrative or otherwise, pending against Brazos or, to the best of my knowledge, threatened against Brazos affecting the Purchased Assets, whether such be at law, in equity or in arbitration, or before or by any governmental department, commission, board, bureau, agency or instrumentality which, if adversely determined against Brazos, would affect Brazos' ability to perform its obligations under the Agreements, except that which has been previously disclosed in writing to the Company; and Brazos, separately and apart from the other Owners in combination or in conjunction with action by all the Owners acting collectively either directly or through the Project Manager, is not in default with respect to any order, writ, injunction or decree of any court, arbitrator or governmental department, commission, board, bureau, agency or instrumentality affecting the Purchased Assets.

9. There is not in effect any executory contract, agreement, order or commitment to which Brazos is subject or a party, and to which the Company or the Project Manager is not a party, which would bind the Company with respect to the Purchased Assets after the Closing and which would adversely affect the value of the Purchased Assets after the Closing.

The opinion expressed in paragraph 2 above as to conflicts with other agreements to which Brazos is a party is qualified to the extent that no opinion is given as to compliance with the Joint Ownership Agreement (including but not limited to Section 16 thereof).

The opinions expressed in paragraph 2 above are qualified as to the enforceability of the Agreements to the extent that they may be subject to the exercise of judicial discretion in accordance with general equitable principles, with respect to matters of force majeure and by laws relating to bankruptcy, insolvency, moratorium, reorganization or similar laws and are further qualified to the extent that no opinion is given as to (i) the availability of specific performance or other equitable remedies, or (ii) compliance with usury laws.

I am licensed to practice law in the State of Texas. I do not purport to be an expert on, or to express any opinion herein concerning, any law other than the laws of the State of Texas and the federal law of the United States.

The foregoing opinions are limited to the existing laws on the date hereof and I undertake no obligation or responsibility to update or supplement this opinion in response to subsequent changes in the law or future events or circumstances affecting the transactions contemplated herein. This opinion has been delivered solely for your benefit and may not be otherwise reproduced, filed or relied upon by any other person or entity.

Very truly yours,

Joseph Robert Riley

EXHIBIT I

For the letterhead of Worsham, Forsythe, Sampels & Wooldridge

\_\_\_\_\_, 198\_\_

Brazos Electric Power Cooperative, Inc.  
P. O. Box 2585  
Waco, Texas 76702-2585

Gentlemen:

We have acted as counsel for Texas Utilities Electric Company, a Texas corporation (the "Company"), in connection with that certain Agreement dated July 5, 1988 (the "Agreement") by and between Brazos Electric Power Cooperative, Inc. ("Brazos") and the Company, and as counsel for Texas Utilities Company, a Texas corporation ("TUC"), in connection with the Guaranty of even date herewith given in connection with the Note.

This opinion is delivered to you pursuant to section 7.4 of the Agreement. Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Agreement.

In connection with this opinion, we have reviewed executed copies of the Agreement, the Assignment Agreement of even date hereof between the Company and Brazos (the "Assignment Agreement"), the Amendment of even date hereof to the Transmission Agreement between the Company and Brazos executed on July 25, 1979 (the "Transmission Agreement Amendment"), the Assumption And Indemnity Agreement of even date hereof from the Company to Brazos (the "Indemnity Agreement"), the Release of even date hereof from the Company in favor of Brazos (the "Release"), the Covenant Not To Sue of even date hereof from the Company to Brazos (the "Covenant Not To Sue"), the Note of even date hereof from the Company to Brazos (the "Note") and the purchase money Mortgage of even date hereof from the Company in favor of the Trustee named therein for the benefit of Brazos (the "Mortgage"); (the Agreement, the Assignment Agreement, the Transmission Agreement Amendment, the Indemnity Agreement, the Release, the Covenant Not To Sue, the Note and the Mortgage are hereinafter sometimes referred to collectively as the "Agreements"), and the Guaranty of even date hereof from TUC, the parent of the Company, to Brazos given in connection with the Note (the "Guaranty"). We have also examined originals or copies, certified or otherwise identified to our satisfaction, of such corporate records, certificates and other documents of the Company and TUC and made such investigations of law (subject to the limitations hereinafter set forth) as we have deemed necessary or appropriate as a basis for the opinions expressed below.

As to questions of fact material to our opinions expressed herein, we have, when relevant facts were not independently established, relied upon certificates of, and

information received from officers of the Company and TUC and have assumed the accuracy of the statements of fact contained in all of the documents reviewed by us. We have not independently investigated or verified the facts represented in such certificates or information and do not opine as to the accuracy of any such facts. With respect to certain matters set forth in paragraph 1 below, we have also relied upon certificates and other documents from, and conversations with, public officials.

In rendering the following opinions, we have assumed, but not independently verified, the authenticity of any document or other instrument submitted to us as an original, the conformity to the originals of any document or other instrument submitted to us as a copy, and the genuineness of all signatures, except signatures made on behalf of the Company and TUC. We have also assumed, but not independently verified, that all documents executed by a party other than the Company or TUC were duly and validly authorized, executed and delivered by such party, which had requisite power and authority with respect thereto, and are legal, valid and binding obligations of such party enforceable against such party in accordance with their respective terms.

To the extent that our opinions in paragraph 2 below relate to consent requirements which may be contained in any agreement or contract to which the Company or TUC is a party or by which either is bound, the opinion is based solely on certificates of officers of the Company or TUC without any independent investigation.

Based upon the foregoing and subject to the qualifications set forth herein, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas with requisite corporate power and authority to carry on its business as now conducted and to own, buy and accept the transfer of the Purchased Assets as provided for in the Agreement.

2. The Company has requisite corporate power and authority to execute, deliver and perform the Agreements and to carry out its obligations thereunder and to receive delivery of the Special Warranty Deed With Vendor's Lien and Bill of Sale of even date herewith from Brazos to the Company. The Company has full, requisite corporate power and authority to act for itself and the other persons or entities, private and governmental, acting by, through and under the Company, in connection with the Agreements. The Agreements have been duly authorized, executed and delivered by the Company, and constitute valid and legally binding obligations of the Company and the other persons or entities, private or governmental, acting by, through and under the Company, enforceable against such parties in accordance with their respective terms. For purposes of the foregoing, we have assumed that the provisions of paragraph 8 of the Note have been and will continue to be complied with and will be construed to override all provisions of the Agreement, the Note and the Mortgage which may be inconsistent therewith. The execution, delivery and performance of the Agreements by the Company does not conflict with or result in any violation of, or constitute a default under, (i) the Articles of Incorporation or by-laws of the Company, or (ii) to our knowledge, any material provision of any mortgage, indenture, lease, agreement or other instrument to which the Company is subject or a party, including any bonds or other obligation or other evidence of indebtedness, or (iii) to our knowledge, any permit, concession, grant, franchise, license, judgment, order or decree, applicable to the Company or any of its property, including Comanche Peak; or with the passage of time or the giving of notice or the taking of any action by any third party, have any of the effects described herein. Assuming valid recordation to make effective the lien of the Mortgage, such lien is a superior lien to the lien of the Mortgage and Deed of Trust, dated as of December 1, 1983, of the Company to Irving Trust Company, Trustee.

3. The Company has obtained all necessary consents, approvals, orders and authorizations of, and has made all necessary registrations, declarations and filings with, each governmental authority or other entity required in connection with the execution, delivery, and performance by the Company of the Agreements. No other filing or registration with, and no other consent, approval, authorization, permit, certificate or order of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or other entity is required by any applicable statute or other law or by any judgment, order or decree or any rule or regulation of any court, tribunal or governmental agency or authority, Federal, state, county or municipal, or agreement with any other entity to permit the Company to execute, deliver or perform the Agreements.

4. TUC is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas with requisite corporate power and authority to carry on its business as now conducted and has requisite corporate power and authority to execute, deliver and perform the Guaranty and to carry out its obligations thereunder. The Guaranty has been duly authorized, executed and delivered by TUC, and constitutes the valid and legally binding obligation of TUC enforceable against it in accordance with its terms. The execution, delivery and performance of the Guaranty does not conflict with or result in any violation of, or constitute a default under, (i) the Articles of Incorporation or by-laws of TUC, or (ii) any material provision of any mortgage, indenture, lease, agreement or other instrument to which TUC is subject or a party, or (iii) any permit, concession, grant, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to TUC or any of its property; or with the passage of time or the giving of notice or the taking of any action by any third party, have any of the effects described herein.

The opinion expressed in paragraph 2 above as to conflicts with other agreements to which the Company is a party is qualified to the extent that no opinion is given as to compliance with the Joint Ownership Agreement (including but not limited to Section 16 thereof).

The opinions expressed in paragraphs 2 and 4 above are qualified as to the enforceability of the Agreements and the Guaranty to the extent that they may be subject to the exercise of judicial discretion in accordance with general equitable principles, with respect to matters of force majeure and by laws relating to bankruptcy, insolvency, moratorium, reorganization or similar laws and are further qualified to the extent that no opinion is given as to the availability of specific performance or other equitable remedies.

We are licensed to practice law in the State of Texas. We do not purport to be experts on, or to express any opinion herein concerning, any law other than the laws of the State of Texas and the federal law of the United States.

The foregoing opinions are limited to the existing laws on the date hereof and we undertake no obligation or responsibility to update or supplement this opinion in response to subsequent changes in the law or future events or circumstances affecting the transactions contemplated herein. This opinion has been delivered solely for your benefit and may not be otherwise reproduced, filed or relied upon by any other person or entity.

Very truly yours,

WORSHAM, FORSYTHE, SAMPELS  
& WOOLDRIDGE

By: \_\_\_\_\_

A Partner

**EXHIBIT J**

**RELEASE**

STATE OF TEXAS           §  
                                  §  
COUNTY OF MC LENNAN §

For and in consideration of the agreements, undertakings, promises, and covenants of TU Electric, TUC, and their subsidiaries and affiliates set forth in the Agreement, including without limitation the contemporaneous delivery to Brazos by TU Electric of (1) a Release releasing certain claims which TU Electric, TUC, and their subsidiaries and affiliates have or may have against Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), (2) a Covenant Not to Sue under which TU Electric, for itself and on behalf of TUC, and their subsidiaries and affiliates and on behalf of any person or entity, private or governmental, claiming by, through or under TU Electric or TUC, covenants not to sue upon certain claims which they may have against Brazos or its Members, and (3) an Assumption and Indemnity Agreement under which TU Electric assumes certain duties, responsibilities, liabilities and obligations of Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), and agrees to indemnify Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), against certain claims, the adequacy and sufficiency of such consideration being hereby acknowledged and confessed, Brazos hereby agrees to the following:

- L. Definitions. As used herein, the following terms have the following meanings:
  - A. "Agreement" means that certain Agreement dated July 5, 1988, by and between Brazos and TU Electric.
  - B. "Brazos" means Brazos Electric Power Cooperative, Inc.
  - C. "Comanche Peak" means the nuclear-fueled electric generating facility under construction on certain lands situated in Hood and Somervell Counties, Texas, and consisting of two units having a nominal capacity of 1,150 megawatts each, and related

properties, and is the aggregate and combination of the Station, Fuel, and Transmission Facilities, and all other rights and interests associated with or relating thereto.

D. "Fuel" means the Comanche Peak nuclear fuel, irrespective of chemical and/or physical form, and the rights and interests related thereto.

E. "JOA" means that certain instrument entitled on the cover page thereof "JOINT OWNERSHIP AGREEMENT BETWEEN DALLAS POWER & LIGHT COMPANY, TEXAS ELECTRIC SERVICE COMPANY, TEXAS POWER & LIGHT COMPANY, TEXAS UTILITIES GENERATING COMPANY, TEXAS MUNICIPAL POWER AGENCY AND BRAZOS ELECTRIC POWER COOPERATIVE, INC. FOR COMANCHE PEAK STEAM ELECTRIC STATION," executed on January 2, 1979, together with and as modified by that certain instrument entitled on the cover page thereof "Modification of Joint Ownership Agreement Between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc.: For Comanche Peak Steam Electric Station," executed on June 1, 1979, together with and as amended by (i) the Amendment of Joint Ownership Agreement, executed on December 9, 1980, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La, together with and as amended by (ii) the Second Amendment of Joint Ownership Agreement, executed on February 12, 1982, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La.

F. "Members" means the twenty (20) Texas non-profit electric cooperative corporations that are members of Brazos, as set out in Exhibit C to the Agreement.

G. "Owners" means collectively TU Electric, Brazos, TMPA and Tex-La, as owners of Comanche Peak in accordance with the terms of the JOA, or singularly any of such parties.

H. "Pending Litigation" means Cause No. 399,482 -- Brazos Electric Power Cooperative, Inc. v. Texas Utilities Company, Texas Utilities Electric Company, Texas Utilities Mining Company, and Texas Utilities Services Incorporated, -- in the District Court of Travis County, Texas, 345th Judicial District; Cause No. 399,336 -- Tex-La Electric Cooperative of Texas, Inc., and Texas Municipal Power Agency v. Texas Utilities and Texas Utilities Electric Company, -- in the District Court of Travis County, Texas, 98th Judicial District; and Cause No. 86-6809-A -- Texas Utilities Electric Company v. Tex-La Electric Cooperative of Texas, Inc., et al. -- in the District Court of Dallas County, Texas, 14th Judicial District.

I. "Project Manager" means TU Electric designated and acting as such in accordance (or purportedly in accordance) with the terms of the JOA.

J. "Site" means approximately 7,669 acres owned (in fee or other estate or interest) by the Owners, as tenants in common, and located in Hood and Somervell Counties, Texas.

K. "Station" means the Site, all improvements thereon (including Squaw Creek Lake and Park) and all fixtures and attachments thereto, as well as (i) all personal property thereon and associated therewith or related thereto and owned by the Owners, and (ii) all rights (tangible or intangible), and all easements and other interests of any nature associated therewith or related thereto and owned by the Owners, excluding, however, the Fuel, and the Transmission Facilities.

L. "Subject Claims" means any and all claims, actions, controversies, causes of action, disputes, demands, and complaints of whatsoever kind or nature and whether known or unknown.

M. "Tex-La" means Tex-La Electric Cooperative of Texas, Inc.

N. "TMPA" means Texas Municipal Power Agency.

O. "Transmission Facilities" means the Comanche Peak -- DeCordova 345 kV electrical transmission line approximately 14.4 miles in length, and associated rights-of-way, equipment, fixtures and personal property.



P. "TUC" means Texas Utilities Company, which is a Texas corporation and the parent of TU Electric.

Q. "TU Electric" means Texas Utilities Electric Company, which is a Texas corporation.

IL. Release. Brazos, except as provided in paragraph III herein, for itself and on behalf of any person or entity, private or governmental, claiming by, through or under Brazos, including without limitation, to the extent it has the standing and right under law to do so, its Members and customers (including the customers of Brazos' Members and other wholesale customers) and its or their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys, and representatives does hereby waive, release, discharge, renounce, and relinquish any and all Subject Claims relating to Comanche Peak which it has or they have, or may have, whether known or unknown, contingent or absolute, including, without limitation, those based on common law, whether contract (expressed or implied, including express or implied warranty) or tort (including, without limitation, intentional tort, negligence or gross negligence, sole, joint, or concurrent) or strict liability or fraud, and those based upon any Federal, state, or local statute, law, order or regulation, including without limitation, the Atomic Energy Act of 1954, as amended, the regulations of the United States Nuclear Regulatory Commission, the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, and any rule or regulation under either, the Texas Securities Act (Title 19, Articles 581-1, et seq., V.A.T.S.) and the Texas Deceptive Trade Practices and Consumer Protection Act, against TU Electric or TUC, or both, in any capacity, whether individually, as the Project Manager, or otherwise, and their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys and representatives, past and present, and any and all of their respective successors, subsidiaries, and affiliates, and their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys, and representatives, past and present.

III. Exceptions to Release. Brazos specifically does not release the following:

(a) Any Subject Claims arising out of or under the Agreement or any of the agreements or instruments to be delivered by TU Electric or TUC pursuant to the Agreement.

(o) Any Subject Claims which could not have been brought in the Pending Litigation and which accrue on or after the Date of Commercial Operation (as that term is defined in the JOA) and which are based upon the acts or omissions of TU Electric or the Project Manager other than acts or omissions in connection with the planning, design or construction (or the management thereof) of Comanche Peak.

IV. Covenant. Brazos hereby covenants and warrants that it has not assigned any Subject Claims that are hereby released.

V. Control. To the extent any provision of this Release conflicts with any provision in Section 9.1 of the Agreement, this Release shall control as to the agreement of the parties.

EXECUTED this the \_\_\_\_ day of \_\_\_\_\_, 1988, as duly authorized by an appropriate resolution of its Board of Directors.

BRAZOS ELECTRIC POWER  
COOPERATIVE, INC.

(Corporate Seal)

ATTEST:

By: \_\_\_\_\_

Its: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

**EXHIBIT K**

**COVENANT NOT TO SUE**

STATE OF TEXAS           §  
  §  
COUNTY OF MC LENNAN §

For and in consideration of the agreements, undertakings, promises, and covenants of TU Electric, TUC, and their subsidiaries and affiliates set forth in the Agreement, including without limitation the contemporaneous delivery to Brazos by TU Electric of (1) a Release releasing certain claims which TU Electric, TUC, and their subsidiaries and affiliates have or may have against Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), (2) a Covenant Not to Sue under which TU Electric, for itself and on behalf of TUC, and their subsidiaries and affiliates and on behalf of any person or entity, private or governmental, claiming by, through or under TU Electric or TUC, covenants not to sue upon certain claims which they may have against Brazos or its Members, and (3) an Assumption and Indemnity Agreement under which TU Electric assumes certain duties, responsibilities, liabilities and obligations of Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), and agrees to indemnify Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), against certain claims, the adequacy and sufficiency of such consideration being hereby acknowledged and confessed, Brazos hereby agrees to the following:

- L. Definitions. As used herein, the following terms have the following meanings:
  - A. "Agreement" means that certain Agreement dated July 5, 1988, by and between Brazos and TU Electric.
  - B. "Brazos" means Brazos Electric Power Cooperative, Inc.
  - C. "Comanche Peak" means the nuclear-fueled electric generating facility under construction on certain lands situated in Hood and Somervell Counties, Texas, and consisting of two units having a nominal capacity of 1,150 megawatts each, and related

properties, and is the aggregate and combination of the Station, Fuel, and Transmission Facilities, and all other rights and interests associated with or relating thereto.

D. "Fuel" means the Comanche Peak nuclear fuel, irrespective of chemical and/or physical form, and the rights and interests related thereto.

E. "JOA" means that certain instrument entitled on the cover page thereof "JOINT OWNERSHIP AGREEMENT BETWEEN DALLAS POWER & LIGHT COMPANY, TEXAS ELECTRIC SERVICE COMPANY, TEXAS POWER & LIGHT COMPANY, TEXAS UTILITIES GENERATING COMPANY, TEXAS MUNICIPAL POWER AGENCY AND BRAZOS ELECTRIC POWER COOPERATIVE, INC. FOR COMANCHE PEAK STEAM ELECTRIC STATION," executed on January 2, 1979, together with and as modified by that certain instrument entitled on the cover page thereof "Modification of Joint Ownership Agreement Between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc.: For Comanche Peak Steam Electric Station," executed on June 1, 1979, together with and as amended by (i) the Amendment of Joint Ownership Agreement, executed on December 9, 1980, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La, together with and as amended by (ii) the Second Amendment of Joint Ownership Agreement, executed on February 12, 1982, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La.

F. "Members" means the twenty (20) Texas non-profit electric cooperative corporations that are members of Brazos, as set out in Exhibit C to the Agreement.

G. "Owners" means collectively TU Electric, Brazos, TMPA and Tex-La, as owners of Comanche Peak in accordance with the terms of the JOA, or singularly any of such parties.

H. "Pending Litigation" means Cause No. 399,482 — Brazos Electric Power Cooperative, Inc. v. Texas Utilities Company, Texas Utilities Electric Company, Texas Utilities Mining Company, and Texas Utilities Services Incorporated, — in the District Court of Travis County, Texas, 345th Judicial District; Cause No. 399,336 — Tex-La Electric Cooperative of Texas, Inc., and Texas Municipal Power Agency v. Texas Utilities and Texas Utilities Electric Company, — in the District Court of Travis County, Texas, 98th Judicial District; and Cause No. 86-6809-A — Texas Utilities Electric Company v. Tex-La Electric Cooperative of Texas, Inc., et al. — in the District Court of Dallas County, Texas, 14th Judicial District.

I. "Project Manager" means TU Electric designated and acting as such in accordance (or purportedly in accordance) with the terms of the JOA.

J. "Site" means approximately 7,669 acres owned (in fee or other estate or interest) by the Owners, as tenants in common, and located in Hood and Somervell Counties, Texas.

K. "Station" means the Site, all improvements thereon (including Squaw Creek Lake and Park) and all fixtures and attachments thereto, as well as (i) all personal property thereon and associated therewith or related thereto and owned by the Owners, and (ii) all rights (tangible or intangible), and all easements and other interests of any nature associated therewith or related thereto and owned by the Owners, excluding, however, the Fuel, and the Transmission Facilities.

L. "Subject Claims" means any and all claims, actions, controversies, causes of action, disputes, demands, and complaints of whatsoever kind or nature and whether known or unknown.

M. "Tex-La" means Tex-La Electric Cooperative of Texas, Inc.

N. "TMPA" means Texas Municipal Power Agency.

O. "Transmission Facilities" means the Comanche Peak — DeCordova 345 kV electrical transmission line approximately 14.4 miles in length, and associated rights-of-way, equipment, fixtures and personal property.

P. "TUC" means Texas Utilities Company, which is a Texas corporation and the parent of TU Electric.

Q. "TU Electric" means Texas Utilities Electric Company, which is a Texas corporation.

II. Covenant Not to Sue and Agreement Not to Challenge. Brazos, except as provided in paragraph III herein, for itself and on behalf of any person or entity, private or governmental, claiming by, through, or under Brazos, including without limitation, to the extent it has the standing and right under law to do so, its Members and customers (including the customers of Brazos' Members and other wholesale customers) and its or their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys, and representatives, does hereby covenant and agree:

(a) That it and they, individually, collectively, or in any combination, will forebear from asserting against, and never sue for or look for satisfaction with respect to, TU Electric, TUC, and their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys, and representatives, past and present, and any and all of their respective successors, subsidiaries, and affiliates and their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys, and representatives, past and present, with respect to any Subject Claims (including without limitation any Subject Claim against any contractor, subcontractor, supplier, consultant, vendor or other person, firm or entity in privity in any manner with any of them which may therefor or as a result thereof have a right over or Subject Claim in subrogation) in any manner involving, concerning, arising out of, or relating to, the design, construction, management, and licensing of, or any other matter relating to, Comanche Peak, and the management, procurement, conversion, enrichment, fabrication, shipping, transportation, and storage of the Fuel.

(b) That neither it nor they, individually, collectively, or in any combination, will directly or indirectly challenge, contest, or assert any complaint in any court or before any administrative agency or body or in any other forum whatsoever with respect to, or in any manner involving, concerning, arising out of, or relating to, Comanche Peak and the incidents and attributes thereof including, without limitation: (1) the design, construction, management, and licensing of Comanche Peak or any other aspect thereof, (2) the costs and schedule of construction and completion of Comanche Peak, (3) the reasonableness, prudence, or efficiency of the planning, design, construction, management, and licensing of Comanche Peak, (4) the reasonableness, prudence, or efficiency of the management, procurement, conversion, enrichment, fabrication, shipping, transportation, and storage of the Fuel, (5) the costs incurred in connection with the management, procurement, conversion, enrichment, fabrication, shipping, transportation, and storage of the Fuel, (6) the breach of the JOA and any express or implied warranties arising out of the JOA, (7) any representation, misrepresentation, disclosure, or non-disclosure in connection with the negotiations, or preceding the execution by Brazos of the JOA, (8) in connection with the performance or nonperformance by TU Electric of its duties, responsibilities or obligations under the JOA as Project Manager or otherwise, (9) the failure of TU Electric to pursue any remedies, either at law or otherwise, that may be, or may have been, available against any and all contractors, subcontractors, suppliers, consultants, vendors, or others with respect to Comanche Peak (including separately the Station, Fuel or Transmission Facilities), and (10) on account of anything that has occurred or may have occurred, in whole or in part with respect to Comanche Peak (including separately the Station, Fuel or Transmission Facilities) and the incidents and attributes thereof, and any of the foregoing whether known or unknown.

III. Exceptions to Covenant Not to Sue and Agreement Not to Challenge. Brazos specifically does not covenant not to sue, and specifically does not agree to not assert, challenge or contest, with regard to:

(a) Any Subject Claims arising out of or under the Agreement or any of the other agreements or instruments delivered pursuant to the Agreement.

(b) Any Subject Claims which could not have been brought in the Pending Litigation and which accrue on or after the Date of Commercial Operation (as that term is defined in the JOA) and which are based upon the acts or omissions of TU Electric or the Project Manager other than acts or omissions in connection with the planning, design or construction (or the management thereof) of Comanche Peak.

(c) Any defenses which Brazos has or may have to Subject Claims asserted against Brazos by any persons or parties whomsoever, provided that Brazos may not seek any type of affirmative relief hereunder against TU Electric, TUC, or both, their successors, subsidiaries and affiliates, or its or their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys and representatives.

(d) Any counterclaims which Brazos has or may have against any party other than TU Electric, TUC, or both, their successors, subsidiaries and affiliates, or its or their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys and representatives, acting in such capacity, with respect to any Subject Claims being asserted against Brazos by anyone other than TU Electric, TUC, or both, their successors, subsidiaries and affiliates, or its or their respective insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys and representatives.



(e) Any proceeding in which TU Electric's rates are being determined, provided that Brazos shall not oppose, or assist any third party opposition to, the inclusion in TU Electric's rates of any and all costs related to Comanche Peak.

IV. Control. To the extent any provision of this Covenant Not to Sue conflicts with any provision in Section 9.2 of the Agreement, this Covenant Not to Sue shall control as to the agreement of the parties.

EXECUTED this the \_\_\_\_ day of \_\_\_\_\_, 1988, as duly authorized by an appropriate resolution of its Board of Directors.

BRAZOS ELECTRIC POWER  
COOPERATIVE, INC.

(Corporate Seal)

ATTEST:

By: \_\_\_\_\_

Its: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

**EXHIBIT L**

**RELEASE**

STATE OF TEXAS           §  
                                  §  
COUNTY OF DALLAS       §

For and in consideration of the agreements, undertakings, promises, and covenants of Brazos, including without limitation the contemporaneous delivery to TU Electric by Brazos of (1) a Release releasing certain claims which Brazos and any other person or entity, private or governmental, claiming by, through, or under Brazos, including, to the extent it has the standing and right under law to do so, Brazos' Members and customers (and the customers of Brazos' Members and other wholesale customers), have or may have against TU Electric, TUC, or their subsidiaries and affiliates, (2) a Covenant Not To Sue under which Brazos, for itself and on behalf of any person or entity, private or governmental, claiming by, through or under Brazos, including, to the extent it has the standing and right under law to do so, Brazos' Members and customers (and the customers of Brazos' Members and other wholesale customers), covenants not to sue upon certain claims which they have or may have against TU Electric, TUC, or their subsidiaries and affiliates, and (3) an Indemnity Agreement under which Brazos indemnifies TU Electric against certain claims, the adequacy and sufficiency of such consideration being hereby acknowledged and confessed, TU Electric hereby agrees to the following:

I. Definitions. As used herein, the following terms have the following meanings:

A. "Agreement" means that certain Agreement dated July 5, 1988, by and between Brazos and TU Electric.

B. "Brazos" means Brazos Electric Power Cooperative, Inc.

C. "Comanche Peak" means the nuclear-fueled electric generating facility under construction on certain lands situated in Hood and Somervell Counties, Texas, and consisting of two units having a nominal capacity of 1,150 megawatts each, and related

properties, and is the aggregate and combination of the Station, Fuel, and Transmission Facilities, and all other rights and interests associated with or relating thereto.

D. "Fuel" means the Comanche Peak nuclear fuel, irrespective of chemical and/or physical form, and the rights and interests related thereto.

E. "JOA" means that certain instrument entitled on the cover page thereof "JOINT OWNERSHIP AGREEMENT BETWEEN DALLAS POWER & LIGHT COMPANY, TEXAS ELECTRIC SERVICE COMPANY, TEXAS POWER & LIGHT COMPANY, TEXAS UTILITIES GENERATING COMPANY, TEXAS MUNICIPAL POWER AGENCY AND BRAZOS ELECTRIC POWER COOPERATIVE, INC. FOR COMANCHE PEAK STEAM ELECTRIC STATION," executed on January 2, 1979, together with and as modified by that certain instrument entitled on the cover page thereof "Modification of Joint Ownership Agreement Between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc.: For Comanche Peak Steam Electric Station," executed on June 1, 1979, together with and as amended by (i) the Amendment of Joint Ownership Agreement, executed on December 9, 1980, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La, together with and as amended by (ii) the Second Amendment of Joint Ownership Agreement, executed on February 12, 1982, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La.

F. "Members" means the twenty (20) Texas non-profit electric cooperative corporations that are members of Brazos, as set out in Exhibit C to the Agreement.

G. "Owners" means collectively TU Electric, Brazos, TMPA and Tex-La, as owners of Comanche Peak in accordance with the terms of the JOA, or singularly any of such parties.

H. "Project Manager" means TU Electric designated and acting as such in accordance (or purportedly in accordance) with the terms of the JOA.

I "Site" means approximately 7,669 acres owned (in fee or other estate or interest) by the Owners, as tenants in common, and located in Hood and Somervell Counties, Texas.

J. "Station" means the Site, all improvements thereon (including Squaw Creek Lake and Park) and all fixtures and attachments thereto, as well as (i) all personal property thereon and associated therewith or related thereto and owned by the Owners, and (ii) all rights (tangible or intangible), and all easements and other interests of any nature associated therewith or related thereto and owned by the Owners, excluding, however, the Fuel, and the Transmission Facilities.

K. "Subject Claims" means any and all claims, actions, controversies, causes of action, disputes, demands, and complaints of whatsoever kind or nature and whether known or unknown.

L. "Tex-La" means Tex-La Electric Cooperative of Texas, Inc.

M. "TMPA" means Texas Municipal Power Agency.

N. "Transmission Facilities" means the Comanche Peak — DeCordova 345 kV electrical transmission line approximately 14.4 miles in length, and associated rights-of-way, equipment, fixtures and personal property.

O. "TUC" means Texas Utilities Company, which is a Texas corporation and the parent of TU Electric.

P. "TU Electric" means Texas Utilities Electric Company, which is a Texas corporation.

II. Release. TU Electric, except as set out in paragraph III herein, on behalf of itself, TUC, their subsidiaries and affiliates, and on behalf of any person or entity, private or governmental, claiming by, through or under TU Electric or TUC, including without limitation, to the extent it has the standing and right under law to do so, their customers,

and on behalf of their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys, and representatives, does hereby waive, release, discharge, renounce, and relinquish any and all Subject Claims relating to Comanche Peak which it has or they have, or may have, whether known or unknown, contingent or absolute, including without limitation those based on common law, whether contract (expressed or implied, including express or implied warranty) or tort (including, without limitation, intentional tort, negligence or gross negligence, sole, joint, or concurrent) or strict liability or fraud, and those based upon any Federal, State, or local statute, law, order or regulation, including, without limitation, the Atomic Energy Act of 1954, as amended, the regulations of the United States Nuclear Regulatory Commission, the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, and any rule or regulation under either, the Texas Securities Act (Title 19, Articles 581-1, et seq., V.A.T.S.) and the Texas Deceptive Trade Practices and Consumer Protection Act, against Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), whether individually or otherwise, and their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives, past and present, and any and all of their respective successors, subsidiaries, and affiliates, and their respective insurers, agents, servants, employees, officers, directors, members, consultants, attorneys, and representatives, past and present.

III. Exceptions to Release. TU Electric specifically does not release with regard to:

(a) Any Subject Claims arising out of or under the Agreement or any other agreement or instrument executed and delivered pursuant to the Agreement.

(b) Any right or authority to charge Brazos, its Members and customers for any electric power and energy purchased by any of them from TU Electric in accordance with the rates set forth in TU Electric's tariff as same may be approved

and in effect from time to time even though said rates may include costs related to Comanche Peak.

(c) Any defenses which TU Electric has or may have to Subject Claims asserted against TU Electric by any persons or parties whomsoever, provided that TU Electric may not seek any type of affirmative relief hereunder (other than rate relief pursuant to the provisions of the Public Utility Regulatory Act, Article 1446c, V.A.T.S.) against Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), their respective insurers, agents, employees, officers, directors, consultants, attorneys and representatives.

(d) Any counterclaims which TU Electric has or may have against any party other than Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), their respective insurers, agents, employees, officers, directors, consultants, attorneys and representatives, acting in such capacity (other than in connection with rate relief pursuant to the provisions of the Public Utility Regulatory Act, Article 1446c, V.A.T.S.) with respect to any Subject Claims being asserted against TU Electric by anyone other than Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), individually or otherwise, their respective insurers, agents, employees, officers, directors, consultants, attorneys and representatives.

IV. Covenant. TU Electric hereby covenants and warrants that it has not assigned any Subject Claims that are hereby released.

V. Control. To the extent any provision of this Release conflicts with any provision in Section 9.3 of the Agreement, this Release shall control as to the agreement of the parties.

EXECUTED this the \_\_\_\_\_ day of \_\_\_\_\_, 1988, as duly authorized by an appropriate resolution of its Board of Directors.

TEXAS UTILITIES ELECTRIC COMPANY

(Corporate Seal)

By: \_\_\_\_\_

Its: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_

Its: \_\_\_\_\_

**EXHIBIT M**

**COVENANT NOT TO SUE**

STATE OF TEXAS           §  
                                  §  
COUNTY OF DALLAS       §

For and in consideration of the agreements, undertakings, promises, and covenants of Brazos, including without limitation the contemporaneous delivery to TU Electric by Brazos of (1) a Release releasing certain claims which Brazos and any other person or entity, private or governmental, claiming by, through, or under Brazos, including, to the extent it has the standing and right under law to do so, Brazos' Members and customers (and the customers of Brazos' Members and other wholesale customers), have or may have against TU Electric, TUC, or their subsidiaries and affiliates, (2) a Covenant Not To Sue under which Brazos, for itself and on behalf of any person or entity, private or governmental, claiming by, through or under Brazos, including, to the extent it has the standing and right under law to do so, Brazos' Members and customers (and the customers of Brazos' Members and other wholesale customers), covenants not to sue upon certain claims which they have or may have against TU Electric, TUC, or their subsidiaries and affiliates, and (3) an Indemnity Agreement under which Brazos indemnifies TU Electric against certain claims, the adequacy and sufficiency of such consideration being hereby acknowledged and confessed, TU Electric hereby agrees to the following:

- L. Definitions. As used herein, the following terms have the following meanings:
  - A. "Agreement" means that certain Agreement dated July 5, 1988, by and between Brazos and TU Electric.
  - B. "Brazos" means Brazos Electric Power Cooperative, Inc.
  - C. "Comanche Peak" means the nuclear-fueled electric generating facility under construction on certain lands situated in Hood and Somervell Counties, Texas, and consisting of two units having a nominal capacity of 1,150 megawatts each, and related



properties, and is the aggregate and components of the Station, Fuel, and Transmission Facilities, and all other rights and interests connected with or relating thereto.

D. "Fuel" means the Comanche Peak nuclear fuel, irrespective of chemical and/or physical form, and the rights and interests related thereto.

E. "JOA" means that certain instrument entitled on the cover page thereof "JOINT OWNERSHIP AGREEMENT BETWEEN DALLAS POWER & LIGHT COMPANY, TEXAS ELECTRIC SERVICE COMPANY, TEXAS POWER & LIGHT COMPANY, TEXAS UTILITIES GENERATING COMPANY, TEXAS MUNICIPAL POWER AGENCY AND BRAZOS ELECTRIC POWER COOPERATIVE, INC. FOR COMANCHE PEAK STEAM ELECTRIC STATION," executed on January 2, 1979, together with and as modified by that certain instrument entitled on the cover page thereof "Modification of Joint Ownership Agreement Between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc.: For Comanche Peak Steam Electric Station," executed on June 1, 1979, together with and as amended by (i) the Amendment of Joint Ownership Agreement, executed on December 9, 1980, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La, together with and as amended by (ii) the Second Amendment of Joint Ownership Agreement, executed on February 12, 1982, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La.

F. "Members" means the twenty (20) Texas non-profit electric cooperative corporations that are members of Brazos, as set out in Exhibit C to the Agreement.

G. "Owners" means collectively TU Electric, Brazos, TMPA and Tex-La, as owners of Comanche Peak in accordance with the terms of the JOA, or singularly any of such parties.

H. "Project Manager" means TU Electric designated and acting as such in accordance (or purportedly in accordance) with the terms of the JOA.

L. "Site" means approximately 7,669 acres owned (in fee or other estate or interest) by the Owners, as tenants in common, and located in Hood and Somervell Counties, Texas.

J. "Station" means the Site, all improvements thereon (including Squaw Creek Lake and Park) and all fixtures and attachments thereto, as well as (i) all personal property thereon and associated therewith or related thereto and owned by the Owners, and (ii) all rights (tangible or intangible), and all easements and other interests of any nature associated therewith or related thereto and owned by the Owners, excluding, however, the Fuel, and the Transmission Facilities.

K. "Subject Claims" means any and all claims, actions, controversies, causes of action, disputes, demands, and complaints of whatsoever kind or nature and whether known or unknown.

L. "Tex-La" means Tex-La Electric Cooperative of Texas, Inc.

M. "TMPA" means Texas Municipal Power Agency.

N. "Transmission Facilities" means the Comanche Peak -- DeCordova 345 kV electrical transmission line approximately 14.4 miles in length, and associated rights-of-way, equipment, fixtures and personal property.

O. "TUC" means Texas Utilities Company, which is a Texas corporation and the parent of TU Electric.

P. "TU Electric" means Texas Utilities Electric Company, which is a Texas corporation.

II. Covenant Not to Sue and Agreement Not to Challenge. TU Electric, except as provided in paragraph III hereof, for itself and on behalf of TUC and their subsidiaries and affiliates and any person or entity, private or governmental, claiming by, through or under TU Electric or TUC, including without limitation, to the extent it has the standing and

right under law to do so, their customers, and their respective insurers, agents, servants, employees, officers, directors, consultants, attorneys and representatives, does hereby covenant and agree:

(a) That it and they, individually, collectively, or in any combination, will forebear from asserting against, and never sue for or look for satisfaction with respect to, Brazos, its Members, and their respective insurers, agents, servants, employees, officers, directors, members, consultants, attorneys, and representatives, past and present, and any and all of their respective successors, subsidiaries, and affiliates and their respective insurers, agents, servants, employees, officers, directors, shareholders, members, consultants, attorneys, and representatives, past and present, with respect to any Subject Claims (including without limitation any Subject Claim against any contractor, subcontractor, supplier, consultant, vendor or other person, firm or entity in privity in any manner with any of them which may therefor or as a result thereof have a right over or Subject Claim in subrogation) in any manner involving, concerning, arising out of, or relating to, the design, construction, management, and licensing of, or any other matter relating to, Comanche Peak, and the management, procurement, conversion, enrichment, fabrication, shipping, transportation, and storage of the Fuel.

(b) That neither it nor they, individually, collectively, or in any combination, will directly or indirectly challenge, contest or assert any complaint against Brazos or its Members in any court or before any administrative agency or body or in any other forum whatsoever with respect to, or in any manner involving, concerning, arising out of, or relating to, Comanche Peak and the JOA and in connection with the performance or nonperformance by Brazos of its duties, responsibilities or obligations under the JOA, and on account of anything that has occurred or may have occurred, in whole or in part, with respect to Comanche Peak (including

separately the Station, Fuel or Transmission Facilities) and the incidents and attributes thereof, and any of the foregoing whether known or unknown.

III. Exceptions to Covenant Not to Sue and Agreement Not to Challenge.

TU Electric specifically does not covenant not to sue, and specifically does not agree to not assert, challenge or contest, with regard to:

(a) Any Subject Claims arising out of or under the Agreement or any other agreement or instrument executed and delivered pursuant to the Agreement.

(b) Any right or authority to charge Brazos, its Members and customers for any electric power and energy purchased by any of them from TU Electric in accordance with the rates set forth in TU Electric's tariff as same may be approved and in effect from time to time even though said rates may include costs related to Comanche Peak.

(c) Any defenses which TU Electric has or may have to Subject Claims asserted against TU Electric by any persons or parties whomsoever, provided that TU Electric may not seek any type of affirmative relief hereunder (other than rate relief pursuant to the provisions of the Public Utility Regulatory Act, Article 1446c, V.A.T.S.) against Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), their respective insurers, agents, employees, officers, directors, consultants, attorneys and representatives.

(d) Any counterclaims which TU Electric has or may have against any party other than Brazos, its Members and customers (including the customers of Brazos' Members and other wholesale customers), their respective insurers, agents, employees, officers, directors, consultants, attorneys and representatives, acting in such capacity (other than in connection with rate relief pursuant to the provisions of the Public Utility Regulatory Act, Article 1446c, V.A.T.S.) with respect to any Subject Claims being asserted against TU Electric by anyone other than Brazos, its Members and customers (including the customers of Brazos' Members and other

wholesale customers), individually or otherwise, their respective insurers, agents, employees, officers, directors, consultants, attorneys and representatives.

IV. Control. To the extent any provision of this Covenant Not to Sue conflicts with any provision in Section 9.4 of the Agreement, this Covenant Not to Sue shall control as to the agreement of the parties.

EXECUTED this the \_\_\_\_ day of \_\_\_\_\_, 1988, as duly authorized by an appropriate resolution of its Board of Directors.

TEXAS UTILITIES ELECTRIC COMPANY

(Corporate Seal)

By: \_\_\_\_\_  
Its: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_  
Its: \_\_\_\_\_

EXHIBIT N

ASSUMPTION AND INDEMNITY AGREEMENT

STATE OF TEXAS           §  
                                  §  
COUNTY OF DALLAS       §

For and in consideration of the agreements, undertakings, promises, and covenants of Brazos as set forth in the Agreement, including without limitation the contemporaneous delivery to TU Electric by Brazos of (1) a Release releasing certain claims which Brazos and any other person or entity, private or governmental, claiming by, through, or under Brazos, including, to the extent it has the standing and right under law to do so, Brazos' Members and customers (and the customers of Brazos' Members and other wholesale customers), have or may have against TU Electric, TUC and their subsidiaries and affiliates, (2) a Covenant Not To Sue under which Brazos, for itself and on behalf of any person or entity, private or governmental, claiming by, through or under Brazos, including, to the extent it has the standing and right under law to do so, Brazos' Members and customers (and the customers of Brazos' Members and other wholesale customers), covenants not to sue upon certain claims which they have or may have against TU Electric, TUC and their subsidiaries and affiliates, and (3) an Indemnity Agreement under which Brazos indemnifies TU Electric against certain claims, the adequacy and sufficiency of such consideration being hereby acknowledged and confessed, TU Electric hereby agrees to the following:

- L. Definitions. As used herein, the following terms have the following meanings:
  - A. "Agreement" means that certain Agreement dated July 5, 1988, by and between Brazos and TU Electric.
  - B. "Brazos" means Brazos Electric Power Cooperative, Inc.
  - C. "Comanche Peak" means the nuclear-fueled electric generating facility under construction on certain lands situated in Hood and Somervell Counties, Texas, and consisting of two units having a nominal capacity of 1,150 megawatts each, and related

properties, and is the aggregate and combination of the Station, Fuel, and Transmission Facilities, and all other rights and interests associated with or relating thereto.

D. "Fuel" means the Comanche Peak nuclear fuel, irrespective of chemical and/or physical form, and the rights and interests related thereto.

E. "JOA" means that certain instrument entitled on the cover page thereof "JOINT OWNERSHIP AGREEMENT BETWEEN DALLAS POWER & LIGHT COMPANY, TEXAS ELECTRIC SERVICE COMPANY, TEXAS POWER & LIGHT COMPANY, TEXAS UTILITIES GENERATING COMPANY, TEXAS MUNICIPAL POWER AGENCY AND BRAZOS ELECTRIC POWER COOPERATIVE, INC. FOR COMANCHE PEAK STEAM ELECTRIC STATION," executed on January 2, 1979, together with and as modified by that certain instrument entitled on the cover page thereof "Modification of Joint Ownership Agreement Between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc.: For Comanche Peak Steam Electric Station," executed on June 1, 1979, together with and as amended by (i) the Amendment of Joint Ownership Agreement, executed on December 9, 1980, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La, together with and as amended by (ii) the Second Amendment of Joint Ownership Agreement, executed on February 12, 1982, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La.

F. "Members" means the twenty (20) Texas non-profit electric cooperative corporations that are members of Brazos, as set out in Exhibit C to the Agreement.

G. "Owners" means collectively TU Electric, Brazos, TMPA and Tex-La, as owners of Comanche Peak in accordance with the terms of the JOA, or singularly any of such parties.

H. "Pending Litigation" means Cause No. 399,482 — Brazos Electric Power Cooperative, Inc. v. Texas Utilities Company, Texas Utilities Electric Company, Texas Utilities Mining Company, and Texas Utilities Services Incorporated, — in the District Court of Travis County, Texas, 345th Judicial District; Cause No. 399,336 — Tex-La Electric Cooperative of Texas, Inc., and Texas Municipal Power Agency v. Texas Utilities and Texas Utilities Electric Company, — the District Court of Travis County, Texas, 98th Judicial District; and Cause No. 86-6809-A — Texas Utilities Electric Company v. Tex-La Electric Cooperative of Texas, Inc., et al. — in the District Court of Dallas County, Texas, 14th Judicial District.

I. "Project Manager" means TU Electric designated and acting as such in accordance (or purportedly in accordance) with the terms of the JOA.

J. "Site" means approximately 7,669 acres owned (in fee or other estate or interest) by the Owners, as tenants in common, and located in Hood and Somervell Counties, Texas.

K. "Station" means the Site, all improvements thereon (including Squaw Creek Lake and Park) and all fixtures and attachments thereto, as well as (i) all personal property thereon and associated therewith or related thereto and owned by the Owners, and (ii) all rights (tangible or intangible), and all easements and other interests of any nature associated therewith or related thereto and owned by the Owners, excluding, however, the Fuel, and the Transmission Facilities.

L. "Subject Claims" means any and all claims, actions, controversies, causes of action, disputes, demands, and complaints of whatsoever kind or nature and whether known or unknown.

M. "Tex-La" means Tex-La Electric Cooperative of Texas, Inc.

N. "TMPA" means Texas Municipal Power Agency.



O. "Transmission Facilities" means the Comanche Peak — DeCordova 345 kV electrical transmission line approximately 14.4 miles in length, and associated rights-of-way, equipment, fixtures and personal property.

P. "TUC" means Texas Utilities Company, which is a Texas corporation and the parent of TU Electric.

Q. "TU Electric" means Texas Utilities Electric Company, which is a Texas corporation.

II. Assumption of Liabilities. TU Electric assumes all the duties, responsibilities, liabilities, and obligations of Brazos under the JOA and under the Atomic Energy Act of 1954, as amended, and the rules and regulations of the Nuclear Regulatory Commission thereunder pertaining to Comanche Peak.

III. Indemnification. TU Electric further agrees to indemnify, hold harmless, and defend Brazos and its Members and customers (including the customers of Brazos' Members and other wholesale customers) from and against any and all liability, loss, cost, damage, or expense (including without limitation reasonable attorneys' fees, court costs, costs of appeal, supersedeas bonds, and costs of investigating, defending, attempting to settle, and, if TU Electric approves the settlement, settling any claim, demand, or cause of action) arising out of the following:

(a) all Subject Claims (INCLUDING WITHOUT LIMITATION SUBJECT CLAIMS PREDICATED UPON THE ALLEGED ACTUAL OR IMPUTED NEGLIGENCE, GROSS NEGLIGENCE OR STRICT LIABILITY OF BRAZOS AND ITS MEMBERS) arising out of or connected with the location, planning, design, construction, licensing, condition, maintenance, operation, and decommissioning of Comanche Peak, including without limitation all claims asserted or which might have been or might hereafter be asserted in Cause No. 83-29889 in District Court of Harris County, Texas, 215th Judicial District, removed in April, 1988, to the United States District Court for the Southern District of Texas, Houston Division,

numbered Civil Action No. H-88-1409, and styled Charles A. Atchison et al v. Brown & Root, Inc., et al., and in Cause No. 2692 in the District Court of Somervell County, Texas, 18th Judicial District, and styled Clementine Mathews and her husband Dolphin Mathews v. Comanche Peak Electric Steam Station, et al.

(b) all Subject Claims arising out of any alleged act (including willful or intentional acts) of the said Project Manager, its predecessors, agents, servants, employees or independent contractors acting for or on behalf of the Project Manager or its predecessors.

IV. Exceptions to Indemnification. Without limitation, TU Electric specifically does not agree to indemnify Brazos, its Members or customers in connection with the following:

(a) Any Subject Claims which may be asserted by Brazos' Members, customers, the customers of Brazos' Members or other wholesale customers, or creditors, acting in such capacity, which relate to Brazos' decision to participate as an Owner of Comanche Peak, or which relate to Brazos' decision to become a party to the JOA, or which relate to Brazos' involvement in the Pending Litigation, or which relate to Brazos' execution of the Agreement and participation in the transactions provided for in the Agreement.

(b) Any Subject Claims which may be asserted by Tex-La, TMPA, or others (except TU Electric, TUC, and their affiliates, subsidiaries, successors and assigns, and except for their insurers, agents, servants, employees, officers, directors, shareholders, consultants, attorneys, and representatives, past and present, acting in such capacities) which relate to Brazos' decision to become a party to the JOA, or which arise by reason of Brazos' participation in the Pending Litigation, or which arise by reason of Brazos' execution of the Agreement and participation in the transactions provided for in the Agreement.

(c) Any liability, cost or expense pursuant to TU Electric's rates set forth in TU Electric's tariff as same may be approved and in effect from time to time, even though said rates may include costs related to Comanche Peak, for electric power and energy purchased by Brazos, its Members and customers from TU Electric.

(d) Any Subject Claims relating to Brazos' performance under the Agreement or any other agreement or instrument executed or delivered pursuant to the Agreement.

V. Assumption of Defense. TU Electric will, in addition to providing the foregoing indemnity, assume the defense of Brazos and its Members and customers (including the customers of Brazos' Members and other wholesale customers) in any tribunal where any claim set out in paragraph III, and not excepted in paragraph IV, is asserted. Provided, however, that, in the event Brazos or any of its Members or customers (including the customers of Brazos' Members or other wholesale customers) receive notice of the commencement of any action or proceeding or the assertion of any claim with respect to which any of them may be entitled to indemnification hereunder or under the Agreement, the party receiving such notice shall give TU Electric written notice within ten (10) calendar days of such notice (the failure to so notify will not relieve TU Electric of its obligations hereunder except to the extent it has been prejudiced by a failure to so notify) and shall give TU Electric the opportunity to participate in the defense and in any settlement negotiations with respect thereto, and will cooperate with TU Electric in all reasonable respects and make available to TU Electric all records, evidence and personnel for consultation and testimony reasonably requested by TU Electric in connection therewith. The settlement of any such action, proceeding or claim without the prior written approval of TU Electric shall relieve TU Electric of any obligations to the indemnified party in respect of the subject matter of the settlement of such action, proceeding, or claim.

VI. Control. To the extent any provision of this Assumption and Indemnity Agreement conflicts with any provision in Section 9.5 of the Agreement, this Assumption and Indemnity Agreement shall control as to the agreement of the parties.

EXECUTED this the \_\_\_\_ day of \_\_\_\_\_, 1988, as duly authorized by an appropriate resolution of its Board of Directors.

TEXAS UTILITIES ELECTRIC COMPANY

(Corporate Seal)

ATTEST:

By: \_\_\_\_\_

Its: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

EXHIBIT O

INDEMNITY AGREEMENT

STATE OF TEXAS           §  
  §  
COUNTY OF MC LENNAN §

For and in consideration of the agreements, undertakings, promises, and covenants of TU Electric, TUC and their subsidiaries, and affiliates, set forth in the Agreement, including without limitation the (i) contemporaneous delivery to Brazos by TU Electric of a Release releasing certain claims which TU Electric, TUC, and their subsidiaries and affiliates have or may have against Brazos, (2) a Covenant Not to Sue under which TU Electric, for itself and on behalf of TUC, and their subsidiaries and affiliates and on behalf of any person or entity, private or governmental, claiming by, through or under TU Electric or TUC, covenants not to sue upon certain claims which they may have against Brazos or its Members, (3) the contemporaneous delivery to Brazos by TU Electric of an Assumption and Indemnity Agreement under which TU Electric assumes certain duties, responsibilities, liabilities, and obligations of Brazos and agrees to indemnify Brazos against certain claims and (4) the payment by TU Electric to Brazos of the Signing Payment and the Closing Payment (as those terms are defined in the Agreement), the adequacy and sufficiency of such consideration being hereby acknowledged and confessed, Brazos hereby agrees to the following:

L. Definitions. As used herein, the following terms have the following meanings:

A. "Agreement" means that certain Agreement dated July 7, 1988, by and between Brazos and TU Electric.

B. "Brazos" means Brazos Electric Power Cooperative, Inc.

C. "Comanche Peak" means the nuclear-fueled electric generating facility under construction on certain lands situated in Hood and Somervell Counties, Texas, and consisting of two units having a nominal capacity of 1,150 megawatts each, and related

properties, and is the aggregate and combination of the Station, Fuel, and Transmission Facilities, and all other rights and interests associated with or relating thereto.

D. "Fuel" means the Comanche Peak nuclear fuel, irrespective of chemical and/or physical form, and the rights and interests related thereto.

E. "JOA" means that certain instrument entitled on the cover page thereof "JOINT OWNERSHIP AGREEMENT BETWEEN DALLAS POWER & LIGHT COMPANY, TEXAS ELECTRIC SERVICE COMPANY, TEXAS POWER & LIGHT COMPANY, TEXAS UTILITIES GENERATING COMPANY, TEXAS MUNICIPAL POWER AGENCY AND BRAZOS ELECTRIC POWER COOPERATIVE, INC. FOR COMANCHE PEAK STEAM ELECTRIC STATION," executed on January 2, 1979, together with and as modified by that certain instrument entitled on the cover page thereof "Modification of Joint Ownership Agreement Between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, Texas Municipal Power Agency and Brazos Electric Power Cooperative, Inc.: For Comanche Peak Steam Electric Station," executed on June 1, 1979, together with and as amended by (i) the Amendment of Joint Ownership Agreement, executed on December 9, 1980, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos and Tex-La, together with and as amended by (ii) the Second Amendment of Joint Ownership Agreement, executed on February 12, 1982, between Dallas Power & Light Company, Texas Electric Service Company, Texas Power & Light Company, Texas Utilities Generating Company, TMPA, Brazos, and Tex-La.

F. "Members" means the twenty (20) Texas non-profit electric cooperative corporations that are members of Brazos, as set out in Exhibit C to the Agreement.

G. "Owners" means collectively TU Electric, Brazos, TMPA and Tex-La, as owners of Comanche Peak in accordance with the terms of the JOA, or singularly any of such parties.

H. "Pending Litigation" means Cause No. 399,482 — Brazos Electric Power Cooperative, Inc. v. Texas Utilities Company, Texas Utilities Electric Company, Texas Utilities Mining Company, and Texas Utilities Services Incorporated, — in the District Court of Travis County, Texas, 345th Judicial District; Cause No. 399,336 — Tex-La Electric Cooperative of Texas, Inc., and Texas Municipal Power Agency v. Texas Utilities and Texas Utilities Electric Company, — in the District Court of Travis County, Texas, 98th Judicial District; and Cause No. 86-6809-A — Texas Utilities Electric Company v. Tex-La Electric Cooperative of Texas, Inc., et al. — in the District Court of Dallas County, Texas, 14th Judicial District.

I. "Project Manager" means TU Electric designated and acting as such in accordance (or purportedly in accordance) with the terms of the JOA.

J. "Site" means approximately 7,669 acres owned (in fee or other estate or interest) by the Owners, as tenants in common, and located in Hood and Somervell Counties, Texas.

K. "Station" means the Site, all improvements thereon (including Squaw Creek Lake and Park) and all fixtures and attachments thereto, as well as (i) all personal property thereon and associated therewith or related thereto and owned by the Owners, and (ii) all rights (tangible or intangible), and all easements and other interests of any nature associated therewith or related thereto and owned by the Owners, excluding, however, the Fuel, and the Transmission Facilities.

L. "Subject Claims" means any and all claims, actions, controversies, causes of action, disputes, demands, and complaints of whatsoever kind or nature and whether known or unknown.

M. "Tex-La" means Tex-La Electric Cooperative of Texas, Inc.

N. "TMPA" means Texas Municipal Power Agency.

O. "Transmission Facilities" means the Comanche Peak — DeCordova 345 kV electrical transmission line approximately 14.4 miles in length, and associated rights-of-way, equipment, fixtures and personal property.

P. "TUC" means Texas Utilities Company, which is a Texas corporation and the parent of TU Electric.

Q. "TU Electric" means Texas Utilities Electric Company, which is a Texas corporation.

II. Indemnification. Brazos hereby agrees to indemnify, hold harmless, and defend TU Electric, TUC, and their subsidiaries, affiliates and customers, from and against any and all liability, loss, cost, damage, or expense (including without limitation reasonable attorneys' fees, court costs, cost of appeal, supersedeas bonds, and costs of investigating, defending, attempting to settle, and, if Brazos approves the settlement, settling any claim, demand or cause of action) arising out of Subject Claims of Brazos, or anyone related to or affiliated with Brazos, including Brazos' Members, customers (including the customers of Brazos' Members and other wholesale customers) and creditors, acting in such capacity, relating to (1) Brazos' execution of, or participation in, the JOA, (2) Brazos' execution of the Agreement and participation in the transactions provided therein, and (3) Brazos' activities as an Owner separate and apart from joint activities with all other Owners or activities by, through, and under the Project Manager. Further, Brazos hereby agrees to indemnify, hold harmless and defend TU Electric, TUC, and their subsidiaries, affiliates and customers, from and against any and all liability, loss, cost, damage, or expense (including without limitation reasonable attorneys' fees, court costs, cost of appeal, supersedeas bonds, and costs of investigating, defending, attempting to settle, and, if Brazos approves the settlement, settling any claim, demand or cause of action) arising out of Subject Claims of Brazos, or anyone related to or affiliated with Brazos, including Brazos' Members and, to the extent they are acting in such capacity, Brazos' customers (including the customers of Brazos' Members and other wholesale



customers) and creditors, with respect to, or in any manner involving, concerning, arising out of, or relating to: (1) the acts or omissions of TU Electric or the Project Manager referred to or in question in the Pending Litigation or which could have been brought into question in the Pending Litigation, INCLUDING WITHOUT LIMITATION SUBJECT CLAIMS BASED UPON THE NEGLIGENCE OR GROSS NEGLIGENCE, SOLE, JOINT OR CONCURRENT, OF TU ELECTRIC OR THE PROJECT MANAGER; and (2) the acts or omissions of TU Electric or the Project Manager with respect to Comanche Peak that occur, in whole or in part, prior to the Date of Commercial Operation (as said term is defined in the Joint Ownership Agreement), INCLUDING WITHOUT LIMITATION SUBJECT CLAIMS BASED UPON THE NEGLIGENCE OR GROSS NEGLIGENCE, SOLE, JOINT OR CONCURRENT, OF TU ELECTRIC OR THE PROJECT MANAGER.

III. Exceptions to Indemnification. Without limitation, Brazos specifically does not agree to indemnify TU Electric, TUC, and their subsidiaries, affiliates and customers in connection with the following:

(a) Any Subject Claims which may be asserted by TUC's or TU Electric's shareholders, customers or creditors, acting in such capacity, which relate to TU Electric's decision to become a party to the JOA, or which relate to TU Electric's involvement in the Pending Litigation, or which relate to TU Electric's execution of the Agreement and participation by TU Electric and TUC in the transactions provided for in the Agreement.

(b) Any Subject Claims which may be asserted by Tex-La, TMPA, or others (except Brazos, its Members and their affiliates, subsidiaries, successors and assigns, and except for their insurers, agents, servants, employees, officers, directors, members, consultants, attorneys, and representatives, past and present, acting in such capacities) which relate to TU Electric's decision to become a party to the JOA, or which arise by reason of TU Electric's participation in the Pending Litigation, or which arise by

reason of TU Electric's execution of the Agreement and participation by TU Electric and TUC in the transactions provided for in the Agreement.

(c) Any liability, cost or expense pursuant to Brazos' rates set forth in Brazos' tariff as same may be approved and in effect from time to time, even though said rates may include costs related to Comanche Peak, for electric power and energy purchased by TU Electric from Brazos.

(d) Any Subject Claims relating to TU Electric's or TUC's performance under the Agreement or any other agreement or instrument executed and delivered pursuant to the Agreement.

IV. Assumption of Defense. Brazos will, in addition to providing the foregoing indemnities, assume the defense of TU Electric, TUC, and their subsidiaries, affiliates and customers, in any tribunal where any claim set out in paragraph II, and not excepted in paragraph III, is asserted. Provided, however, that in the event TU Electric, TUC, or their subsidiaries, affiliates or customers, receive notice of the commencement of any action or proceeding or the assertion of any claim with respect to which any of them may be entitled to indemnification hereunder or under the Agreement, the party receiving such notice shall give Brazos written notice within ten (10) calendar days of receiving such notice (the failure to so notify will not relieve Brazos of its obligations hereunder except to the extent Brazos has been prejudiced by a failure to so notify) and the opportunity to participate in the defense and in any settlement negotiations with respect thereto, and will cooperate with Brazos in all reasonable respects and make available to Brazos all records, evidence, and personnel for consultation and testimony reasonably requested by Brazos in connection therewith. The settlement of any such action, proceeding, or claim without the prior written approval of Brazos shall relieve Brazos of any obligations to the indemnified party in respect of the subject matter of the settlement of such action, proceeding, or claim.

V. Control. To the extent any provision of this Indemnity Agreement conflicts with any provision of Section 9.5 of the Agreement, this Indemnity Agreement shall control as to the agreement of the parties.

EXECUTED this the \_\_\_\_ day of \_\_\_\_\_, 1988, as duly authorized by an appropriate resolution of its Board of Directors.

BRAZOS ELECTRIC POWER  
COOPERATIVE, INC.

(Corporate Seal)

ATTEST:

By: \_\_\_\_\_

Its: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

TEXAS UTILITIES COMPANY  
1987 ANNUAL REPORT



A COMMITMENT TO SERVICE

8806300358



*"As long as I can remember, my dad would get these calls, and 'cause he works for the electric company, he has to go . . .*



*"It always seems to be stormy and thundering and stuff . . .*



*"he tells me he just rides around in the truck . . .*

*I think he says that so I don't worry.*



*"Hey, Dad, you OK?"*



## A COMMITMENT TO SERVICE . . .

. . . is the commitment of more than 16,000 employees doing nearly 2,100 different jobs in the Texas Utilities Company System. It is exemplified in the cover photograph taken from a television spot (shown at left) which emphasizes this commitment.

While emergency restoration of electric service is one of the more visible jobs, there are literally hundreds "behind the switch" that customers never see. Some of the jobs, people, and activities necessary to providing round-the-clock reliable electric service are pictured in this report.

## Highlights

	1987	1986	% Change
Utility Plant* .....	\$15,172,994,000	\$13,566,133,000	11.8%
Construction Expenditures..	\$ 1,688,831,000	\$ 1,519,619,000	11.1
Electric Energy Sales in			
Kilowatt-hours (000's) .....	77,772,652	75,254,775	3.3
Peak Demand (Kilowatts)† ..	16,680,000	16,537,000	0.9
Operating Revenues .....	\$ 4,082,923,000	\$ 3,932,045,000	3.8
Fuel and Purchased Power ..	\$ 1,585,610,000	\$ 1,479,213,000	7.2
Operating Expenses‡ .....	\$ 1,648,430,000	\$ 1,643,272,000	0.3
Consolidated Net Income ...	\$ 679,976,000	\$ 626,851,000	8.5
Earnings per Share .....	\$ 4.55	\$ 4.45	2.2
Dividends Declared per			
Share .....	\$ 2.80	\$ 2.68	4.5
Book Value per Share* .....	\$33.02	\$31.24	5.7
Customers* .....	2,094,866	2,074,766	1.0
Employees* .....	16,086	16,927	(5.0)

\* End of year

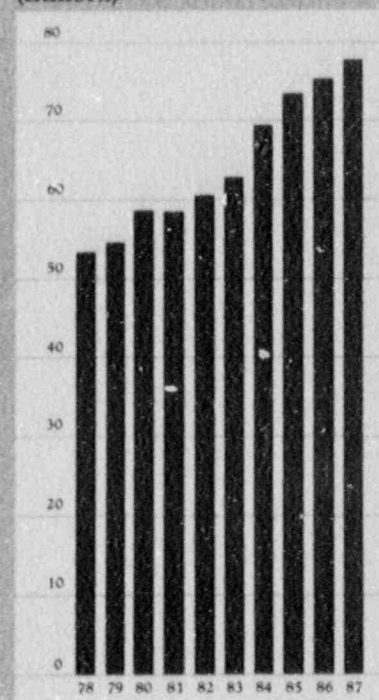
† 1987 and 1986 include 113,000 and 130,000 kilowatts of interruptible demand, respectively

‡ Excludes fuel and purchased power

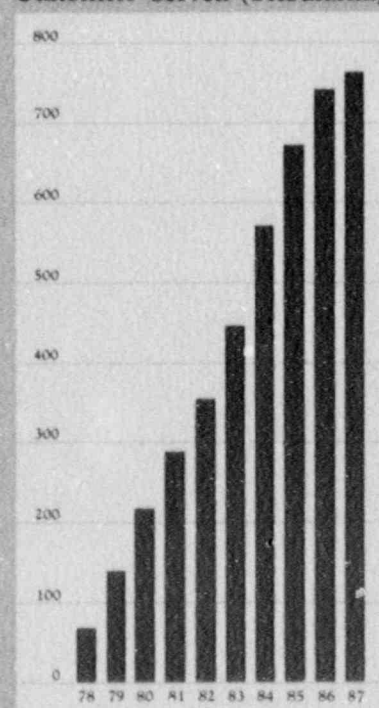
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Kilowatt-Hour Sales  
(Billions)



Cumulative Growth in  
Customers Served (Thousands)



expected to begin later in 1988. Because the reinspection, reanalysis and corrective action program is demonstrating that Comanche Peak is being built with a high level of quality, management is confident that an operating license will be granted.

In March 1988, the company estimated that Unit 1 would be in commercial operation at the end of 1989, with that estimate based on the granting of an operating license and fuel load in mid-1989. Construction and capitalization of allowance for funds used during construction on Unit 2 will be suspended for about one year, beginning in April 1988. The suspension of construction will allow concentration of resources on Unit 1. Suspending capitalization of AFUDC will reduce earnings. Unit 2 is not expected to be in commercial operation until after the peak season of 1991.

If the schedule for Unit 1 is achieved, it is estimated that TU Electric's 94 percent share will cost \$8.54 billion, or \$3,950 per kilowatt. Because of uncertainty about the commercial operation date of Unit 2, no estimates for AFUDC after construction resumes have been included.

Operating results for 1987 reflect the effect of cost control and productivity efforts. Earnings per share of common stock were \$4.55, compared to \$4.45 in 1986. Electric energy sales were up 3.3%.

Construction expenditures during the year totalled \$1.69 billion. Funds from operations provided 18.2% of 1987 construction expenditures.

During 1987, the System raised about \$1.49 billion through long-term financing, including about \$142.5 million

from participation in the dividend reinvestment and employee savings plans. A portion of these funds was used to retire \$132.5 million of high-interest debt.

The elections of Jerry Farrington as chairman of the board and chief executive and Erle Nye as president became effective in February 1987. Farrington succeeded Perry G. Brittain, who retired in the spring of 1987 after 37 years of valued service to the Company.

In February 1988, the Board raised the regular quarterly dividend from 70 cents per share to 72 cents. The new quarterly rate is payable April 1. Dividends declared on the common stock have been increased for 41 consecutive years.

Continuing commitment to providing low-cost, reliable service to customers is essential if the Company is to succeed in today's competitive business climate. The employees of the System continue to perform with distinction, and their continued dedication and commitment to safety, improved productivity and excellence in all aspects of customer service will ensure that success. Their efforts and the continued interest and support of our shareholders are appreciated.

March 18, 1988



**JERRY FARRINGTON**  
*Chairman of the Board*

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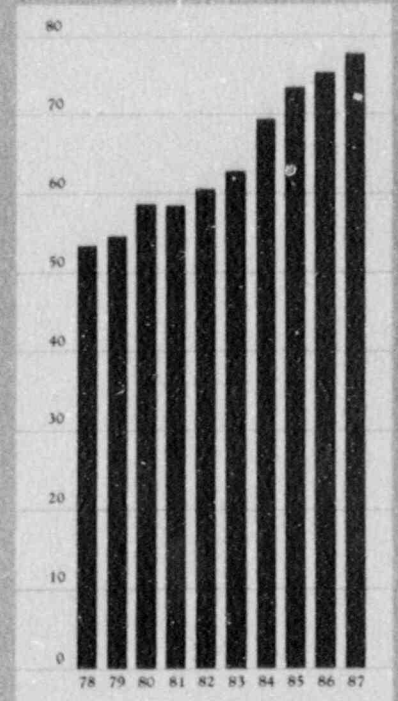
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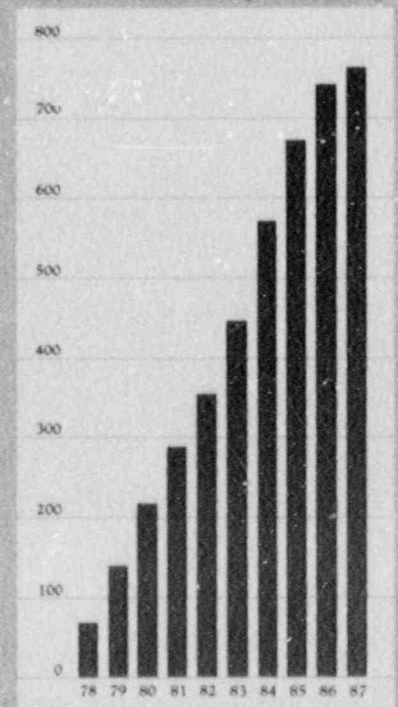
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Kilowatt-Hour Sales (Billions)



Cumulative Growth in Customers Served (Thousands)





## Management's Letter

### To the Shareholders:

During 1987, efforts to complete and license the Comanche Peak nuclear plant continued. It was a year in which the Company made gains in resolving those nuclear issues, as well as in improving competitiveness, holding down costs through better efficiency and productivity, and further diversifying its resources used to generate electricity.

Continued emphasis was placed during the year on the Company's traditional commitment to providing low-cost, reliable electric service to its customers and a fair return to its investors.

Early in 1987, the new "TU Electric" identity was adopted for use throughout the Electric Company. By year end, the new identity was becoming widely accepted by customers and employees, helping focus attention on the company as an efficient provider of quality service.

Implementation of the TU System reorganization that began in 1984 continued last year with the consolidation of the System's communications, personnel, and purchasing departments. Efficiencies achieved through the reorganization and the need to further control costs resulted in an early retirement program, with more than 800 employees taking advantage of the option. Most were long-service employees, and their accomplishments over many years of dedicated service are deeply appreciated.

Through increased productivity, the System continues to serve a growing

number of customers without an increase in number of employees. More than 20,000 customers were added last year, even though growth in the service area has slowed from the record levels experienced earlier this decade.

The Company continues to adapt to today's changing and increasingly competitive business environment, and a more competitive spirit was demonstrated in a number of respects in 1987. The Fuel Company paid the lowest average price for natural gas fuel since 1980 because of its pursuit of low-priced spot market gas and renegotiated contracts. Late in the year, a corporate marketing department was created to further consolidate certain related functions and thereby effectively meet the needs of customers in an increasingly competitive marketplace. In addition, three new combustion turbine generating units — the company's first new generating units since 1981 — were brought on line in early 1988 ahead of schedule and under budget.

The new combustion turbine units, the first of nine scheduled to be in service in 1988, are designed to serve peak periods of demand and provide important flexibility in the System's resource plan for providing reliable electric service. Reduced forecasted growth rates in demand for electricity were reflected in the deferral of the two Twin Oak lignite generating units and the Forest Grove lignite unit for two to three years each. The resource plan includes a carefully planned mix of lignite and nuclear generation, along with combustion turbines, cogeneration, load management,

and a life-extension program for existing natural gas- and oil-fueled units.

Significant progress was made during the year in the effort to assure the safety of Comanche Peak's design and construction. TU Electric's detailed reinspection of construction and review of design, underway since 1984, have been completed and all reports submitted. A Corrective Action Program for Unit 1 is underway. The programs, which include validation of safety-related construction work, as well as 100% of the safety-related design of the plant, have received the approval of the Nuclear Regulatory Commission staff.

In January 1988, the Comanche Peak Response Team reported that about 98% of the reinspection and documentation reviews were in compliance with applicable design requirements. The CPRT also reported that the corrective action program provides reasonable assurance that the plant's structures, systems, and components will be capable of performing their intended functions.

TU Electric agreed in February 1988 to purchase, subject to regulatory approval, the Texas Municipal Power Agency's 6.2% share of Comanche Peak and settle pending litigation between the parties. The company will purchase TMPA's share for a current dollar cost of approximately \$456 million, which is based on TU Electric's cost per kilowatt for its existing share of the plant.

In November 1987, the Atomic Safety and Licensing Board issued a schedule for resuming the Comanche Peak operating licensing hearing process. Public hearings are

expected to begin later in 1988. Because the reinspection, reanalysis and corrective action program is demonstrating that Comanche Peak is being built with a high level of quality, management is confident that an operating license will be granted.

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March 18, 1988



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*Chairman of the Board*

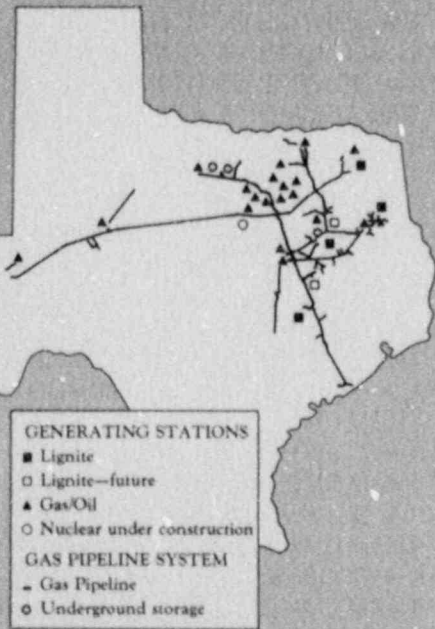
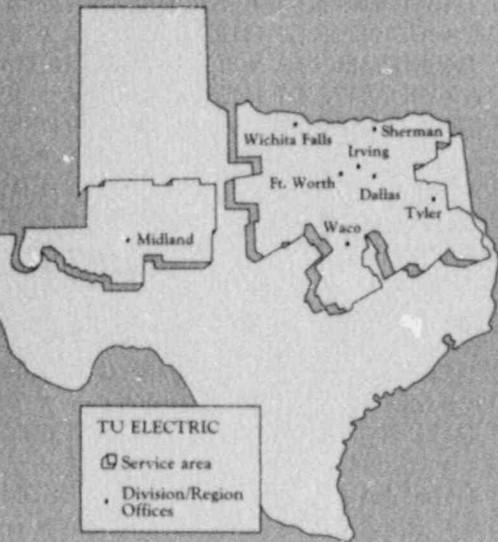
A handwritten signature in dark ink, appearing to read "Jerry Farrington".



**ERLE NYE**  
*President*

A handwritten signature in dark ink, appearing to read "Erle Nye".

## System Companies



**Texas Utilities Company** is an investor-owned holding company for an electric utility system. The Company provides its six wholly owned subsidiaries with common stock capital and short-term funds required for their construction programs. At year-end, the common stock of the Company was owned by some 93,300 registered shareholders. The Company's principal subsidiary is Texas Utilities Electric Company, now known as TU Electric.

**Texas Utilities Electric Company (TU Electric)** is engaged in the generation, purchase, transmission, distribution, and sale of electricity. The company operates 19 gas-/oil-fueled and four lignite-fueled generating stations.

TU Electric provides electric energy to approximately 5,160,000 people—about one-third of the state's population. The service territory extends 600 miles from far West Texas eastward to near Louisiana, and is about 250 miles deep, from the Oklahoma border southward into Central Texas.

Service is provided in 87 counties to 361 incorporated cities, including Dallas—the nation's eighth-largest city—and Fort Worth, Midland-Odessa, Wichita Falls, Arlington, Irving, Plano, Waco, Tyler, and Killeen. The economy of the service area is highly diversified. Major industries include defense, electronics, aerospace manufacturing, and oil and gas development. In addition, the area is a center for banking, insurance, commerce, distribution, farming and ranching, and recreational and cultural activities. Dallas-Fort Worth International Airport—the world's fourth-busiest airport—has helped make the Dallas-Fort Worth area third in the nation in concentration of corporate headquarters.

**Texas Utilities Fuel Company** owns a natural gas pipeline system; acquires, stores, and delivers fuel gas; and provides other services for the generation of electric energy by TU Electric.

**Texas Utilities Mining Company** owns and operates fuel production facilities for the surface mining and recovery of lignite for use as fuel for TU Electric's generating stations.

**Texas Utilities Services Inc. (TU Services)** furnishes financial, accounting, computer, and other administrative services at cost to the System companies.

**Basic Resources Inc.** is engaged primarily in the development of energy resources and related technology and services.

**Chaco Energy Company** was organized to own and operate facilities for the acquisition, production, sale, and delivery of coal and other fuels.

## System Report

### OPERATIONS

The System continued its growth at a slower pace during 1987, adding some 20,000 new customers, despite an overall slowdown in the state's economy.

The diversity of the service area contributed to better economic conditions than most of the state experienced. Service area unemployment was 5.5% at year-end 1987, compared to 6.5% at the end of 1986 and to the December 1987 state-wide figure of 6.8%.

TU Electric's energy sales were again the highest of any investor-owned electric utility in the nation, totalling nearly 78 billion kilowatt-hours, a 3.3% increase over 1986.

#### Peak demand record set

On August 6, customers set a record peak demand of 16,680,000 kilowatts, including 113,000 kilowatts of interruptible demand, exceeding the previous record set in July 1986 by about 1%. System net capability at the time of the peak was 19,465,000 kilowatts, including 850,000 kilowatts of short-term cogeneration and 130,000 kilowatts of other purchased power capacity.

A new daily record for energy consumption was set on August 17, as customers used 317,657,000 kilowatt-hours.

Weather conditions for the summer of 1987 were milder than normal and comparable to those of 1986. The peak load occurred during a 102-degree temperature day, after four consecutive days of 100-degree or higher temperatures.

### Employees meet challenges

Employees' dedication, skills, and efforts helped meet the record demand and other challenges in carrying out the System's commitment to service during 1987.

Employees from around the System were called on to restore two units damaged by fire in February at the Lake Hubbard generating station near Dallas and were able to restore both units in time for service in the summer peak season.

Employees also responded to weather problems during the year. On November 16, a tornado swept through Palestine in East Texas, knocking out electric service and damaging transmission towers, lines, and other equipment. Round-the-clock efforts by employees restored service in three days.

An ice storm in early January 1988 again tested employees' preparedness and ability to respond to an emergency situation, and their efforts helped minimize power outages.

The System emphasizes safety in every phase of its operations. These efforts were again effective in 1987, as numerous employee groups reached safety milestones, set records, and earned distinguished safety awards. The continuing attention to safety contributes significantly to employees' health and welfare, as well as to the System's productivity.

#### Consolidations continue

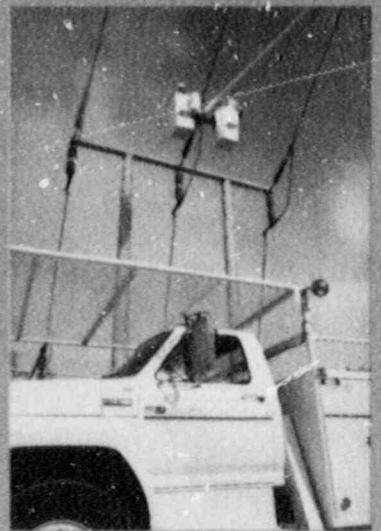
As part of continuing efforts to serve customers more efficiently at lower cost, a new corporate identity, "TU Electric," was introduced for Texas Utilities Electric Company in early 1987. Also in 1987, Texas Utilities Services Inc. became known as "TU Services."



Control room at gas-fired plant



Employees' safety performance



Service truck

The realignment of accounting and treasury operations in TU Electric that was effective January 1, 1987, is providing savings and improved management and accounting information. The Personnel, Purchasing, and Communications functions were consolidated in 1987 to achieve additional economies.

Because of the consolidations and the continuing emphasis on cost control, a special early retirement program was offered in June. More than 800 employees accepted the plan.

Computerization continues to make more efficiencies possible. The new Mountain Creek Data Center went into operation in late 1987. The new facility is the TU System's second computer center. It will absorb part of the growing load and eventually will serve as a backup facility to the Mesquite Data Center.

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### Marketing role to increase

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In 1987, the company took steps to return to more aggressive marketing in an increasingly competitive business environment.

A marketing function was created at the TU Electric corporate level to plan and develop the company's marketing policies and programs to more effectively serve the needs of customers and to support economic development. A campaign began in 1987 to inform customers, builders, and developers of the company's comparatively attractive rates, high-quality service, and the benefits of homes built to TU Electric's Energy Action standards.

TU Electric continues to emphasize load management as a key element in reducing the expense of new generating capacity needed for customer growth. Since 1981, load

management has reduced growth in peak load by more than 785 megawatts, an amount more than the output of one large lignite unit. The program has been successful because it provides participating customers the convenience and reduced operating costs of high-efficiency equipment and building structures. All customers benefit through reductions in the company's construction expenditures.

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### FUEL AND PURCHASED POWER

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Assured supplies of fuel at competitive prices and flexibility in their acquisition and use are vital to the System's commitment to be a low-cost supplier of electricity.

During 1987, the Fuel Company continued its aggressive efforts to make favorable natural gas purchases on the spot market and to renegotiate fuel contracts. These helped lower the price of gas by 8% to \$2.56 per million Btu, down from the 1986 average of \$2.77.

The cost of lignite still averaged considerably less than half that of gas at \$1.07 per million Btu. The composite fuel cost for 1987 of \$1.82 per million Btu, compared to \$1.84 in 1986, is the lowest since 1981. The downward trend of fuel costs over the past three years appears to have leveled off.

The Fuel Company delivered 376 billion cubic feet of natural gas to TU Electric in 1987, and its pipeline system's operating flexibility was enhanced with the completion of a 58-mile natural gas pipeline in East Texas. The new addition, jointly owned with two other gas companies, gives the Fuel Company better access to East Texas gas supplies, particularly during peak demand periods.



System operations center



Mountain Creek Data Center



Competitive marketing

The company owns more than 2,200 miles of pipeline along with underground gas storage reservoirs with a total usable capacity of some 28 billion cubic feet.

### Lignite supply increased

Lignite coal leases on 8,700 acres in Titus County were obtained in 1987 to help assure a future source of low-cost lignite fuel for the nearby Monticello power plant.

The availability of more than 80 million tons of additional recoverable lignite will provide additional savings to TU Electric customers. The new supply increased the company's proven recoverable lignite reserves to about 800 million tons at year end. TU Electric's lignite plants burned approximately 29 million tons in 1987. The Mining Company continues to be the nation's fourth largest coal miner in annual tonnage mined.

### Nuclear fuel ready

Nuclear fuel assemblies needed for initial operation of Comanche Peak's Unit 1 are stored at the plant site. Additional assemblies needed for the start-up of Unit 2 are in storage at the vendor's fabrication facility. Additional fuel is under contract.

Spent fuel for more than 20 years of plant operation can be safely stored on site. This

storage capacity can be increased, if needed, until the federal government opens a permanent disposal facility.

### Chaco litigation continues

Discovery continues in litigation involving Chaco Energy Company, a nonutility subsidiary of the Company, and Santa Fe Industries, Inc., and its subsidiaries. A trial date is expected to be set sometime in 1989.

In 1977, Chaco signed agreements for more than 320 million tons of coal in northwestern New Mexico. In December 1981, the Company and Chaco filed suit against Santa Fe Industries, Inc., and two of its subsidiaries and against Thercol Energy Company and Peabody Coal Company, alleging, among other things, violation of federal and state antitrust laws and other unlawful conduct involving these agreements, which have made the commercial mining of this coal uneconomical. The suit seeks to have the agreements declared void and unenforceable and also seeks damages and other relief.

In January 1983, the Company and Chaco settled all claims against Thercol and Peabody. The settlement did not affect the claims asserted against Santa Fe Industries and its subsidiaries.



Fuel operations dispatching office



Gas pipeline addition



Mining lignite with the cross pit spreader

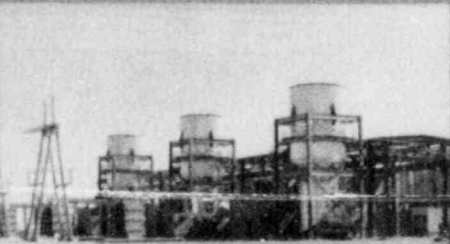
### Sources of Kwh and Fuel Cost

	Percent Kwh by Fuel and Purchases			Cost Per Million Btu		
	1987	1986	1985	1987	1986	1985
Fuel Use:						
Gas/Oil* .....	43%	44%	50%	\$2.56	\$2.77	\$3.41
Lignite.....	44	50	47	1.07	.98	.96
Total/Average Cost ...	87	94	97	\$1.82	\$1.84	\$2.25
Purchased Power .....	13	6	3			
TOTAL	100%	100%	100%			

\*Oil less than 1%



Resource planning



Combustion turbines



New control system at an existing plant

## RESOURCE PLANNING

Innovation and flexibility in long-range planning enable the System to provide service to a growing number of customers when and where it is needed.

A revised resource plan for meeting expected requirements for electricity for the next 10 years was announced in March 1988. Customer needs are expected to increase by more than 8,700,000 kilowatts over the next 10 years, based on a projected average annual load increase of 2.5% and maintaining necessary reserve capacity.

The Comanche Peak nuclear plant remains a cornerstone of the plan and is needed, along with lignite and existing gas-fired power plants, for added fuel diversity and stability and to assure reliable power for the future.

The 10-year plan includes load management programs to reduce the need for new generation by some 1,400,000 kilowatts. Other resources utilized are combustion turbines, cogeneration, and a life extension program for existing gas-fired plants.

### Resource Plan 1988-1997

Resource	Capability (Kilowatts)	Percent
Lignite	2,250,000	26%
Nuclear	2,162,000	25%
Combustion turbines	1,495,000	17%
Load management	1,422,000	16%
Cogeneration, other purchases* and unspecified additions	1,444,000	16%
Total	8,773,000	100%

\*Includes wind, solar, and other resources

### Combustion turbines ready

Combustion turbines will supply a significant portion of the projected increased need for capacity during periods of peak usage. Almost 1,500,000 kilowatts will come from these fast-starting units over the next 10 years.

Construction and testing at full load of three new 65,000-kilowatt turbine units were completed in late 1987 at the Permian Basin Plant in far West Texas. Six similar units are being constructed at the Morgan Creek Plant for a total of 585,000 kilowatts to be in service for the 1988 summer peak season. An additional six units (390,000 kilowatts) are scheduled for 1990.

### Cogeneration added

Three long-term cogeneration projects, with a total of 611,000 kilowatts of capacity, were placed in service during 1987, making a total of 681,000 kilowatts of such capacity.

Under the new resource plan, cogeneration and small power sources will provide at least an additional 624,000 kilowatts of new capacity from 1988-1997. If needed, more cogeneration is an option, provided qualifying facilities are found and the economics prove to be beneficial.

In June 1987, TU Electric signed its fifth long-term cogeneration contract. Under the 13-year contract, Encogen One Partners, Ltd., will provide as much as 255,000 kilowatts by December 1989 from a facility located near Sweetwater, Texas. The company plans to continue to contract for short-term cogeneration to help meet winter and summer peak needs in 1988 and 1989.

### Life of gas units to be extended

A significant change in the revised Resource Plan involves greater reliance on existing gas-fired units through a life extension program. Planned replacement of certain equipment, coupled with existing maintenance programs, can extend the life of a unit beyond its normal life expectancy.

Compared to other options, the relatively low cost of extending the life of existing generating units and the availability of gas supplies make this program especially attractive in today's economy. The life extensions of some power plants will ensure their continued availability and dependability for several more years.

### Lignite units deferred

In September 1987, the company announced it would defer construction of three lignite units. Twin Oak Units 1 and 2 in Robertson County were postponed until 1994 and 1995, respectively. Forest Grove Unit 1 near Athens was rescheduled for 1997.

The deferral was in response to the decrease in the growth of long-range forecasted customer demand for electricity and a decision to defer some previously planned retirements of certain gas-fueled generating units.

### Construction schedule

Unit	Capability (Kilowatts)	Peak Season Service
Combustion turbines	585,000	1988
Comanche Peak 1	1,081,000*	1990
Combustion turbines	390,000	1990
Comanche Peak 2	1,081,000*	1992
Twin Oak 1	750,000	1994
Twin Oak 2	750,000	1995
Forest Grove 1	750,000	1997

\*Net capability to TU Electric, including purchase of TMPA's share.

### COMANCHE PEAK

Major emphasis during 1987 continued to be on TU Electric's reinspection program, which was nearing completion by early 1988, and the Corrective Action Program. Through this effort, which began in late 1984, the Comanche Peak Response Team has been addressing all concerns about the plant's construction and design adequacy.

A milestone was attained early in 1988 when the Nuclear Regulatory Commission staff's

Office of Special Projects, which is assigned to manage all aspects of the NRC staff's licensing and inspection efforts at Comanche Peak, announced its approval of the CPRT and CAP efforts. The office said the plans adequately describe the means by which TU Electric intends to establish the safety of the plant's design and construction.

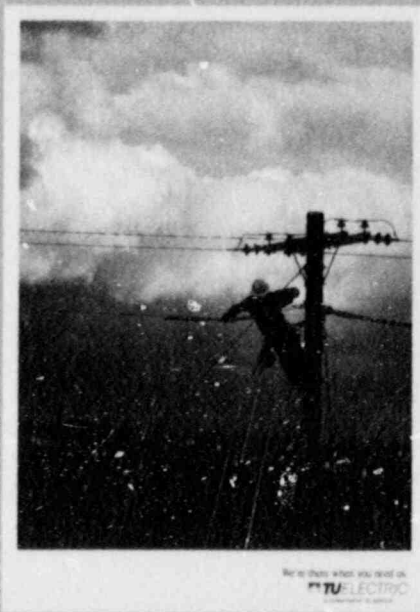
The programs have included validation of safety-related construction as well as 100% of the safety-related design of the plant (except for components provided by proven nuclear vendors).

Another milestone was reached when the NRC staff, in March 1988, issued a Supplemental Safety Evaluation Report on TU Electric's programs to address all piping and pipe-support issues. The report concluded that the programs are sufficient to ensure that licensing commitments are satisfied and that the issues raised are being properly resolved.

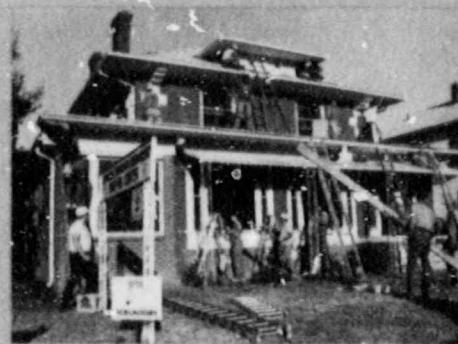
In December 1987 and February 1988, the CPRT submitted to the Nuclear Regulatory Commission two reports — the Collective Evaluation Report and Collective Significance Report — stating its overall summary and conclusions about the plant's design, quality of construction, and its quality assurance and testing programs.

In the Collective Evaluation Report, the CPRT stated that about 98% of the reinspection and documentation reviews were in compliance with applicable design requirements and identified no programmatic problem not already being addressed.

The Response Team also found that the present quality assurance program is effective and the historic quality



Customer communications



Employee community volunteers





Transmission crew



Substation



Distribution line work

assurance program was generally adequate. Those problems that were identified have been corrected and actions have been taken to prevent recurrence. In addition, the testing program and other start-up activities were found to have been generally adequate and properly implemented.

According to the Collective Significance Report, the Corrective Action Program provides reasonable assurance that the structures, systems, and components at Comanche Peak will be capable of performing their intended safety functions.

In December 1987, TU Electric and Gibbs & Hill, Inc., reached agreement settling TU Electric's potential claims against Gibbs & Hill related to engineering and design services performed for Comanche Peak. TU Electric and the joint owners are to receive a total of \$25 million in cash, deferred payments, and future engineering services to be provided to TU Electric on non-nuclear projects.

The settlement is considered favorable to TU Electric and its customers. Protracted litigation would have depleted Gibbs & Hill's limited resources and created large legal expenses for the Comanche Peak owners.

#### **Preparations made for operation**

Progress was made during the year toward fully staffing TU Electric's permanent on-site engineering staff.

In addition, advances were made in preparing for commercial operation. A training annex building, which will allow plant maintenance employees to receive hands-on training in laboratories and realistic environments, opened during the year.

TU Electric is committed to providing all Comanche Peak

shift operations supervisors experience through participation in control room operations in an on-line nuclear plant. As of December 1987, the program to carry out that commitment was 88% complete. Further operational experience also was gained in 1987 when a number of Comanche Peak reactor operators and auxiliary operators assisted in preparing a unit at the Braidwood nuclear plant in Illinois for initial start-up.

#### **Licensing effort continues**

In November 1987, the Atomic Safety and Licensing Board issued a schedule for resuming the Comanche Peak operating licensing hearing process. Hearings had been suspended since January 1985 so the CPRT could address concerns about the plant's design and construction.

Under the schedule, which is similar to ones proposed by TU Electric and the NRC staff, public hearings are expected to begin later in 1988 after the NRC staff issues its Supplemental Safety Evaluation Reports on the Collective Significance Report and status reports on the Corrective Action Program.

In July 1987, the Atomic Safety and Licensing Appeal Board ruled that an amended contention contesting the NRC's extension of the construction permit for Unit 1 is appropriate as the basis for ASLB hearings on the extension. The contention was filed by two intervenors, Citizens Association for Sound Energy and a former plant employee.

In March 1988, the company filed a motion to consolidate the construction permit extension and operating license proceedings because of their many common issues.

## Cost and schedule revised

Because of the schedule established by the Atomic Safety and Licensing Board for resumed licensing hearings and TU Electric's schedule for completing reports on which the hearings would be based, the company announced in November 1987 that the schedule estimate for Unit 1, made in November 1986, was no longer achievable.

Revised cost and schedule estimates were announced in March 1988. The company estimates that Unit 1 will be in commercial operation at the end of 1989, with that estimate based on the granting of an operating license and fuel load in mid-1989.

Construction and capitalization of allowance for funds used during construction on Unit 2 will be temporarily suspended for about one year, starting in April

## Construction expenditures

	1987	Estimated		
		1988	1989	1990
	<i>Millions of Dollars</i>			
Electric property:				
Production*	\$ 972	\$ 842	\$ 592	\$ 438
Transmission	61	50	69	76
Distribution	209	195	225	233
General	34	20	28	30
Other utility property	26	43	23	73
Total	1,302	1,150	937	850
AFUDC*‡	387	350	463	50
Total construction expenditures*†	<u>\$1,689</u>	<u>\$1,500</u>	<u>\$1,400</u>	<u>\$ 900</u>
Such expenditures do not include AFUDC on Unit 2 of Comanche Peak for any period after March 1988 or the following:				
Nuclear fuel*	\$ 1	\$33	\$15	\$15
Non-utility property	28	37	48	59

\*Includes ongoing amounts for an additional 6.2% interest in Comanche Peak, which is subject to purchase from TMPA as follows (see Note 11 to Financial Statements):

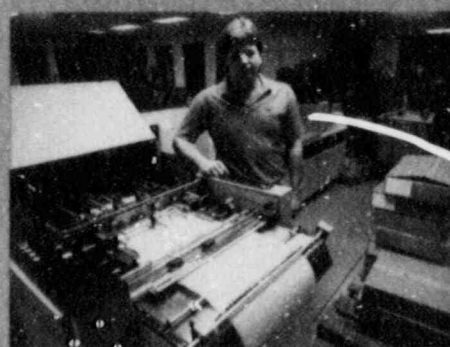
Production	\$ 50	\$ 32	\$ 16
AFUDC	23	30	1
Total construction expenditures	<u>\$ 73</u>	<u>\$ 62</u>	<u>\$ 17</u>
Nuclear fuel	\$ —	\$ 1	\$ 1

‡Allowance for funds used during construction.

†Estimated construction expenditures do not include amounts for the 1988 and 1990 combustion turbine units. Plans call for the 1988 combustion turbines to be owned and constructed by a third party and sold to a lessor after the tax in-service date; TU Electric will then lease the units. Turnkey construction of the 1990 combustion turbines is planned, and TU Electric will then enter into an operating lease agreement.



Reference library



Bill preparation



Computer training



Customer information center



Telephone customer service



Display at State Fair of Texas

1988. The suspension of construction will allow concentration of resources on Unit 1. Suspending capitalization of AFUDC will reduce earnings. Unit 2 is not expected to be in commercial operation until after the peak season of 1991.

The new estimates present a delay of about a year for Unit 1 and about two years for Unit 2 from the estimates announced in November 1986.

Based on this schedule, it is estimated that TU Electric's 87% percent share of Comanche Peak will cost \$7.98 billion, including AFUDC, compared to the \$6.7 billion estimated in November 1986.

In early 1988, the company agreed to purchase the Texas Municipal Power Agency's 6.2 percent share of Comanche Peak. With regulatory approval, the company's share of the plant will be increased to approximately 94 percent and will bring TU Electric's estimated completed cost to \$8.54 billion, including AFUDC, or about \$3,950 per kilowatt. The previous estimated cost was about \$3,300 per kilowatt.

Because of uncertainty about the commercial operation date of Unit 2, the cost projections do not include estimates for AFUDC after construction of the unit resumes.

Since the company has only limited control over the licensing process, no assurance can be given that estimates of commercial operation dates of the Comanche Peak units can be met or that their estimated completion costs will not be exceeded.

### Litigation

In May 1986, TU Electric filed suit in State District Court in Dallas County against the

minority owners—the Texas Municipal Power Agency, Brazos Electric Power Cooperative, Inc., and Tex-La Electric Cooperative of Texas, Inc.—asking the court to resolve disagreements over the Comanche Peak Joint Ownership Agreement. In response, cross-actions and lawsuits against TU Electric and the company were filed by the minority owners.

In February 1988, TU Electric agreed to purchase TMPA's 6.2% share of Comanche Peak and settle pending litigation between the parties. Under terms of the agreement, which is subject to regulatory approval, the present value of the amount TU Electric will pay TMPA over the next five years for its share of Comanche Peak, nuclear fuel, transmission facilities, and costs related to the pending litigation is approximately \$456 million.

The company believes the agreement is in its best interests since it provides TU Electric with additional needed generating capacity without increasing the company's cost per kilowatt in the Comanche Peak project and reduces its expenses associated with the litigation.

Additional discovery is scheduled with the other two parties, Brazos and Tex-La, with trial set for October 1988.

### RATES AND REGULATIONS

TU Electric's current rate levels, excluding fuel charges, were set by the PUC in November of 1984. Based on factors that are presently known, TU Electric does not plan to request a rate increase until Comanche Peak Unit 1 is in commercial operation.

Since the rate changes made in 1984, TU Electric's rates have decreased by more than

10% because of declining fuel costs and the Fuel Company's aggressive gas contract renegotiations. The company continues to believe that the rate increase when Comanche Peak Unit 1 goes into service can be held to about 10%. Therefore, the increase for Unit 1 would bring the company's current rates only to the level they were after the 1984 rate proceedings.

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### Rates decrease

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The company's rates compare favorably to others in the state and nation. For the 12 months ended February 1988, TU Electric had the second lowest residential rates of investor-owned utilities in Texas. It also had the sixth-lowest residential rates of the 25 largest cities in the nation.

In 1987, two fuel-related refunds were made. A request to refund over \$55 million was authorized for February and a second approved for nearly \$70 million for May. Also, the composite fuel charge was lowered in February 1987. Since February 1986, \$391 million in fuel costs have been refunded to customers and rates have been lowered overall by 10.3%.

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### RESEARCH AND DEVELOPMENT

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The System continues to be involved in research and development of new products, procedures, and technologies that improve service and save the customer money.

At the Environmental Research Center at Big Brown, graduate level studies continued for the 17th consecutive year. The research, coordinated through an independent committee of university professors, addresses environmental concerns and provides information to improve the land, air, and water quality

programs at the System's lignite facilities.

The System also actively supports research conducted through the Electric Power Research Institute. EPRI administers a coordinated, nationwide research and development program to ensure future availability, efficient production, delivery, and use of electric energy while minimizing effects on the environment.

As an example, EPRI is involved in a number of major research programs related to electric and magnetic fields produced by power lines, which were the subject of considerable publicity in 1987. Research has not proven that electric or magnetic fields cause any adverse health effects.

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### System projects save money

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TU Electric continues to be a leader in innovative uses of technology. In 1987, employees received three First Use Awards from the Electric Power Research Institute for their involvement in:

- Developing on-line monitors for use on large economical base-load generating units. The monitors ensure early detection of potential problems before they cause lengthy outages that would make it necessary to operate less-efficient units.
- Solving chemical process problems in flue gas desulfurization systems, an achievement that has reduced scrubber system operating costs by 20% and saved customers millions of dollars annually.
- Eliminating boiler feed pump vibration and hydraulic instability, thereby improving the reliability of major generating units.



Low-cost lignite fuel



Power plant chemical technician



Log I management customer contact

## **Financial Report**

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## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Liquidity and Capital Resources

The primary capital requirements for 1987 and as estimated for 1988 through 1990 are as follows:

	1987	1988	1989	1990
	<i>Thousands of Dollars</i>			
Construction expenditures (excluding AFUDC) .....	\$1,302,000	\$1,150,000	\$ 937,000	\$ 850,000
Nuclear fuel and non-utility property .....	29,000	70,000	63,000	74,000
Maturities of long-term debt and sinking fund requirements (includes early redemptions in 1987 of \$133,000,000).....	188,000	55,000	52,000	135,000
Installment/principal payments to TMPA (see Notes 10 and 11 to Financial Statements).....	—	125,000	58,000	64,000
Total .....	<u>\$1,519,000</u>	<u>\$1,400,000</u>	<u>\$1,110,000</u>	<u>\$1,123,000</u>

For detail concerning major construction work now in progress or contemplated by the System Companies and commitments with respect thereto, see Resource Planning and Comanche Peak.

The System Companies generate funds from operations sufficient to meet operating needs, pay dividends on capital stock and finance a portion of capital requirements. These funds are derived from consolidated net income, depreciation, deferred taxes and investment tax credits. Factors affecting the ability of TU Electric to continue to fund a portion of its capital requirements from operations include adequate rate relief and regulatory practices allowing a substantial portion of construction work in progress (CWIP) in rate base, adequate depreciation rates, normalization of federal income taxes, recovery of the cost of fuel and purchased power and the opportunity to earn competitive rates of return required in the capital markets. For 1987, approximately 18% of the funds needed for construction was generated from operations.

External funds of a permanent or long-term nature are obtained through the sale of common stock by the Company, and the sales of preferred stock and long-term debt by the System Companies. The capitalization ratios of the Company and its subsidiaries at December 31, 1987 consisted of approximately 45% long-term debt, 10% preferred stock and 45% common stock equity. Similar ratios are expected to be maintained in the future. For information regarding bank lines of credit and short-term borrowings of the Company, see Note 2 to Financial Statements.

Financings in 1987 by TU Electric and the Company included the following:

#### Long-Term Debt (TU Electric):

Month	Principal Amount	Description
February	\$ 250,000,000	9 $\frac{1}{2}$ % First Mortgage and Collateral Trust Bonds due 2017
March	100,000,000	7 $\frac{1}{2}$ % Collateralized Pollution Control Revenue Bonds due 2017
April	250,000,000	10 $\frac{1}{2}$ % First Mortgage and Collateral Trust Bonds due 2017
July	150,000,000	9 $\frac{1}{2}$ % First Mortgage and Collateral Trust Bonds due 1997
July	150,000,000	10 $\frac{1}{2}$ % First Mortgage and Collateral Trust Bonds due 2017
September	67,000,000	9% Collateralized Pollution Control Revenue Bonds due 2007
October	112,000,000	9 $\frac{1}{2}$ % Collateralized Pollution Control Revenue Bonds due 2017
Total	<u>\$1,079,000,000</u>	

#### Preferred Stock (TU Electric):

Month	Shares	Net Proceeds	Description
July	1,000,000	\$98,215,000	Stated Rate Auction Preferred Stock, Series A

#### Common Stock (the Company):

Month	Shares	Net Proceeds	Description
March	5,000,000	\$170,452,000	Common Stock sale to the public

Early redemptions of long-term debt by TU Electric in 1987 included the following:

Month	Principal Amount	Redemption Cost	Description
April	\$ 32,531,000	\$ 36,523,000	16% First Mortgage Bonds due 2012
June	50,000,000	56,085,000	15 $\frac{1}{2}$ % First Mortgage Bonds due 2012
July	50,000,000	56,335,000	16% First Mortgage Bonds due 2012
Total	<u>\$132,531,000</u>	<u>\$148,943,000</u>	

## Management's Discussion and Analysis of Financial Condition and Results of Operations (concluded)

Additional early redemptions may occur from time to time in amounts presently undetermined. The Company anticipates the sale to the public of 5,000,000 shares of its authorized but unissued common stock in April 1988 and the issuance in April 1988 by the Brazos River Authority of \$100,000,000 principal amount of pollution control revenue bonds to be collateralized by the issuance of an equal principal amount of TU Electric's first mortgage and collateral trust bonds. The System Companies expect to sell securities as needed, including the possible future sale by TU Electric of up to \$300,000,000 principal amount of first mortgage and collateral trust bonds and up to 1,000,000 shares of cumulative preferred stock, both currently registered with the Securities and Exchange Commission for offering pursuant to Rule 415 under the Securities Act of 1933, sales of additional shares of common stock of the Company pursuant to various plans described in Note 3 to Financial Statements and sales of additional securities from time to time, in amounts and of types presently undetermined.

The Tax Reform Act of 1986 (TRA), among other things, repealed the investment tax credit, lengthened depreciation lives, created an alternative minimum tax and lowered the corporate tax rate subject to certain transition rules. Other tax accounting changes were required including the capitalization of items previously expensed and a change in the timing of income recognition for certain items. Substantially all of the tax changes, with the exception of the rate reduction, will result in the Company paying more taxes currently, will eliminate sources of internally generated funds for the Company and thereby increase financing requirements in the future. The TRA did not have a material effect on the Company for the years ended December 31, 1987 and 1986.

Although TU Electric cannot predict future regulatory practices, the extent of any further delays in the licensing of the Comanche Peak Nuclear Generating Station (Comanche Peak) or any changes in economic and securities market conditions, no changes are expected in trends or commitments which might significantly alter its basic financial position or ability to finance capital requirements. However, TU Electric has indicated that it does not currently plan to implement increased electric service rates which reflect any additional Comanche Peak costs until Unit 1 is ready for commercial operation and TU Electric continues to believe, based upon revised cost estimates and using acceptable rate making approaches and assumptions, that the rate increase, when Unit 1 goes into service, can be held to about 10%. Therefore, prior to the completion of Comanche Peak and its inclusion in rate base, a relatively small percentage of capital requirements may be generated internally. (See Notes 10 and 11 to Financial Statements.)

See Financial Statistics for additional information.

### Results of Operations

Operating revenues increased \$150,878,000 in 1987 and decreased \$238,112,000 in 1986. The following table details the factors contributing to the increase and decrease:

Factors	Increase (Decrease)	
	1987	1986
	<i>Thousands of Dollars</i>	
Fuel revenue .....	\$ 73,589	\$(316,545)
Power cost recovery factor revenue .....	32,485	25,668
Increased energy sales .....	51,954	61,492
Other .....	(7,150)	(8,727)
Total .....	<u>\$150,878</u>	<u>\$(238,112)</u>

The increase in operating revenues for 1987 was the result of increased fuel and purchased power revenue and increased energy sales. Energy sales for 1987 increased 3.3% and were attributable to increased customers and customer usage. Operating revenues decreased in 1986 as the result of decreased fuel revenue partially offset by increases in purchased power revenue and energy sales. See Operating Statistics.

**Fuel and purchased power** expense increased \$106,397,000 in 1987 and decreased \$309,671,000 in 1986. The increase for 1987 was due primarily to increased off-system purchases partially offset by lower fuel costs. Lower fuel expense for 1987 reflects the decrease in the unit cost of gas from \$2.77 per million Btu in 1986 to \$2.56 in 1987. The decrease in 1986 was due primarily to the decrease in the unit cost of gas offset in part by increased purchased power. See Operating Statistics.

**Operation** expense increased \$66,115,000 and \$38,901,000 for 1987 and 1986, respectively. Operation expense for 1987 was affected by increases in the cost of labor, liability and property insurance and the one-time cost of the special early retirement program. Increases in wheeling costs and liability and property insurance had a significant impact on operation expense for 1986.

**Maintenance** expense decreased \$18,619,000 for 1987 and increased \$19,540,000 for 1986. The decrease for 1987 was due primarily to revisions in the scope of certain scheduled overhauls. The increase in maintenance for 1986 was the result of increases in power production expenses associated with lignite and gas plants and programs to improve and ensure the availability of all generating units. Increased distribution maintenance also added to the increase for 1986.

**Taxes other than income** increased \$13,755,000 and \$4,117,000 for 1987 and 1986, respectively. The increases for 1987 and 1986 resulted primarily from increases in franchise and property based taxes.

**Allowance for funds used during construction (AFUDC)** increased as a result of the ongoing construction program and the resultant increase in the level of CWIP of TU Electric not included in rate base partially offset, in 1987, by the reduction in the AFUDC rates and the suspension of AFUDC on the Twin Oak and Forest Grove generating stations.

**Other income and deductions - net** increased \$9,359,000 and \$11,585,000 for 1987 and 1986, respectively. The increase for 1987 was due primarily to increased interest on temporary cash investments. The increase for 1986 was the result of a gain on the sale of certain properties.

**Interest on first mortgage bonds** increased in 1987 and 1986 due to the sale of new issues during the years and annualized interest of issues sold in the prior years, partially offset by retirements and redemptions of certain higher interest rate issues.

**Other interest charges** decreased \$16,347,000 for 1987 and increased \$9,570,000 for 1986. The decrease for 1987 reflects decreased interest cost on over-recovered fuel revenue and short-term borrowings. The increase for 1986 reflects increased interest cost on over-recovered fuel revenue offset in part by decreased interest on short-term borrowings.

**Preferred stock dividends** increased for 1987 and 1986, \$10,663,000 and \$12,099,000, respectively, due to new issues sold during these periods and the full year's effect of prior period issuances, offset in part in 1986 by lower dividend rates on the adjustable rate series.

**Consolidated net income** increased \$53,125,000 in 1987 and \$39,093,000 in 1986 which represents a culmination of the factors described above. Included in consolidated net income were increases in AFUDC of \$83,297,000 in 1987 and \$74,114,000 in 1986 which represent non-cash earnings to the Company.

#### **Estimated Effect of Pending Accounting Change**

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 entitled "Accounting for Income Taxes" which becomes effective for fiscal years beginning after December 15, 1988. The Statement, among other things, requires the liability method of recognition for all temporary differences, requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates and prohibits net-of-tax accounting and reporting. Certain provisions of the Statement provide that regulated enterprises are permitted to recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. Although the application of the Statement will increase both total assets and liabilities, these requirements are not expected to have a material effect on the Company's financial position or results of operations.

#### **Suspension of Capitalization of AFUDC**

In September 1987, TU Electric announced the suspension of construction on the Twin Oak and Forest Grove generating stations. Therefore, capitalization of AFUDC was suspended in October 1987 until active construction resumes. Expenditures not included in rate base as of December 31, 1987, applicable to these stations, totaled approximately \$468,000,000.

In March 1988, TU Electric announced the temporary suspension of construction on Unit 2 of Comanche Peak for an anticipated period of one year. Therefore, beginning in April 1988, capitalization of AFUDC will be suspended until active construction resumes. Expenditures not included in rate base as of December 31, 1987, applicable to this unit, totaled approximately \$1,513,000,000.

The above suspensions of AFUDC reduced consolidated net income by approximately \$10,000,000 in 1987 and are expected to reduce consolidated net income in 1988 by approximately \$160,000,000 from the level it would otherwise have been.



**Statement of Consolidated Income**

Year Ended December 31,

	1987	1986	1985
	<i>Thousands of Dollars</i>		
OPERATING REVENUES .....	<u>\$4,082,923</u>	<u>\$3,932,045</u>	<u>\$4,170,157</u>
OPERATING EXPENSES			
Fuel and purchased power .....	1,585,610	1,479,213	1,788,884
Operation .....	624,053	557,938	519,037
Maintenance .....	300,451	319,070	299,530
Depreciation .....	234,139	220,381	207,592
Federal income taxes (Note 7) .....	194,460	264,311	276,711
Taxes other than income .....	295,327	281,572	277,455
Total operating expenses .....	<u>3,234,040</u>	<u>3,122,485</u>	<u>3,369,209</u>
OPERATING INCOME .....	<u>848,883</u>	<u>809,560</u>	<u>800,948</u>
OTHER INCOME			
Allowance for equity funds used during construction .....	283,061	231,880	173,846
Other income and deductions—net .....	14,371	5,012	(6,573)
Federal income taxes (Note 7) .....	(232)	3,034	2,165
Total other income .....	<u>297,200</u>	<u>239,926</u>	<u>169,438</u>
TOTAL INCOME .....	<u>1,146,083</u>	<u>1,049,486</u>	<u>970,386</u>
INTEREST CHARGES			
Interest on mortgage bonds .....	402,389	317,978	285,693
Interest on other long-term debt .....	67,934	71,073	68,940
Other interest .....	10,808	27,155	17,585
Allowance for borrowed funds used during construction .....	(104,062)	(71,946)	(55,866)
Total interest charges .....	<u>377,069</u>	<u>344,260</u>	<u>316,352</u>
PREFERRED STOCK DIVIDENDS OF SUBSIDIARY .....	<u>89,038</u>	<u>78,375</u>	<u>66,276</u>
CONSOLIDATED NET INCOME .....	<u>\$ 679,976</u>	<u>\$ 626,851</u>	<u>\$ 587,758</u>
Average shares of common stock outstanding (thousands) .....	149,449	140,982	135,267
Earnings and dividends per share of common stock:			
Earnings (on average shares outstanding) .....	\$4.55	\$4.45	\$4.35
Dividends declared .....	2.80	2.68	2.52

**Statement of Consolidated Retained Earnings**

Year Ended December 31,

	1987	1986	1985
	<i>Thousands of Dollars</i>		
BALANCE AT BEGINNING OF YEAR .....	\$2,180,293	\$1,931,307	\$1,686,913
ADD—Consolidated net income .....	<u>679,976</u>	<u>626,851</u>	<u>587,758</u>
Total .....	2,860,269	2,558,158	2,274,671
DEDUCT—Dividends declared on common stock (for amounts per share, see Statement of Consolidated Income) .....	<u>421,418</u>	<u>377,865</u>	<u>343,364</u>
BALANCE AT END OF YEAR (Note 4) .....	<u>\$2,438,851</u>	<u>\$2,180,293</u>	<u>\$1,931,307</u>

See accompanying Notes to Financial Statements.

**Statement of Consolidated Source of Funds for Construction**

Year Ended December 31,

	1987	1986	1985
	<i>Thousands of Dollars</i>		
<b>FUNDS FROM OPERATIONS</b>			
Consolidated net income .....	\$ 679,976	\$ 626,851	\$ 587,758
Depreciation (including amounts charged to fuel) .....	260,808	248,329	231,711
Deferred federal income taxes—net .....	48,912	140,479	124,325
Federal investment tax credits—net .....	56,012	66,302	77,285
Allowance for funds used during construction .....	(387,123)	(303,826)	(229,712)
Total funds from operations .....	658,585	778,135	791,367
Less—Dividends declared on common stock .....	421,418	377,865	343,364
Net funds from operations .....	<u>237,167</u>	<u>400,270</u>	<u>448,003</u>
<b>FUNDS FROM FINANCING</b>			
Sales of securities:			
First mortgage bonds .....	1,058,852	970,000	475,000
Other long-term debt .....	—	—	75,000
Preferred stock .....	98,697	197,728	83,513
Common stock .....	312,952	145,171	249,167
Retirement of long-term securities (Note 6) .....	(188,324)	(305,792)	(258,156)
Increase (decrease) in notes payable—commercial paper .....	(11,300)	11,300	(59,700)
Net funds from financing .....	<u>1,270,877</u>	<u>1,018,407</u>	<u>564,824</u>
<b>OTHER SOURCES (USES) OF FUNDS</b>			
Changes in working capital, excluding notes payable, long-term debt due currently and over-recovered fuel revenue:			
Cash in banks and temporary cash investments .....	(88,936)	(129,345)	(39,613)
Accounts receivable—net .....	(122,238)	10,944	(37,484)
Inventories .....	12,976	9,397	9,795
Accounts payable .....	41,703	43,034	18,777
Taxes accrued .....	(35,710)	(41,209)	(18,420)
Other—net .....	86,510	(25,049)	5,408
Net change .....	(105,695)	(132,228)	(61,537)
Non-utility property—net .....	(28,232)	(20,880)	(19,925)
Nuclear fuel .....	(797)	2,760	(54,803)
Over/under-recovered fuel revenue—net of deferred income taxes .....	(60,834)	(12,309)	52,301
Unamortized loss on reacquired debt—net (Note 6) .....	(15,548)	(23,398)	(32,021)
Other—net .....	4,770	(16,829)	(17,693)
Net other sources (uses) of funds .....	<u>(206,536)</u>	<u>(202,884)</u>	<u>(133,678)</u>
Total .....	<u>\$1,301,708</u>	<u>\$1,215,793</u>	<u>\$ 879,149</u>
<b>CONSTRUCTION EXPENDITURES</b>			
Utility plant .....	\$1,688,831	\$1,519,619	\$1,108,861
Allowance for funds used during construction .....	(387,123)	(303,826)	(229,712)
<b>CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)</b>			
.....	<u>\$1,301,708</u>	<u>\$1,215,793</u>	<u>\$ 879,149</u>

See accompanying Notes to Financial Statements.

**Consolidated Balance Sheet**

December 31,

	1987	1986
	<i>Thousands of Dollars</i>	
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
In service:		
Production .....	\$ 3,968,345	\$ 3,902,898
Transmission .....	1,214,642	1,166,066
Distribution .....	2,696,523	2,543,163
General .....	377,590	343,347
Total .....	8,257,100	7,955,474
Construction work in progress (Notes 10 and 11) .....	6,642,707	5,351,565
Nuclear fuel .....	252,761	251,964
Held for future use .....	20,426	7,130
Total utility plant .....	15,172,994	13,566,133
Less accumulated depreciation .....	2,718,328	2,522,016
Utility plant, less accumulated depreciation .....	<u>12,454,666</u>	<u>11,044,117</u>
<b>INVESTMENTS</b>		
Non-utility property (Note 11) .....	234,847	206,615
Other investments (Note 1) .....	22,107	15,113
Total investments .....	<u>256,954</u>	<u>221,728</u>
<b>CURRENT ASSETS</b>		
Cash in banks (Note 2) .....	7,230	6,494
Temporary cash investments—at cost .....	272,400	184,200
Special deposits .....	38,114	35,299
Accounts receivable:		
Customers .....	250,684	212,153
Minority owners of Comanche Peak (Note 10) .....	109,284	58,826
Other .....	66,522	33,847
Allowance for uncollectible accounts .....	(13,243)	(13,817)
Inventories—at average cost:		
Materials and supplies .....	130,941	126,865
Fuel stock .....	160,613	177,665
Deferred federal income taxes (over-recovered fuel revenue) .....	—	29,253
Other current assets .....	47,867	76,586
Total current assets .....	<u>1,070,412</u>	<u>927,371</u>
<b>DEFERRED DEBITS</b>		
Under-recovered fuel revenue .....	44,119	—
Unamortized loss on reacquired debt (Note 6) .....	70,967	55,419
Cancelled lignite unit costs (Note 11) .....	37,246	36,810
Other deferred debits .....	51,896	32,747
Total deferred debits .....	<u>204,228</u>	<u>124,976</u>
Total .....	<u>\$13,986,260</u>	<u>\$12,318,192</u>

*See accompanying Notes to Financial Statements.*

1987                      1986

*Thousands of Dollars*

**CAPITALIZATION AND LIABILITIES**

**CAPITALIZATION**

Common stock, without par value (Note 3):		
Authorized shares—200,000,000		
Outstanding shares—1987, 152,408,942; 1986, 142,805,206 .....	\$ 2,593,480	\$ 2,280,528
Retained earnings (Note 4) .....	2,438,851	2,180,293
Total common stock equity .....	<u>5,032,331</u>	<u>4,460,821</u>
Preferred stock (Note 5):		
Not subject to mandatory redemption .....	909,633	811,418
Subject to mandatory redemption .....	232,906	232,424
Long-term debt, less amounts due currently (Note 6) .....	<u>5,141,491</u>	<u>4,283,791</u>
Total capitalization .....	<u>11,316,361</u>	<u>9,788,454</u>

**CURRENT LIABILITIES**

Notes payable—commercial paper (Note 2) .....	—	11,300
Long-term debt due currently .....	<u>54,980</u>	<u>54,480</u>
Total (to be refinanced) .....	54,980	65,780
Accounts payable .....	347,478	305,775
Dividends declared .....	130,365	116,821
Customers' deposits .....	51,259	44,877
Taxes accrued .....	106,587	142,297
Interest accrued .....	139,222	107,707
Over-recovered fuel revenue .....	—	63,594
Other current liabilities .....	<u>33,021</u>	<u>23,856</u>
Total current liabilities .....	<u>862,912</u>	<u>870,707</u>

**DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES**

Accumulated deferred federal income taxes .....	998,476	931,938
Unamortized federal investment tax credits .....	768,203	712,193
Other deferred credits and noncurrent liabilities .....	<u>40,308</u>	<u>14,900</u>
Total deferred credits and other noncurrent liabilities .....	1,806,987	1,659,031

**COMMITMENTS AND CONTINGENCIES (Notes 10 and 11)**

Total .....	<u>\$13,986,260</u>	<u>\$12,318,192</u>
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*See accompanying Notes to Financial Statements.*

## Notes to Financial Statements

### 1. Significant Accounting Policies

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

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

*Allowance For Funds Used During Construction*—Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on equity capital used to finance construction are charged to utility plant. The accrual of AFUDC is in accord with generally accepted accounting principles for the industry, but does not represent current cash income.

Texas Utilities Electric Company (TU Electric) is capitalizing AFUDC, compounded semi-annually, on expenditures for ongoing construction work in progress (CWIP) not otherwise allowed in rate base by regulatory authorities. In 1985 and 1986, AFUDC was capitalized using a net-of-tax rate of 9½%. In 1987, pursuant to the passage of the Tax Reform Act of 1986 (TRA), TU Electric began using a comparable gross capitalization rate on projects commenced after March 1, 1986. Beginning July 1, 1987, a net-of-tax rate of 9% and a gross rate of 10½% have been used. All such rates were determined on the basis of, but are less than, the cost of capital used to finance the construction program.

*Depreciation*—Depreciation is based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties. Depreciation as a percent of average depreciable property approximated 3.4% for 1987, 1986 and 1985.

*Other Investments*—The difference between the amount at which the investment in a subsidiary is carried by the Company and the underlying book equity of such subsidiary at the respective dates of acquisition of \$14,439,000 is included in other investments.

*Revenues*—Revenues include billings under approved rates (including a fixed fuel factor) applied to meter readings each month on a cycle basis and an amount for under or over recovery of fuel revenue representing the difference between actual fuel cost and billings on the approved fixed fuel factor. Pursuant to a rule adopted in July 1986 by the Public Utility Commission of Texas (PUC), TU Electric is required to refund over-recovered fuel revenue if the amount of over-recovery, including interest, exceeds the lesser of \$40 million or 4% of its annual known or reasonably predictable fuel costs most recently approved by the PUC. Reconciliation of fuel costs is to be made in a general rate case or a reconciliation proceeding. Reconciliation may be requested only if it has either been over one year since the utility's last final reconciliation or the utility has materially under-recovered its known or reasonably predictable fuel costs.

*Federal Income Taxes*—The Company and its subsidiary companies file a consolidated federal income tax return, and federal income taxes are allocated to all subsidiary companies based upon taxable income or loss. Deferred federal income taxes are currently provided for timing differences between book and taxable income; such differences result primarily from the use of liberalized depreciation and cost recovery deductions allowable under the Internal Revenue Code, the under or over recovery of fuel revenue and unbilled revenues on a cycle basis. Cumulative timing differences in earlier years for which deferred federal income taxes were not provided approximated \$237,000,000 at December 31, 1987. Investment tax credits are being amortized to income over the estimated service lives of the properties.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 entitled "Accounting for Income Taxes" which becomes effective for fiscal years beginning after December 15, 1988. The Statement, among other things, requires the liability method of recognition for all temporary differences, requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates and prohibits net-of-tax accounting and reporting. Certain provisions of the Statement provide that regulated enterprises are permitted to recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. Although the application of the Statement will increase both total assets and liabilities, these requirements are not expected to have a material effect on the Company's financial position or results of operations.

## 2. Bank Balances and Short-Term Borrowings

At December 31, 1987, the Company had lines of credit aggregating \$1,025,000,000 under an eight-year credit facility agreement with a group of commercial banks. The facility, for which the Company pays a fee, will be reduced in 1993, 1994 and 1995 by \$325,000,000, \$350,000,000 and \$350,000,000, respectively. This credit facility may be used to finance new construction, as backup for commercial paper and for general corporate purposes. The total amount of borrowings authorized by the Board of Directors of the Company from banks or other lenders at December 31, 1987 was \$1,075,000,000.

## 3. Common Stock

The Company issued and sold shares of its authorized but unissued common stock during the years 1987, 1986 and 1985 as follows:

Year	Public Offering		Automatic Dividend Reinvestment and Common Stock Purchase Plan		Employees' Thrift Plan and Employee Stock Ownership Plan		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
1987	5,000,000	\$170,452,000	3,633,187	\$111,184,000	970,549	\$31,316,000	9,603,736	\$312,952,000
1986	—	—	3,826,687	115,148,000	935,357	30,023,000	4,762,044	145,171,000
1985	5,000,000	130,650,000	3,431,846	90,199,000	1,025,647	28,318,000	9,457,493	249,167,000

At December 31, 1987, 6,315,927 shares of the authorized but unissued common stock of the Company were reserved for issuance and sale pursuant to the above plans.

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

## 4. Retained Earnings

The articles of incorporation, the mortgages, as supplemented, and the debenture agreements of TU Electric contain provisions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At December 31, 1987, \$138,736,000 of retained earnings of TU Electric were thus restricted as a result of the provisions of such articles of incorporation. Retained earnings at such date also included \$431,243,000, representing the Company's equity in undistributed earnings since acquisition included in transfers by TU Electric from its retained earnings to stated value of common stock, making a total of retained earnings which was restricted of \$569,979,000 at December 31, 1987.

## Notes to Financial Statements (continued)

### 5. Preferred Stock of TU Electric (cumulative, without par value, entitled upon liquidation to \$100 a share)

Series Groups		Shares Outstanding		Amount		Redemption Price Per Share (before adding accumulated dividends)			
						Current		Eventual Minimum	
From	To	December 31, 1987	December 31, 1986	December 31, 1987	December 31, 1986	From	To	From	To
<i>Thousands of Dollars</i>									
<b>Not Subject to Mandatory Redemption</b>									
\$ 4.00	\$ 4.84	1,142,942	1,142,942	\$114,588	\$114,588	\$101.79	\$112.00	\$101.79	\$112.00
5.08	7.80	1,629,675	1,629,675	163,270	163,270	102.40	104.82	102.40	103.60
8.16	8.92	1,999,475	1,999,475	198,642	198,642	103.60	106.13	101.00	103.60
9.32	11.32	1,550,000	1,550,000	153,205	153,205	104.66	111.32*	100.00	102.73
Adjustable rate (a)		1,850,000	1,850,000	181,713	181,713	—	—	100.00	100.00
Stated rate auction (b)		1,000,000	—	98,215	—	—	—	100.00	100.00
Total		9,172,092	8,172,092	\$909,633	\$811,418				
<b>Subject to Mandatory Redemption (c)</b>									
\$ 8.92	\$ 9.48	1,500,000	1,500,000	\$148,610	\$148,315	\$108.92*	\$109.48*	\$100.00	\$100.00
10.00	10.08	850,000	850,000	84,296	84,109	110.00*	110.08*	100.00	100.00
Total		2,350,000	2,350,000	\$232,906	\$232,424				

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

- (a) Adjustable rate series A bears a dividend rate for the period ended January 31, 1988 of 7.55% per annum and adjustable rate series B bears a dividend rate for the period ended December 31, 1987 of 8.00% per annum, both of which are based on a fixed liquidation price of \$100.00 per share. The series are not redeemable prior to June 1, 1989 and June 1, 1990, respectively.
- (b) Stated rate auction series A bears a dividend rate of 8.24% per annum for the fixed dividend period through September 30, 1992 and shares are not redeemable prior to September 29, 1992. The dividend rate for each 49 day dividend period thereafter will be determined on the basis of certain auction procedures. The maximum rate determined by the auction may range from 110% to 200% of the 60-day "AA" composite commercial paper rate index. All redemptions are at a price of \$100.00 per share plus accumulated dividends.
- (c) TU Electric is required to redeem a specified minimum number of shares annually commencing on the initial dates shown below, except for the \$8.92 series which does not have a sinking fund provision. TU Electric may annually redeem, at its option, an aggregate of up to twice the number of shares shown for each series. All such redemptions are at a price of \$100.00 per share plus accumulated dividends.

Series	Minimum Redeemable Shares	Initial Date of Mandatory Redemption
\$10.08	14,000 annually	4/1/89
9.48	66,700 annually	4/1/92
10.00	20,000 annually	7/1/92
8.92	All outstanding shares	7/1/96

The carrying value of preferred stock subject to mandatory redemption is being increased periodically to equal the redemption amounts at the mandatory redemption dates with a corresponding increase in preferred stock dividends.

TU Electric issued and sold shares of its authorized preferred stock as follows: July 1987, 1,000,000 shares of stated rate auction series A for \$98,215,000; July 1986, 500,000 shares of \$10.00 series cumulative preferred stock, subject to mandatory redemption, for \$49,413,000; July 1986, 500,000 shares of \$8.92 series cumulative preferred stock, subject to mandatory redemption, for \$49,437,000; February 1986, 1,000,000 shares of \$9.48 series cumulative preferred stock, subject to mandatory redemption, for \$98,878,000; and June 1985, 850,000 shares of adjustable rate series B preferred stock for \$83,513,000.

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

				December 31,	
Maturity Groups		Interest Rate Groups		1987	1986
From	To	From	To	Thousands of Dollars	
First mortgage bonds:					
1988	1992	4½%	4½%	\$ 12,000	\$ 34,500
1993	1997	4¼	9½	356,000	206,000
1998	2002	6⅞	9⅞	340,000	340,000
2003	2007	7½	10⅞	750,000	750,000
2008	2012	9⅞	16	250,000	382,531
2013	2017	9¼	13⅞	2,200,000	1,550,000
Pollution control series:					
2007	2017	7¼	10	589,000	310,000
Funds on deposit with trustee				(20,148)	—
Sinking fund debentures:					
1989	1989	4½	4½	17,854	18,454
1993	1994	6⅞	7¼	31,735	32,448
Total				4,526,441	3,623,933
Pollution control revenue bonds:					
2004	2009	5.70	7⅞	160,000	160,000
Senior notes:					
1990	1999	8.50	12.20	502,380	534,860
Unamortized premium and discount				(47,330)	(35,002)
Total long-term debt, less amounts due currently				<u>\$5,141,491</u>	<u>\$4,283,791</u>

Sinking fund and maturity requirements for the years 1988 through 1992 under long-term debt instruments in effect at December 31, 1987, were as follows:

Year	Sinking Fund (a)	Maturity	Minimum Cash Requirement (b)
Thousands of Dollars			
1988	\$49,850	\$ 22,500	\$ 54,980
1989	50,932	17,854	50,916
1990	50,956	100,000	133,180
1991	50,776	12,000	45,180
1992	51,846	—	34,250

(a) Excluding requirements satisfied prior to December 31, 1987: \$2,433,000 for 1988, \$438,000 for 1989, \$320,000 for 1990, \$320,000 for 1991 and \$320,000 for 1992.

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

In 1987 and prior years, various principal amounts of first mortgage bonds were redeemed by TU Electric prior to maturity. Pursuant to expected regulatory treatment, the net losses on reacquired debt have been deferred and are being amortized over the remaining lives of the bonds retired.

Utility plant of TU Electric is generally subject to the liens of its mortgages.



## Notes to Financial Statements (continued)

### 7. Federal Income Taxes

The details of federal income taxes are as follows:

	Year Ended December 31,		
	1987	1986	1985
	<i>Thousands of Dollars</i>		
Charged to operating expenses:			
Current .....	\$ 54,909	\$ 55,545	\$127,114
Deferred—net:			
Differences between depreciation methods and lives .....	64,115	79,148	85,950
Certain capitalized construction costs .....	(2,010)	19,320	19,390
Over/under-recovered fuel revenue .....	46,856	11,935	(44,553)
Cancelled lignite unit .....	(971)	12,293	—
Early redemptions of long-term debt .....	6,091	10,763	14,730
Prepaid (accrued) pension cost .....	(12,443)	6,181	—
Unbilled revenues .....	(17,367)	(322)	932
Other .....	(732)	3,146	(4,137)
Total .....	83,539	142,464	72,312
Investment tax credits—net .....	56,012	66,302	77,285
Total to operating expenses .....	194,460	264,311	276,711
Charged (credited) to other income:			
Current .....	(12,020)	(11,535)	(9,625)
Deferred—net .....	12,252	8,501	7,460
Total to other income .....	232	(3,034)	(2,165)
Total federal income taxes .....	\$194,692	\$261,277	\$274,546

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

	Year Ended December 31,		
	1987	1986	1985
	<i>Thousands of Dollars</i>		
Federal income taxes at statutory rate (39.95% for 1987 and 46% for 1986 and 1985) .....	\$385,001	\$444,591	\$427,147
Reductions in federal income taxes resulting from:			
Allowance for funds used during construction .....	152,816	139,760	105,668
Depletion allowance .....	26,437	24,006	25,442
Amortization of investment tax credits .....	16,126	14,982	13,781
Other .....	(5,070)	4,566	7,710
Total reductions .....	190,309	183,314	152,601
Total federal income taxes .....	\$194,692	\$261,277	\$274,546
Effective tax rate .....	20.2%	27.0%	29.6%

### 8. Retirement Plans and Other Postretirement Benefits

The System Companies have uniform retirement plans covering substantially all employees. The benefits are based on years of accredited service and the employee's average annual earnings received during the three years of highest earnings. The costs of the plans are determined by independent actuaries. Contributions to the plans were determined using the frozen attained age method which is one of the several actuarial methods allowed by the Employee Retirement Income Security Act of 1974. During 1986, the System Companies adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The new standard requires, among other things, the use of the projected unit credit actuarial method for determining pension cost for financial reporting purposes. The cumulative difference between pension cost as determined under the new standard and contributions to the plans is recorded either as prepaid pension cost or as accrued pension liability. The adoption of the new accounting standard did not have a material effect upon the Company's financial position or results of operations.

In 1987, the Company offered a special early retirement program to those employees who had attained the age of 55 and had 15 or more years of accredited service. The offer provided for a waiver of reduced benefits for early retirement plus 5 additional years of accredited service up to a maximum of 40 years. The cost of the program was recorded in accordance with Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefits Pension Plans and for Termination Benefits."

The following table sets forth the plans' funded status and amount recognized in the Company's consolidated balance sheet:

	December 31,	
	1987	1986
	<i>Thousands of Dollars</i>	
Actuarial present value of accumulated benefits:		
Accumulated benefit obligation, including vested benefits (\$500,019,000 for 1987 and \$387,775,000 for 1986).....	<u>\$(566,238)</u>	<u>\$(446,129)</u>
Projected benefit obligation for service rendered to date.....	\$(738,359)	\$(654,102)
Plan assets at fair value, primarily equity investments, government bonds and corporate bonds.....	732,713	729,003
Plan assets in excess of (less than) projected benefit obligation.....	(5,646)	74,901
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions.....	(2,801)	(51,631)
Prior service cost not yet recognized in net periodic pension expense.....	16,149	17,042
Unrecognized plan assets in excess of projected benefit obligation at January 1, 1986.....	<u>(19,738)</u>	<u>(22,584)</u>
Prepaid pension cost (accrued pension liability).....	<u>\$ (12,036)</u>	<u>\$ 17,728</u>

Assumptions used for 1987 and 1986 include a discount rate of 8.0%, an expected long-term rate of return on assets of 8.0% and increases in compensation levels of 5.3% and 6.3%, respectively. Total pension costs for 1987 and 1986, including amounts charged to fuel cost and capitalized, were comprised of the following components:

	December 31,	
	1987	1986
	<i>Thousands of Dollars</i>	
Service cost - benefits earned during the period.....	\$ 30,120	\$ 32,752
Interest cost on projected benefit obligation.....	54,515	46,295
Actual return on plan assets.....	(347)	(100,288)
Net amortization and deferral.....	<u>(58,664)</u>	<u>51,303</u>
Net periodic pension cost.....	25,624	30,062
Termination cost.....	38,650	—
Total pension cost.....	<u>\$ 64,274</u>	<u>\$ 30,062</u>

The cost of the plan for 1985, including amounts charged to fuel cost and capitalized, approximated \$48,283,000.

In addition to retirement plans, the System Companies offer certain health care and life insurance benefits to active and retired employees. The costs of such benefits are generally recognized as claims are paid. The costs of providing such benefits to retired employees, net of employee contributions, approximated \$8,367,000 for 1987, \$6,759,000 for 1986 and \$4,831,000 for 1985.

## Notes to Financial Statements (continued)

### 9. Leases

The System Companies have entered into operating leases covering various facilities and properties including such items as data processing, transportation and mining equipment and office space. Lease costs charged to operation expense for the years ended December 31, 1987, 1986 and 1985 were \$46,732,000, \$40,466,000 and \$35,012,000, respectively.

In December 1987, TU Electric entered into an operating lease arrangement covering certain combustion turbine generating facilities with an initial lease term of approximately 27 years. TU Electric expects to lease additional similar facilities in 1988.

The Company's future minimum lease commitments under such operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1987 were as follows:

Year	Combustion	Other	Total
	Turbines		
Thousands of Dollars			
1988	\$ —	\$ 40,863	\$ 40,863
1989	6,082	30,381	36,463
1990	6,082	16,856	22,938
1991	6,082	10,846	16,928
1992	6,082	8,362	14,444
Thereafter	158,130	17,385	175,515
Total minimum lease commitments	<u>\$182,458</u>	<u>\$124,693</u>	<u>\$307,151</u>

### 10. Comanche Peak Nuclear Generating Station

TU Electric is constructing two nuclear-fueled generating units at the Comanche Peak Nuclear Generating Station (Comanche Peak), each of which is designed for a capability of 1,150 megawatts. This project is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC). NRC regulations govern the granting of licenses for the construction and operation of nuclear power plants. After giving effect to the anticipated completion of the 1988 agreement to purchase the 6.2% ownership interest of Texas Municipal Power Agency (TMPA) in the facility, TU Electric's share of the net capability in each unit is 1,081 megawatts, or approximately 94%. The other participants in the facility are Brazos Electric Power Cooperative, Inc. (BEPC) and Tex-La Electric Cooperative of Texas, Inc. (Tex-La) which own 3.8% and 2½%, respectively.

#### Operating License Application

The NRC has been reviewing TU Electric's application for operating licenses for the Comanche Peak units. As a part of that review, a proceeding was initiated before an Atomic Safety and Licensing Board (ASLB) and proceedings on various issues have been ongoing since December 1981. After completion of such proceeding, the ASLB will make recommendations to the NRC regarding the issuance of operating licenses for the Comanche Peak units. An intervenor is actively involved in this ASLB proceeding.

The one remaining Contention before the ASLB in the operating license proceeding relates to TU Electric's quality assurance/quality control (QA/QC) program for the plant. In December 1983, the ASLB issued a memorandum questioning the QA program for design of certain portions of the plant and requested that TU Electric offer additional proof of adequate design and design review procedures. The ASLB is also reviewing several other related issues and has indicated its intent to review the results of the NRC's Technical Review Team (TRT) investigation discussed below. In July 1984, a separate ASLB, including two of the three members of the original ASLB, was convened to receive testimony on allegations that QC inspectors at the plant had been subjected to an atmosphere of harassment and intimidation which is alleged to have affected the implementation of TU Electric's QA program. In January 1986, this separate ASLB was disestablished with all issues thereafter to be resolved by the original ASLB.

As a separate part of the NRC's review of TU Electric's operating license application, in March 1984, the NRC established a task force to consolidate and carry out the various reviews necessary for the NRC Staff to reach its decision regarding the operating licenses. This effort involved the establishment of the TRT, which began an intensive onsite investigation in July 1984 and subsequently has issued reports requesting additional information from TU Electric with respect to several functional areas of the plant's construction program. TU Electric then formed a special team, the Comanche Peak Response Team (CPRT), which includes a number of independent experts in each area addressed by the TRT, and submitted a

Program Plan (Plan) to respond to the questions raised. Such Plan, which is described further below, is presently being implemented and has been expanded to address the design and other ASLB issues described herein.

In January 1985, the TRT issued a report on its review of the QA/QC programs at Comanche Peak. The report stated that although the QA program documentation met NRC requirements, the implementation of the QA program demonstrated that TU Electric had lacked the commitment to aggressively implement an effective QA/QC program in several areas. The TRT indicated that it had found evidence of faulty construction and ineffective QA and QC inspections. Questions were also raised concerning the training and qualification of QC personnel and in the reporting of deficiencies. The TRT further found that prior to July 1984 problems had existed in the control of documentation. In addition, deficiencies in several other areas were described. TU Electric was requested to submit to the NRC a program and schedule for completing a detailed and thorough assessment of these QA/QC issues presented by the TRT. TU Electric also was asked to consider the use of management personnel with a fresh perspective to evaluate the TRT findings and implement corrective action, and to consider the use of an independent consultant to oversee the corrective action program.

In June 1985, TU Electric filed with the NRC and the ASLB a revision to the Plan which is being utilized by the CPRT to address all outstanding design and construction concerns. This Plan, which was substantially revised and reissued in January 1986, and further revised in July 1987, provides for a complete design review of virtually all safety related systems in the plant, and for the development of a corrective action program as required. In August 1985, the ASLB issued a Memorandum which described areas of the Plan that concerned the ASLB. The Memorandum indicated, however, that if the Plan were revised to address the ASLB's concerns and if it were appropriately implemented, the Plan may demonstrate the quality of the plant. In May 1986, the Staff of the NRC issued a Supplemental Safety Evaluation Report (SSER) containing an evaluation of the Plan as it existed at that time. The SSER concluded that the Plan provided an overall structure and process for addressing and resolving all existing construction and design issues and any future issues that may be identified from further evaluations. In June 1986, the ASLB issued a Memorandum which addressed "Board Concerns" about the adequacy of the CPRT program. The Memorandum stated that, based upon the ASLB's current knowledge of the program, after having reviewed the first results reports and the SSER on the Plan, the ASLB continued to have the concerns expressed in the earlier memorandum described above. The ASLB also raised additional concerns about how findings in one area of the reinspection effort may affect TU Electric's program in other areas, whether sufficient attention is being paid to problems of quality assurance and quality control regarding design, the adequacy of the CPRT sampling program, and perceived oversights in one of the results reports that had been issued. TU Electric is addressing these concerns. In November 1987, the ASLB established a schedule for resolution of all issues remaining in the operating license proceeding. In January 1988, the Staff of the NRC, after further review and analysis, approved the Plan and corrective action program as the basis to resolve outstanding issues. At the end of February 1988, the CPRT completed the publication of its final reports. In March 1988, the Staff issued an SSER approving the design of piping and pipe supports at Comanche Peak, which had been a major issue in the operating license proceeding, and concluded that the Plan provides an effective means to ensure proper implementation of corrective action in this regard. Delivery of this report sets into motion a prehearing schedule adopted by the ASLB which should result in the resumption of hearings on issuance of the operating licenses in the late summer of 1988. Meanwhile, implementation of the corrective action program continues.

In December 1987, TU Electric entered into an agreement to settle potential claims against Gibbs & Hill, Inc. (Gibbs & Hill), the original architect-engineer for Comanche Peak, relating to engineering and design services performed by Gibbs & Hill for Comanche Peak. Under the terms of this settlement, the owners of Comanche Peak will receive a total of \$25 million in cash, deferred payments and future engineering services which will be provided to TU Electric on non-nuclear projects.

TU Electric has made a number of key management changes in the nuclear program for Comanche Peak, including the addition of several new officers who bring substantial nuclear experience to TU Electric. This new management team is responsible for oversight and implementation of the reinspection and corrective action program.

The NRC has created an Office of Special Projects to manage all aspects of the NRC's licensing and inspection efforts for Comanche Peak and certain other nuclear power plants.

**10. Comanche Peak Nuclear Generating Station** (continued)*Construction Permit Extensions*

In January 1986, TU Electric filed an application with the NRC for an extension of the construction permit for Unit 1 to reflect a new "latest date for completion" of August 1, 1988; previously such date had been August 1, 1985. In the application, TU Electric stated that the reason the request for extension of the construction permit was not filed at an earlier time was administrative oversight. In February 1986, the NRC issued an order extending the "latest date for completion" of Unit 1 to August 1, 1988. Subsequently, the intervenor involved in the ASLB operating license proceeding filed with the NRC a request to stay the effectiveness of the construction permit extension and to require TU Electric to file a new application for a construction permit for Unit 1 or to order that hearings be held prior to any decision on whether to grant the construction permit extension. The request for a stay was denied by the NRC and the question of whether to hold such hearings was remanded to an ASLB, the members of which are the same as the ASLB for the operating license. In November 1986, the ASLB issued a Memorandum and Order in which it accepted for litigation a new Contention, raised by two intervenors, which alleges that the delay in completing Comanche Peak, which has occurred and has necessitated the extension of the construction permit by the NRC, was the result of dilatory action on the part of TU Electric and that, therefore, good cause did not exist for the extension of such permit. No schedule for hearings on this Contention has been adopted by the ASLB at this time. TU Electric has also applied to the NRC for an extension of the construction permit for Unit 2. Such application is presently under review by the Staff of the NRC. In early March 1988, TU Electric filed with the ASLB a motion to consolidate proceedings in the operating license and construction permit proceedings.

*Civil Penalties*

In April and June 1986, TU Electric paid civil penalties to the NRC, each in the amount of \$40,000, relating to allegations of harassment and intimidation at Comanche Peak. The June 1986 penalty was part of an aggregate of \$120,000 in civil penalties previously proposed by the Staff of the NRC. TU Electric requested the Staff to revisit the other alleged violations to determine whether they did in fact occur and to consider mitigating the amount of the penalties, and in August 1987, the Staff decided not to assess the remaining \$80,000 in proposed civil penalties. In August 1986, TU Electric paid a civil penalty of \$200,000 previously proposed by the Staff of the NRC relating to the findings of the TRT, described above. In addition, TU Electric has paid another civil penalty of \$50,000 relating to two alleged violations in TU Electric's reinspection and corrective action effort.

*Investigation Regarding NRC Region IV*

In December 1986, a portion of a report was released by the Office of Inspector and Auditor of the NRC (OLA Report) containing the results of its investigation of allegations of misconduct by the management of Region IV of the NRC with respect to Comanche Peak. The OLA Report expressed concern about allegations of harassment and intimidation by Region IV management to pressure Region IV inspectors to downgrade or delete proposed inspection findings at Comanche Peak. In addition, the OLA Report concluded that it would not be possible to rely on the Region IV QA inspection as evidence of the safe construction of Comanche Peak. Consequently, it stated that it will be necessary for the NRC to rely largely on recent detailed technical inspections conducted by the NRC, including the TRT, at Comanche Peak. The OLA Report also indicated that the data contained in an internal NRC report on inspection procedures was inaccurate and unreliable due to a lack of understanding by NRC inspectors of the proper method of completing a certain NRC form. NRC officials have indicated that a thorough assessment of the results of this investigation will be made; and in addition, certain personnel changes in the Region IV office have occurred. The OLA Report's findings are restricted to activities in Region IV and do not question other NRC regulatory activities with respect to Comanche Peak, including the detailed technical inspections conducted by the TRT as discussed above. The intervenor in the operating license proceedings, discussed above, has indicated its intent to file a motion raising the OLA Report's findings as issues to be the subject of hearings in such proceedings.

### *Litigation Relating to Comanche Peak*

TU Electric, TMPA, BEPC and Tex-La have been the owners of 87%, 6.2%, 3.8% and 2% interests, respectively, in Comanche Peak under the terms of a Joint Ownership Agreement (Agreement) which provides that TU Electric is the Project Manager for Comanche Peak. BEPC has failed to make numerous payments of its portion of the costs of Comanche Peak. BEPC has been experiencing difficulty in obtaining additional financing for Comanche Peak from the Rural Electrification Administration. In addition, since May 1986, Tex-La has failed to make payments to TU Electric for its portion of Comanche Peak and TMPA has made payments under protest. Accounts receivable at December 31, 1987 included \$109,284,000 of amounts due from BEPC and Tex-La. The portion of future construction expenditures due from BEPC and Tex-La is estimated to be \$48,200,000 in 1988, \$30,900,000 in 1989 and \$15,300,000 in 1990. In May 1986, TU Electric filed suit in the 14th Judicial District Court of Dallas County, Texas against TMPA, BEPC and Tex-La because of controversies which exist under the Agreement with respect to the obligations of the parties. TU Electric asserted that each of the defendants has either claimed that it has no further obligation to pay its share of the remaining costs of construction of Comanche Peak, or has claimed that TU Electric has failed to properly construct Comanche Peak or otherwise has breached its obligations under the Agreement. TU Electric sought recovery of damages against Tex-La for its anticipatory breach of the Agreement and asked for a declaratory judgment against Tex-La, BEPC and TMPA declaring among other things that they were obligated to pay their share of the remaining costs of construction of Comanche Peak and that TU Electric has not failed to use prudent utility practices in constructing Comanche Peak in accordance with the Agreement. TMPA, BEPC and Tex-La filed cross-actions in such suit against TU Electric and the Company asserting various causes of action, including a number of alleged breaches of the Agreement by TU Electric and violations of the Texas Deceptive Trade Practices Act (DTPA). In September 1986, the Court in the Dallas County suit ruled in favor of TU Electric with regard to a plea of the defendants attempting to change the venue of such suit. The case is in the discovery phase and trial is currently scheduled for October 1988.

In June 1986, TMPA and Tex-La filed suit in the 98th Judicial District Court of Travis County, Texas against TU Electric and the Company. The petition asserted various causes of action, including a number of alleged breaches of the Agreement by TU Electric and violations of the DTPA. TMPA and Tex-La asked for rescission and modification of the Agreement and payment for damages, including treble damages based upon violations of the DTPA. TU Electric and the Company intend to vigorously contest this suit, which has been stayed as a result of the ruling in the Dallas County suit.

In February 1988, TU Electric entered into an agreement with TMPA pursuant to which TU Electric will purchase TMPA's ownership interest in Comanche Peak and all outstanding claims and pending lawsuits between TMPA and TU Electric will be settled and terminated. Finalization of the agreement is subject to the approval of the NRC and the PUC with respect to the transfer of TMPA's ownership interest. TU Electric has filed applications to obtain such approvals and cannot predict when action with respect thereto will be taken. (See Note 11 to Financial Statements.)

In June 1986, BEPC filed suit in the 345th Judicial District Court of Travis County, Texas against TU Electric, the Company, Texas Utilities Mining Company and Texas Utilities Services Inc. BEPC alleges that the defendants have breached the Agreement, certain implied warranties and fiduciary duties, and have been grossly negligent, acted with willful misconduct and have violated the DTPA and Texas and federal securities laws. BEPC asks for an injunction against efforts by the defendants to recover additional payments, rescission and reformation of the Agreement and payment for damages, trebled pursuant to the DTPA. BEPC alleges actual damages to that date of at least \$216 million. The defendants intend to vigorously contest this suit, which has been stayed as a result of the ruling in the Dallas County suit. In March 1987, BEPC filed a request with the NRC to modify the construction permits and licenses already issued and to impose a prospective condition to any permits and licenses subsequently issued or renewed to require TU Electric to assume BEPC's ownership interest in Comanche Peak by purchase thereof at its net book cost, and for other unspecified relief. In June 1987, the NRC Office of Special Projects denied this request and TU Electric is unable to predict what further action may be taken.

10. Comanche Peak Nuclear Generating Station (concluded)

*Cost and Schedule Estimates*

In March 1988, TU Electric announced that following its review of the cost and schedule for Comanche Peak, commercial operation of Unit 1 is presently anticipated at the end of 1989. All Unit 1 corrective action activities are scheduled for completion to permit fuel loading in mid-1989. TU Electric also announced the temporary suspension of construction activities and accrual of AFUDC on Unit 2 beginning in April 1988 for a period of approximately one year. Unit 2 is not expected to be ready for commercial operation until after the 1991 peak season. The delay of Unit 2 was implemented to allow TU Electric to concentrate its resources on the completion of Unit 1, thereby reducing the duplication of effort that would be required to maintain the previous timing between the two units and strengthen TU Electric's ability to manage construction and start-up activities for both units more efficiently with fewer personnel. Additionally, such delay will allow time to make a more complete determination of any modifications that may be required for Unit 2 based upon the knowledge gained from the reinspection and corrective action program applied to Unit 1. The delay of Unit 2 will also permit TU Electric time to implement rates for Unit 1 prior to the final completion and operation of Unit 2. Although construction on Unit 2 has been temporarily suspended, there will be some ongoing expenditures required to maintain the unit until construction is resumed. Additionally, to the extent the work necessary to place Unit 1 into service affects various common systems, some capital expenditures will be associated with Unit 2.

Based upon this revised schedule, the total cost of TU Electric's 94% share of the plant, excluding AFUDC, is estimated to be \$6.37 billion. TU Electric's estimated cost of its share, including AFUDC, is \$8.54 billion or about \$3,950 per kilowatt. Because of the uncertainty regarding the date of commercial operation of Unit 2, no provision has been included in such amount for reestablishing the accrual of AFUDC on Unit 2 after construction resumes. The total cost of the plant, excluding AFUDC, is estimated to be \$6.62 billion. Because of the uncertainties regarding payments by the other owners of Comanche Peak of their share of the remaining construction costs, no estimate of the amount of AFUDC that may be attributable to their interests in the plant has been made.

TU Electric had previously estimated, in November 1986, that commercial operation of Unit 1 would be achievable in early 1989 and that Unit 2 would not be ready for commercial operation until after the 1989 summer peak season. Based upon such schedule, the total cost, excluding AFUDC, of TU Electric's 87% share of the plant (which excludes the presently anticipated purchase of TMPA's share) was estimated to be \$4.63 billion. TU Electric's estimated cost for its 87% share, including AFUDC, was \$6.70 billion or about \$3,300 per kilowatt. The total cost of the plant, excluding AFUDC, was estimated to be \$5.27 billion.

Because of numerous uncertainties in the licensing process, no assurance can be given that the revised estimated schedule can be met or that the estimated completion cost will not be exceeded. Failure to secure timely and favorable regulatory approvals or further delays occasioned by additional reanalysis, reinspection or rework will increase the cost of the plant and will likely increase financing requirements. At December 31, 1987 and 1986, TU Electric's investment in Comanche Peak, including AFUDC, was \$5,808,000,000 and \$4,600,000,000, respectively, of which \$1,284,000,000 has been allowed in rate base by regulatory authorities. TU Electric has indicated that it does not currently plan to implement increased electric service rates which reflect any additional Comanche Peak costs until Unit 1 is ready for commercial operation. TU Electric continues to believe, based upon revised cost estimates and using acceptable ratemaking approaches and assumptions, that the rate increase, when Unit 1 goes into service, can be held to about 10%. Such rate application will be subject to challenge with respect to the prudence of certain costs, for which an estimate is not presently determinable.

## 11. Commitments and Contingencies

### *Construction Program*

For major construction work now in progress or contemplated by the System Companies, and commitments with respect thereto, see Resource Planning and Comanche Peak.

### *Cooling Water Contracts*

TU Electric has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee the principal, \$47,920,000 at December 31, 1987, and interest on bonds issued to finance the reservoirs from which the water is supplied. The bonds mature at various dates through 2011 and have interest rates ranging from 5½% to 9%. TU Electric is required to make periodic payments equal to such principal and interest for the years 1988 through 1992 as follows: \$4,387,000 for 1988, \$4,396,000 for 1989, \$4,423,000 for 1990, \$4,435,000 for 1991 and \$4,430,000 for 1992. In addition, TU Electric is obligated to pay certain variable costs of operating and maintaining the reservoirs. Total payments, including amounts capitalized, under such contracts for 1987, 1986 and 1985 were \$4,400,000, \$4,833,000 and \$4,779,000, respectively. TU Electric has assigned to a municipality all contract rights and obligations of TU Electric in connection with \$100,695,000 remaining principal amount of bonds at December 31, 1987 issued for similar purposes which had previously been guaranteed by TU Electric; TU Electric is, however, contingently liable in the event of default by the municipality.

### *Chaco Coal Properties*

Chaco Energy Company (Chaco) entered into an agreement in 1977 for the rights to over 200 million tons of surface mineable coal located in New Mexico. The agreement provides, subject to certain limitations, for advance royalty payments, payable over a period of approximately 35 years, which are based upon annual quantities ranging from approximately 5.1 million tons in 1988 to a maximum of approximately 8.3 million tons in 1991. Such payments approximated \$6.60 per ton in 1987 and are subject to escalation in the future due to inflation. In connection with the foregoing, the Company entered into a surety agreement pursuant to which it has undertaken to assure the performance by Chaco with respect to this agreement. Non-utility property at December 31, 1987 and 1986 includes \$145,900,000 and \$114,400,000, respectively, of minimum advance royalties paid by Chaco under the terms of this agreement.

### *Capacity and Energy Purchase*

TU Electric entered into an agreement in 1982 with Tex-La, a 2½% owner of Comanche Peak, whereby TU Electric agreed to purchase an assignment of portions of Tex-La's entitlement to capacity and energy from Comanche Peak in declining amounts over the first eight years of commercial operation of each generating unit. Under the agreement, TU Electric is required to make annual payments to Tex-La comprising a pro rata share of operating costs plus a capital charge on Tex-La's net investment applicable to the portion of Tex-La's entitlement assigned. (See Note 10 concerning litigation proceedings regarding Tex-La's participation in Comanche Peak.)

### *Martin Lake Unit 4 Construction Cancellation*

In November 1986, TU Electric announced that it was not economically feasible to construct a fourth unit at the Martin Lake Steam Electric Station (Martin Lake Unit 4) and cancelled the project which was scheduled for service in 1994. Pursuant to expected regulatory treatment, expenditures of approximately \$37,246,000, including contractor termination costs, have been recorded as a deferred asset to be amortized as approved by regulatory authorities. The application in 1988 of Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 90 entitled "Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs" to the accounting for the abandonment of Martin Lake Unit 4 will not have a material effect on the Company's financial statements.



## Notes to Financial Statements (concluded)

### 11. Commitments and Contingencies — (concluded)

#### *Purchase of Utility Plant and Nuclear Fuel*

In February 1988, TU Electric entered into an agreement with TMPA pursuant to which TU Electric will purchase TMPA's ownership interest in Comanche Peak. Under the terms of the agreement, TU Electric will make a series of payments to TMPA over approximately a five year period totaling about \$456 million on a present value basis. The purchase price is based on TU Electric's incurred cost per kilowatt, including AFUDC, for its existing share plus payment for TMPA's interest in the nuclear fuel for Comanche Peak, certain transmission facilities associated with Comanche Peak and certain expenses. In connection with the purchase of TMPA's ownership interest by TU Electric, all outstanding claims and pending lawsuits between TMPA and TU Electric will be settled and terminated. Finalization of the agreement is subject to the approval of the NRC and the PUC with respect to the transfer of TMPA's ownership interest. An initial payment of approximately \$58.7 million was made by TU Electric in February 1988; following such regulatory approvals, which must be received no later than September 22, 1988, TU Electric will make an additional payment of approximately \$51.8 million plus interest to the date of initial closing. Thereafter, TU Electric will make ten equal semi-annual payments, including interest, each in the amount of approximately \$45 million, for the balance of the purchase.

#### *General*

In addition to the above, the Company and its subsidiaries are involved in various legal and administrative proceedings which, in the opinion of the Company, should not have a material effect upon its financial position or results of operations.

### 12. Supplementary Financial Information (Unaudited)

In the opinion of the Company, the following information includes all adjustments (constituting only normal recurring accruals) necessary to a fair statement of such amounts; quarterly results are not necessarily indicative of expectations for a full year's operations because of seasonal and other factors, including rate changes and variations in maintenance and other operating expense patterns.

Quarter Ended	Operating Revenues		Operating Income		Consolidated Net Income		Earnings Per Share of Common Stock	
	1987	1986	1987	1986	1987	1986	1987	1986
	<i>Thousands of Dollars (except per share amounts)</i>							
March 31.....	\$ 870,525	\$ 830,298	\$172,941	\$169,081	\$130,298	\$119,167	\$0.90	\$0.86
June 30.....	1,010,889	942,481	199,646	173,711	159,083	122,682	1.07	0.88
September 30...	1,269,525	1,248,119	299,980	297,056	258,596	249,299	1.71	1.76
December 31 ...	931,984	911,147	176,316	169,712	131,999	135,703	0.87	0.95
Total.....	<u>\$4,082,923</u>	<u>\$3,932,045</u>	<u>\$848,883</u>	<u>\$809,560</u>	<u>\$679,976</u>	<u>\$626,851</u>	<u>\$4.55</u>	<u>\$4.45</u>

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## Statement of Responsibility

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The management of Texas Utilities Company is responsible for the preparation, integrity and objectivity of the consolidated financial statements of the Company and its subsidiaries and other information included in this report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. As appropriate, the statements include amounts based on informed estimates and judgments of management.

The Company's system of internal accounting control is designed to provide reasonable assurance, on a cost-effective basis, that assets are safeguarded, transactions are executed in accordance with management's authorization and financial records are reliable for preparing consolidated financial statements. Management believes that the system of control provides reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected within a timely period. Key elements in this system include the effective communication of established written policies and procedures, selection and training of qualified personnel and organizational arrangements that provide an appropriate division of responsibility. This system of control is augmented by an ongoing internal audit program designed to evaluate its adequacy and effectiveness.

The Board of Directors of the Company addresses its oversight responsibility for the consolidated financial statements through its Audit Committee, which is composed of directors who are not employees of the Company. The Audit Committee meets regularly with the Company's management, internal auditors and independent certified public accountants to review matters relating to financial reporting, auditing and internal controls. To ensure auditor independence, both the internal auditors and independent certified public accountants have full and free access to the Audit Committee.

The independent certified public accounting firm of Deloitte Haskins & Sells is engaged to examine, in accordance with generally accepted auditing standards, the consolidated financial statements of the Company and its subsidiaries and to express an opinion thereon.

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## Accountants' Opinion

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DELOITTE HASKINS & SELLS  
CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders of Texas Utilities Company:

We have examined the consolidated balance sheet of Texas Utilities Company and subsidiaries as of December 31, 1987 and 1986 and the related consolidated statements of income, retained earnings and source of funds for construction for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of the companies at December 31, 1987 and 1986 and the results of their operations and the source of their funds for construction for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

DELOITTE HASKINS & SELLS

Dallas, Texas  
March 18, 1988

## Financial Statistics

	1987	1986	1985
TOTAL ASSET: end of year (thousands) .....	\$13,986,260	\$12,318,192	\$10,867,022
UTILITY PLANT end of year (thousands) .....	\$15,172,994	\$13,566,133	\$12,144,563
Accumulated depreciation end of year .....	2,718,328	2,522,016	2,331,783
Construction expenditures (including allowance for funds used during construction) .....	1,688,831	1,519,619	1,108,861
CAPITALIZATION end of year (thousands)			
Long-term debt .....	\$5,141,491	\$4,283,791	\$3,615,669
Preferred stock:			
Not subject to mandatory redemption .....	909,633	811,418	811,418
Subject to mandatory redemption .....	232,906	232,424	34,696
Common stock equity .....	5,032,331	4,460,821	4,066,664
Total .....	<u>\$11,316,361</u>	<u>\$9,788,454</u>	<u>\$8,528,447</u>
CAPITALIZATION RATIOS end of year			
Long-term debt .....	45.4%	43.7%	42.4%
Preferred stock .....	10.1	10.7	9.9
Common stock equity .....	44.5	45.6	47.7
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
EMBEDDED INTEREST COST ON LONG-TERM DEBT end of year ...	9.9%	10.0%	10.3%
EMBEDDED DIVIDEND COST ON PREFERRED STOCK end of year ..	8.3%	8.1%	8.2%
CONSOLIDATED NET INCOME (thousands) .....	\$679,976	\$626,851	\$587,758
DIVIDENDS DECLARED ON COMMON STOCK (thousands) .....	\$421,418	\$377,865	\$343,364
COMMON STOCK DATA			
Shares outstanding—average .....	149,449,134	140,981,671	135,266,534
Shares outstanding—end of year .....	152,408,942	142,805,206	138,043,162
Earnings per average share .....	\$4.55	\$4.45	\$4.35
Dividends declared per share .....	\$2.80	\$2.68	\$2.52
Book value per share—end of year .....	\$33.02	\$31.24	\$29.46
Return on average common stock equity .....	14.3%	14.7%	15.4%
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AS PERCENT OF CONSOLIDATED NET INCOME .....	56.9%	48.5%	39.1%
NET FUNDS FROM OPERATIONS AS PERCENT OF CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction) .....	18.2%	32.9%	51.0%

1984	1983	1982	1981	1980	1979	1978	1977
\$9,759,148	\$8,780,954	\$8,021,407	\$7,306,658	\$6,552,972	\$5,821,933	\$5,161,808	\$4,563,806
\$11,031,699 2,143,863	\$9,967,653 1,958,103	\$9,051,442 1,758,156	\$8,194,803 1,560,754	\$7,438,877 1,378,654	\$6,631,618 1,213,927	\$5,862,096 1,057,068	\$5,111,037 917,637
951,323	906,930	891,560	792,268	807,008	872,916	737,353	734,282
\$3,322,925	\$3,103,452	\$2,973,253	\$2,713,863	\$2,527,716	\$2,368,612	\$2,038,654	\$1,859,057
727,911 34,696 3,573,103	629,779 34,696 3,235,375	600,109 — 2,810,195	600,109 — 2,421,864	600,109 — 2,090,520	535,824 — 1,830,472	506,200 — 1,624,298	476,578 — 1,432,830
<u>\$7,658,635</u>	<u>\$7,003,302</u>	<u>\$6,383,557</u>	<u>\$5,735,836</u>	<u>\$5,218,345</u>	<u>\$4,734,908</u>	<u>\$4,169,185</u>	<u>\$3,768,465</u>
43.4% 10.0 46.6	44.3% 9.5 46.2	46.6% 9.4 44.0	47.3% 10.5 42.2	48.4% 11.5 40.1	50.0% 11.3 38.7	48.9% 12.1 39.0	49.3% 12.7 38.0
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
10.1%	9.7%	9.5%	9.0%	8.3%	7.9%	7.5%	7.2%
8.3%	8.0%	7.7%	7.7%	7.7%	7.4%	7.3%	7.2%
\$526,041	\$461,468	\$428,646	\$359,398	\$297,844	\$211,151	\$200,738	\$175,919
\$298,878	\$262,659	\$227,076	\$192,306	\$164,527	\$142,262	\$119,945	\$103,250
126,626,241 128,585,669 \$4.15 \$2.36 \$27.79 15.5%	118,454,666 123,685,058 \$3.90 \$2.20 \$26.16 15.3%	111,356,815 114,182,319 \$3.85 \$2.04 \$24.61 16.4%	102,292,239 105,236,301 \$3.51 \$1.88 \$23.01 15.9%	93,719,257 96,088,645 \$3.18 \$1.76 \$21.76 15.2%	86,319,396 87,985,098 \$2.45 \$1.64 \$20.80 12.2%	79,026,797 80,665,889 \$2.54 \$1.52 \$20.14 13.1%	73,194,444 75,000,000 \$2.40 \$1.40 \$19.10 13.0%
32.7%	34.4%	31.7%	26.1%	26.2%	28.2%	26.9%	33.3%
58.4%	53.9%	60.0%	58.8%	52.7%	40.3%	44.1%	36.4%

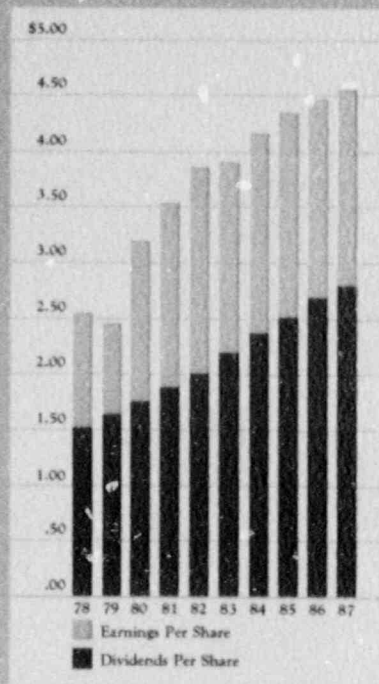
## Operating Statistics

	1987	1986	1985
<b>ELECTRIC ENERGY GENERATED AND PURCHASED (mwh)</b>			
Generated—net station output .....	71,878,925	75,467,871	76,355,396
Purchased and net interchange .....	11,019,037	4,712,082	2,057,490
Total generated and purchased .....	82,897,962	80,179,953	78,412,886
Company use, losses and unaccounted for .....	5,125,310	4,925,178	5,042,990
Total electric energy sales .....	<u>77,772,552</u>	<u>75,254,775</u>	<u>73,369,896</u>
<b>ELECTRIC ENERGY SALES (mwh)</b>			
Residential .....	25,716,080	24,604,109	24,300,788
Commercial .....	22,324,328	21,453,435	20,349,334
Industrial .....	21,420,705	21,013,278	20,921,530
Government and municipal .....	2,499,981	2,385,168	2,324,785
Total general business .....	71,961,094	69,455,990	67,896,437
Other electric utilities .....	5,811,558	5,798,785	5,473,459
Total electric energy sales .....	<u>77,772,652</u>	<u>75,254,775</u>	<u>73,369,896</u>
<b>OPERATING REVENUES (thousands)</b>			
Residential .....	\$1,603,446	\$1,530,258	\$1,673,378
Commercial .....	1,166,832	1,137,944	1,207,784
Industrial .....	800,635	822,831	935,849
Government and municipal .....	140,291	134,927	145,256
Total general business .....	3,711,204	3,625,960	3,962,267
Other electric utilities .....	221,413	222,644	250,857
Total from electric energy sales .....	3,932,617	3,848,604	4,213,124
Other operating revenues (including over/under-recovered fuel revenue) .....	150,306	83,441	(42,967)
Total operating revenues .....	<u>\$4,082,923</u>	<u>\$3,932,045</u>	<u>\$4,170,157</u>
<b>ELECTRIC CUSTOMERS end of year</b>			
Residential .....	1,838,467	1,820,381	1,764,346
Commercial .....	218,641	217,232	214,386
Industrial .....	24,006	23,912	24,148
Government and municipal .....	13,690	13,180	12,080
Total general business .....	2,094,804	2,074,705	2,014,960
Other electric utilities .....	62	61	63
Total electric customers .....	<u>2,094,866</u>	<u>2,074,766</u>	<u>2,015,023</u>
<b>RESIDENTIAL STATISTICS (excludes master-metered customers, mwh sales and revenues)</b>			
Average kwh per customer .....	13,147	12,749	13,062
Average revenue per kwh .....	6.33¢	6.31¢	6.99¢
Industrial classification includes service to Alcoa—Sandow:			
Electric energy sales (mwh) .....	3,409,332	3,092,696	2,861,454
Operating revenues (thousands) .....	\$62,630	\$65,664	\$68,946

<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
72,582,637	67,706,594	64,224,726	62,447,413	62,865,641	58,051,429	57,196,077	53,156,235
<u>382,651</u>	<u>343,581</u>	<u>371,190</u>	<u>91,091</u>	<u>56,388</u>	<u>75,695</u>	<u>79,688</u>	<u>72,845</u>
72,965,288	68,050,175	64,595,916	62,538,504	62,922,029	58,127,124	57,275,765	53,229,080
<u>3,839,517</u>	<u>5,340,248</u>	<u>4,215,774</u>	<u>4,166,327</u>	<u>4,422,762</u>	<u>4,001,684</u>	<u>4,041,486</u>	<u>3,549,768</u>
<u>69,125,771</u>	<u>62,709,927</u>	<u>60,380,142</u>	<u>58,372,177</u>	<u>58,499,267</u>	<u>54,125,440</u>	<u>53,234,279</u>	<u>49,679,312</u>
22,691,290	20,162,506	19,945,087	18,676,240	19,844,409	17,394,402	17,943,224	16,642,382
<u>19,021,267</u>	<u>17,366,563</u>	<u>16,475,253</u>	<u>15,383,162</u>	<u>14,683,104</u>	<u>13,264,436</u>	<u>13,117,202</u>	<u>12,347,755</u>
20,343,558	16,690,077	17,576,412	17,992,261	17,581,265	17,275,859	16,469,636	15,678,254
<u>1,920,420</u>	<u>1,790,476</u>	<u>1,730,273</u>	<u>1,692,106</u>	<u>1,796,988</u>	<u>1,669,726</u>	<u>1,728,056</u>	<u>1,565,518</u>
63,983,535	58,009,622	55,677,025	53,743,769	53,905,766	49,604,423	49,258,111	46,233,909
<u>5,142,236</u>	<u>4,700,305</u>	<u>4,703,117</u>	<u>4,628,408</u>	<u>4,593,501</u>	<u>4,521,017</u>	<u>3,976,161</u>	<u>3,445,403</u>
<u>69,125,771</u>	<u>62,709,927</u>	<u>60,380,142</u>	<u>58,372,177</u>	<u>58,499,267</u>	<u>54,125,440</u>	<u>53,234,279</u>	<u>49,679,312</u>
\$1,546,081	\$1,306,912	\$1,237,632	\$1,044,761	\$ 877,555	\$ 672,340	\$ 640,111	\$ 552,331
<u>1,127,766</u>	<u>998,362</u>	<u>911,487</u>	<u>778,008</u>	<u>590,921</u>	<u>488,170</u>	<u>439,146</u>	<u>375,822</u>
893,531	808,016	745,243	659,678	482,919	419,224	373,456	310,811
<u>117,793</u>	<u>104,730</u>	<u>95,673</u>	<u>83,077</u>	<u>68,396</u>	<u>54,565</u>	<u>49,623</u>	<u>40,331</u>
3,685,171	3,218,020	2,990,035	2,565,524	2,019,791	1,634,299	1,502,836	1,279,295
<u>233,296</u>	<u>202,387</u>	<u>190,727</u>	<u>161,998</u>	<u>123,188</u>	<u>105,306</u>	<u>87,502</u>	<u>69,975</u>
3,918,467	3,420,407	3,180,762	2,727,522	2,142,979	1,739,605	1,590,428	1,349,270
<u>13,768</u>	<u>67,509</u>	<u>57,263</u>	<u>10,855</u>	<u>31,574</u>	<u>16,684</u>	<u>13,928</u>	<u>18,508</u>
<u>\$3,932,235</u>	<u>\$3,487,916</u>	<u>\$3,238,025</u>	<u>\$2,738,377</u>	<u>\$2,174,553</u>	<u>\$1,756,289</u>	<u>\$1,604,356</u>	<u>\$1,367,778</u>
1,669,735	1,556,760	1,477,097	1,421,273	1,356,651	1,287,701	1,221,468	1,159,885
<u>208,477</u>	<u>198,548</u>	<u>187,065</u>	<u>177,269</u>	<u>171,495</u>	<u>164,291</u>	<u>160,170</u>	<u>153,658</u>
24,058	22,761	21,478	20,692	19,590	18,654	17,953	17,216
<u>11,455</u>	<u>10,210</u>	<u>10,143</u>	<u>10,263</u>	<u>10,488</u>	<u>11,257</u>	<u>11,260</u>	<u>11,274</u>
1,913,725	1,788,279	1,695,788	1,629,497	1,558,224	1,481,903	1,410,851	1,342,033
<u>66</u>	<u>68</u>	<u>75</u>	<u>78</u>	<u>80</u>	<u>80</u>	<u>62</u>	<u>60</u>
<u>1,913,791</u>	<u>1,788,347</u>	<u>1,695,863</u>	<u>1,629,575</u>	<u>1,558,304</u>	<u>1,481,983</u>	<u>1,410,913</u>	<u>1,342,093</u>
12,887	12,073	12,320	11,862	13,125	11,897	12,747	12,213
<u>6.93e</u>	<u>6.60e</u>	<u>6.34e</u>	<u>5.72e</u>	<u>4.54e</u>	<u>3.98e</u>	<u>3.70e</u>	<u>3.45e</u>
2,989,272	2,660,564	2,316,308	2,848,997	2,918,794	3,076,399	2,891,259	2,786,027
<u>\$70,825</u>	<u>\$68,121</u>	<u>\$68,035</u>	<u>\$64,016</u>	<u>\$48,813</u>	<u>\$48,400</u>	<u>\$41,572</u>	<u>\$36,878</u>

## Shareholder Information

### Consolidated Earnings Dividends Declared



## Quarterly Market Price Ranges

Quarter Ended	Price Range			
	1987		1986	
	High	Low	High	Low
March 31 .....	\$36½	\$31½	\$34¼	\$29½
June 30 .....	33½	30	35¼	29½
September 30.....	34½	30½	37½	30¼
December 31 .....	31½	25½	34¼	31¼

## Dividends Paid per Share of Common Stock

Quarter Ended	Dividends Paid	
	1987	1986
March 31 .....	\$0.67	\$0.63
June 30.....	0.70	0.67
September 30.....	0.70	0.67
December 31.....	0.70	0.67
	<u>\$2.77</u>	<u>\$2.64</u>

The Company has declared common stock dividends payable in cash in each year since its incorporation in 1945 and has continued its record of annual dividend increases, which commenced in 1948. At its February 1988 meeting, the Board of Directors again raised the quarterly dividend by two cents per share, from 70 cents to 72 cents. This regular quarterly dividend is payable April 1, 1988, to shareholders of record on March 7. Dividends are paid in cash to shareholders who are not participating in the Automatic Dividend Reinvestment and Common Stock Purchase Plan; all dividends are reportable for federal income tax purposes as ordinary dividend income. Reference is made to Note 4 to Financial Statements regarding limitations upon payment of dividends on common stock.

## 1988 Annual Meeting

The Annual Meeting of Shareholders of the Company will be held at 9:30 a.m. on Friday, May 20, 1988, in the Plaza Ballroom at the Plaza of the Americas Hotel, 650 North Pearl Street, Dallas, Texas. Shareholders are cordially invited to be present at the annual meeting. Those unable to attend are urged to exercise their right to vote by proxy. Notice of meeting and proxy statement and form of proxy will be mailed shortly after March 21, the record date for the meeting. Following the meeting, a report of the proceedings will be prepared and distributed to all shareholders.

## Directory

### TRANSFER AGENTS AND REGISTRARS

MTrust Corp, N.A.  
Dallas, Texas  
Morgan Shareholder Services Trust  
Company  
New York, New York

### DIVIDEND DISBURSING AGENT

Morgan Shareholder Services Trust  
Company  
30 West Broadway  
New York, New York 10007-2192

AGENT FOR PARTICIPANTS  
AUTOMATIC DIVIDEND  
REINVESTMENT AND COMMON  
STOCK PURCHASE PLAN  
Morgan Shareholder Services Trust  
Company  
Dividend Reinvestment Plans  
P.O. Box 3506, Church Street Station  
New York, New York 10008-3506

### STOCK EXCHANGE LISTINGS

New York Stock Exchange, Inc.  
New York, New York  
Midwest Stock Exchange, Incorporated  
Chicago, Illinois  
The Pacific Stock Exchange Incorporated  
Los Angeles and San Francisco,  
California  
Ticker Symbol - TXU

*The Annual Report has been prepared for the purpose of providing shareholders with information concerning the Company and not in connection with any sale or purchase of, or any offer or solicitation of an offer to buy or sell, any securities.*

*Texas Utilities Company distributes a booklet containing detailed System financial and operating data, which have been compiled for the convenience of financial analysts; a copy will be furnished upon request.*

*A copy of the Annual Report to the Securities and Exchange Commission, Form 10-K, will be furnished by the Company upon request.*

*Requests for copies or other shareholder information should be directed to:*

Shareholder Relations  
Texas Utilities Company  
2001 Bryan Tower  
Dallas, Texas 75201  
(214) 812-4646

## Directors and Officers

### Directors

JAMES K. DOBEY  
Aptos, California  
*Retired Chairman of the Board, Wells Fargo & Company*

JACK W. EVANS  
Dallas, Texas  
*Chairman of the Board and Chief Executive Officer of Cullum Companies, Inc.*

JERRY FARRINGTON  
Dallas, Texas  
*Chairman of the Board and Chief Executive of the Company*

WILLIAM M. GRIFFIN  
Hartford, Connecticut  
*Corporate Director*

BURL B. HULSEY, JR.  
Fort Worth, Texas  
*Retired Vice Chairman of the Board of the Company*

MARGARET N. MAXEY  
Austin, Texas  
*Director of the Chair of Free Enterprise and Professor, Biomedical Engineering Program, College of Engineering at The University of Texas at Austin.*

ERLE NYE  
Dallas, Texas  
*President of the Company*

CHARLES R. PERRY  
Odessa, Texas  
*Investments, Oil and Gas Interests*

CHARLES N. PROTHRO  
Wichita Falls, Texas  
*Owner, Perkins-Prothro Company*

WILLIAM H. SEAY  
Dallas, Texas  
*Investments, Retired Chairman and Chief Executive Officer of Southwestern Life Insurance Company*

### Officers

JERRY FARRINGTON  
*Chairman of the Board and Chief Executive*

ERLE NYE  
*President*

T. L. BAKER  
*Vice President*

W. H. GOODENOUGH  
*Treasurer*

H. A. HORN  
*Assistant Treasurer and Assistant Secretary*

S. S. SWIGER  
*Controller*

PETER B. TINKHAM  
*Secretary and Assistant Treasurer*



**TEXAS UTILITIES COMPANY**

2001 BRYAN TOWER  
DALLAS, TEXAS 75201  
(214) 812-4600

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) - July 5, 1988

TEXAS UTILITIES COMPANY

(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction  
of incorporation)

0-11442

(Commission  
File Number)

75-1837355

(I.R.S. Employer)  
Identification No.)

2001 BRYAN TOWER, DALLAS, TEXAS 75201

(Address of principal executive offices)

Registrant's telephone number, including area code - (214 812-4600)

## ITEM 5. OTHER EVENTS

Reference is made to the Texas Utilities Company's (Company) 1987, Form 10-K in Item 1. Business under Peak Load and Capability and under Comanche Peak Nuclear Generating Station, in Item 2. Properties under Construction Program, in Item 3. Legal Proceedings under Comanche Peak Nuclear Generating Station and in Item 8. under Note 10 to Financial Statements. Reference is also made to the Company's Form 10-Q for the quarter ended March 31, 1988 in Item 1. under Note 10 to Financial Statements and in Item 5. to the Company's Form 8-K dated February 12, 1988 in Item 5. and to the Company's Form 8-K dated July 1, 1988 in Item 5.

Texas Utilities Electric Company (TU Electric), which is the principal subsidiary of the Company, is constructing two nuclear-fueled generating units at the Comanche Peak Nuclear Generating Station (Comanche Peak). TU Electric owns an 87 5/6% interest in such facility. Other owners of Comanche Peak are the Texas Municipal Power Agency (TMPA), Brazos Electric Power Cooperative, Inc. (BEPC), and Tex-La Electric Cooperative of Texas, Inc., which own 6.2%, 3.8% and 2 1/6% interests, respectively. In February 1988, TU Electric entered into an agreement with TMPA pursuant to which TU Electric will purchase TMPA's ownership interest in Comanche Peak, subject to obtaining certain regulatory approvals for which applications have been made and are currently pending.

On July 5, 1988, TU Electric entered into an agreement with BEPC (Agreement) pursuant to which TU Electric will purchase BEPC's ownership interest in Comanche Peak. Under the terms of the Agreement, TU Electric will make initial payments and issue a promissory note to BEPC payable over approximately 33 years, said payments and the principal amount of said note totaling about \$213 million plus interest from March 1, 1988. The purchase price is based on TU Electric's incurred cost per kilowatt, including allowance for funds used during construction and net of past due BEPC payments paid by TU Electric, for its existing share plus payment for BEPC's interest in the nuclear fuel for Comanche Peak, certain transmission facilities associated with Comanche Peak and certain expenses. In connection with the purchase of BEPC's ownership interest by TU Electric, all outstanding claims and pending lawsuits between BEPC and TU Electric will be settled and terminated. Finalization of the Agreement is subject to obtaining the approval of the Nuclear Regulatory Commission and the Public Utility Commission of Texas, with respect to the transfer of BEPC's ownership interest, for which TU Electric plans to promptly file applications, and is also subject to obtaining the approval of the Rural Electrification Administration and the National Rural Utilities Cooperative Finance Corporation, for which BEPC is making application. Finalization is also subject to BEPC obtaining an acceptable tax ruling from the Internal Revenue Service. TU Electric cannot predict when action with respect to these matters will be taken.

### SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### TEXAS UTILITIES COMPANY

By:           /s/ W. H. Goodenough            
          W. H. Goodenough  
          Treasurer

Date: July 5, 1988

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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**Form 10-K**

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

For the Fiscal Year Ended December 31, 1987

Commission File Number 0-11442

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**Texas Utilities Electric Company**

*(Exact name of registrant as specified in its charter)*

A Texas  
Corporation

I.R.S. Employer  
No. 75-1837355

2001 Bryan Tower, Dallas, Texas 75201  
Telephone Number (214) 812-4606

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

Securities Registered Pursuant to Section 12(g) of the Act: Preferred Stock, without par value

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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Aggregate market value of Common Stock on February 29, 1988 held by non-affiliates: None

Common Stock outstanding at February 29, 1988: 112,150,000 shares, without par value

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**DOCUMENTS INCORPORATED BY REFERENCE**

None

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## DEFINITIONS

When used herein the following terms will have the meanings indicated.

<u>Term</u>	<u>Definitions</u>
AFUDC	Allowance for funds used during construction
Agreement	Joint Ownership Agreement among the owners of Comanche Peak Nuclear Generating Station
ASLB	Atomic Safety and Licensing Board
Basic	Basic Resources Inc.
BEPC	Brazos Electric Power Cooperative, Inc.
Chaco	Chaco Energy Company
Comanche Peak Company	Comanche Peak Nuclear Generating Station Texas Utilities Electric Company (the Registrant)
CPRT	Comanche Peak Response Team
CWIP	Construction work in progress
DTPA	Texas Deceptive Trade Practices Act
EPA	Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
FERC	Federal Energy Regulatory Commission
Fuel Company	Texas Utilities Fuel Company
Lone Star	Lone Star Gas Company
Mining Company	Texas Utilities Mining Company
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NWPA	Nuclear Waste Policy Act of 1982
OIA Report	Report by the Office of Inspector and Auditor of the NRC
OPUC	Office of Public Utility Counsel of Texas
PCBs	Polychlorinated biphenyls
Plan	Program Plan addressing Comanche Peak design and construction concerns
PUC	Public Utility Commission of Texas
QA/QC	Quality assurance/quality control
RCRA	Resource Conservation and Recovery Act of 1976
SSER	Supplemental Safety Evaluation Report of the NRC
System Companies	Texas Utilities Company and Its Subsidiaries
TACB	Texas Air Control Board
Texas Utilities	Texas Utilities Company
Tex-La	Tex-La Electric Cooperative of Texas, Inc.
Thercol	Thercol Energy Co.
TML	Texas Municipal League
TMPA	Texas Municipal Power Agency
TNMP	Texas-New Mexico Power Company
TRA	Tax Reform Act of 1986
TRT	Technical Review Team of the NRC
TU Services	Texas Utilities Services Inc.
TWC	Texas Water Commission

## PART I

### Item 1. BUSINESS.

#### THE COMPANY

Texas Utilities Electric Company (Company) was incorporated under the laws of the State of Texas in 1982 and has perpetual existence under the provisions of the Texas Business Corporation Act. The Company is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electric energy wholly within the State of Texas. The Company possesses all of the necessary franchises and certificates required to enable it to conduct its business (see Regulation and Rates).

The Company is the principal subsidiary of Texas Utilities Company (Texas Utilities). Texas Utilities also has three other subsidiaries which perform specialized services for the Texas Utilities Company System (System Companies), including the Company: Texas Utilities Fuel Company (Fuel Company) owns a natural gas pipeline system, acquires, stores, and delivers fuel gas and provides other fuel services for the generation of electric energy by the Company; Texas Utilities Mining Company (Mining Company) owns and operates fuel production facilities for the surface mining and recovery of lignite for use at the Company's generating stations; and Texas Utilities Services Inc. (TU Services) furnishes financial, accounting, computer and other administrative services at cost. Effective January 1, 1984, the Company became the successor by merger to Dallas Power & Light Company, Texas Electric Service Company and Texas Power & Light Company which had been subsidiaries of Texas Utilities.

The Company is engaged in the generation, purchase, transmission, distribution and sale of electric energy in the north central, eastern and western parts of the State of Texas, with a population estimated at 5,160,000 - about one-third of the population of Texas. Electric service is provided in 87 counties and 361 incorporated municipalities, including Dallas, Fort Worth, Midland, Odessa, Wichita Falls, Arlington, Irving, Plano, Waco, Tyler and Killeen. The area is a banking, insurance and commercial center with substantial electronics, aerospace, petrochemical and specialized steel manufacturing, and automotive and aircraft assembly. The territory served also includes a major portion of the Permian Basin oil and gas area and part of the oil and gas fields of East Texas, as well as substantial farming and ranching sections in West Texas, the agricultural blacklands of Central Texas, the farming and ranching sections north and east of Dallas and the Dallas-Fort Worth International Airport.

At December 31, 1987, the Company had a total of 12,675 full-time employees.

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

#### PEAK LOAD AND CAPABILITY

Net capability, peak load and reserve at the time of peak were as follows during the years indicated:

Year	Net Capability (megawatts)	Peak Load(a)		
		Megawatts	Increase Over Prior Year	Reserve(b) (megawatts)
1987	19,465	16,680	0.9%	2,893
1986	18,854	16,537	4.0	2,417
1985	18,614	15,898	4.1	2,815

(a) Includes interruptible load of 113 megawatts in 1987, 130 megawatts in 1986 and 129 megawatts in 1985.

(b) Excess of net capability over peak load, excluding interruptible, at the time of peak.

The peak load increases for 1987 and 1986 resulted primarily from customer growth and weather factors in the service area. The peak load in 1987 occurred on August 6. Summer cooling degree days in the service area during 1987 were 4% below normal while heating degree days during

**Item 1. BUSINESS (Continued).**

the winter were approximately 3% below normal. Included in the 1987 net capability was 1,661 megawatts of firm purchased capacity, including 1,531 megawatts of cogeneration. The Company expects to purchase additional capacity during 1988 and 1989 from various sources. (See Fuel Supply and Purchased Power and Item 6, Selected Financial Data — Operating Statistics.)

Peak load increases through the mid-1990's are expected to average approximately 2.5% annually, after giving effect to an aggressive load management program (including interruptible contracts). The Company's resource plan provides for meeting the increases in required capability (taking into consideration, among other factors, expiring purchased power contracts and possible retirements of older gas-fired generating units) through the acquisition of purchased power capacity (including cogeneration and small power production), through the completion of various nuclear, lignite and gas/oil fueled capacity additions and through the Company's conservation and load management programs. The resource plan is subject to annual review as part of the Company's regular planning process. The components of the resource plan (see Item 2, Properties — Construction Program) are as follows:

<u>Resource Additions</u>	<u>Resource Plan 1988-1997</u>	
	<u>Capability (megawatts)</u>	<u>Percent</u>
Lignite .....	2,250	26%
Nuclear* .....	2,162	25
Combustion turbines .....	1,495	17
Load management .....	1,422	16
Cogeneration, other purchases and unspecified .....	1,444	16
Total .....	<u>8,773</u>	<u>100%</u>

\* Assumes acquisition of additional 6.2% interest in the Comanche Peak nuclear generating station from the Texas Municipal Power Agency (see Item 2, Properties — Construction Program and Note 11 to Financial Statements).

**FUEL SUPPLY AND PURCHASED POWER**

Net input for 1987 was 82,898 million kilowatt-hours of which 71,879 million were generated by the Company. During this period, 786,928,885 million Btu of fuel (including 37,676,335 million Btu furnished by Alcoa at no cost) were consumed for electric generation.

A comparison of the resource mix for net input and the unit cost per million Btu of fuel to the Company during the last three years is as follows:

	<u>Mix for Net Input</u>			<u>Unit Cost Per Million Btu</u>		
	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>
Fuel for electric generation:						
Gas .....	42.1%	44.2%	49.7%	\$2.56	\$2.77	\$3.41
Oil .....	0.3	0.1	0.7	4.82	6.14	4.26
Lignite* .....	44.3	49.8	47.0	1.07	0.98	0.96
Total/Average fuel costs for electric generation .....	86.7	94.1	97.4	\$1.82	\$1.84	\$2.25
Purchased power .....	13.3	5.9	2.6			
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>			

Average fuel and purchased power cost (excluding capacity charges) per kWh of net input was 2.05¢ for 1987, 2.02¢ for 1986 and 2.49¢ for 1985.

\*Lignite cost per ton to the Company was \$13.72 for 1987, \$12.74 for 1986 and \$12.58 for 1985.



## Item 1. BUSINESS (Continued).

### *Gas*

Fuel gas for units at nineteen of the principal generating stations of the Company, having an aggregate gas/oil capability of 11,959 megawatts, was provided during 1987 by Fuel Company. Fuel Company supplied approximately 53% of such fuel gas requirements under contracts with producers at the wellhead and other contracts with dedicated reserves, 13% under contracts with Lone Star Gas Company (Lone Star) and 29% under contracts with other commercial suppliers.

Fuel Company has acquired under contracts expiring at intervals through 2007, with producers at the wellhead, supplies of gas which are generally expected to be produced over a ten to fifteen year period. As gas production declines and/or contracts expire, new contracts are expected to be negotiated to replenish or augment such supplies. During 1987, no curtailments were experienced under these contracts.

In addition to negotiating gas purchase and transportation contracts with Lone Star expiring in 2007, Fuel Company has negotiated gas purchase contracts, ranging in terms from two to ten years, with a number of other commercial suppliers. Additionally, Fuel Company has entered into a number of short-term gas purchase contracts with other commercial suppliers at spot market prices; however, these contracts typically do not provide for a firm supply obligation from the seller nor a firm purchase obligation from Fuel Company. During periods of winter peak gas demand, curtailments of gas deliveries have been experienced; however, such curtailments have been of relatively short duration and have had minimal impact on operations.

Fuel Company owns and operates an intrastate natural gas pipeline system which extends from the gas-producing area of the Permian Basin in West Texas to the East Texas gas fields and southward to the Gulf Coast area. This system includes a one-half interest in a 36-inch pipeline which extends 395 miles from the Permian Basin area of West Texas to a point of termination south of the Fort Worth-Dallas area and has a total estimated capacity of 800 million cubic feet per day with existing compression facilities. Additionally, Fuel Company owns a 39% undivided interest in another 36-inch pipeline, connecting to this pipeline and extending 58 miles eastward to one of Fuel Company's underground gas storage facilities. Fuel Company also owns and operates over 1,750 miles of various smaller capacity lines which are used to gather and transport natural gas from other gas-producing areas. The pipeline facilities of Fuel Company form an integrated network through which fuel gas is gathered and transported to certain generating stations of the Company for use in the generation of electric energy.

Fuel Company also owns and operates underground gas storage facilities with a usable capacity of 27.9 billion cubic feet with approximately 20.5 billion cubic feet of gas in inventory at December 31, 1987. Gas stored in these facilities is currently capable of being withdrawn at a rate of approximately 785 million cubic feet per day for use during periods of peak demand, to meet seasonal and other fluctuations or curtailment of deliveries by gas suppliers.

### *Oil*

During 1987, the Company's utilization of fuel oil as an alternate source of boiler fuel amounted to 389,447 barrels or 0.3% of total fuel requirements. Fuel oil is stored at all nineteen of the principally gas-fueled generating stations. At December 31, 1987, the Company had fuel oil storage capacity sufficient to accommodate the storage of approximately 6.2 million barrels of oil, with approximately 2.7 million barrels of oil in inventory. It is anticipated that oil required to replenish that removed from storage and consumed for the generation of electric energy will be obtained primarily through purchases in the open market. Fuel Company has access to an oil pipeline and owns terminal facilities to provide for more dependable and efficient movement of oil.

### *Lignite*

Two units in service at the Big Brown generating station, three units at the Monticello generating station, three units at the Martin Lake generating station, and one unit at the Sandow generating

### **Item 1. BUSINESS (Continued).**

station (see Item 2, Properties), having an aggregate net capability of 5,845 megawatts, use lignite as fuel; three other lignite-fueled units, with an aggregate net capability of 2,250 megawatts, are now in design or under construction (see Item 2, Properties — Construction Program). These lignite units, which are or will be base loaded to operate at the maximum practical capacity factor, have been or are being constructed adjacent to lignite reserves which will be surface mined. At the present time, the Company owns in fee or has under lease an estimated 800 million proven recoverable tons of such reserves. Mining Company owns and operates equipment to remove the overburden and to recover lignite. One of the Company's lignite units, Sandow 4, is fueled from lignite deposits owned by Alcoa, which furnishes fuel at no cost to the Company for that portion of energy generated from such unit and dedicated to Alcoa (see Item 6, Selected Financial Data - Operating Statistics). For information concerning applicable air quality standards, see Environmental Matters.

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

#### ***Nuclear***

Two nuclear-fueled units are under construction at the Comanche Peak nuclear generating station (Comanche Peak) (see Comanche Peak Nuclear Generating Station, Item 2, Properties — Construction Program and Item 3, Legal Proceedings). The nuclear fuel required for the first operating cycle of Unit 1 is now onsite at the station. Commitments have been obtained for anticipated uranium ore concentrate requirements and fabrication services for both units for the first 5 years of operation. Uranium hexafluoride conversion services have been contracted for through 1988, with an extension thereafter being negotiated; and uranium enrichment contracts, having a duration of approximately 30 years, have been made with the Department of Energy. Additional contracts for uranium ore concentrates and nuclear fuel cycle services will be required in the future; however, it is not possible to predict the ultimate availability or cost thereof.

The Nuclear Waste Policy Act of 1982 (NWPA) provides for the development by the federal government of interim storage and permanent disposal facilities for spent nuclear fuel and/or high level radioactive waste materials. The Company is unable to predict when the federal government will be able to provide such storage and disposal facilities. Under provisions of the NWPA, funding for the program will be provided by a one-mill per kilowatt-hour fee levied on electricity generated and sold by nuclear reactors, including the Comanche Peak units. There will be onsite storage capacity for spent fuel sufficient to accommodate the operation of Comanche Peak for approximately 20 years and this storage capacity can be increased, subject to approval by the Nuclear Regulatory Commission (NRC).

#### ***Purchased Power***

In 1987, the Company purchased 11,019 million kilowatt-hours or 13% of its energy requirements and had available 1,661 megawatts of firm purchased capacity at the time of peak load. Firm purchased capacity presently under contract is 1,717 megawatts for 1988; 1,723 megawatts for 1989; 1,335 megawatts for 1990 through 1995 and 1,265 megawatts for 1996 and 1997. This firm purchased capacity is primarily cogeneration and does not include the capacity to be purchased from Tex-La Electric Cooperative of Texas, Inc. (Tex-La) of its entitlement from Comanche Peak (see Note 11 to Financial Statements). The Company expects to acquire additional purchased power capacity in the future to accommodate a portion of the System load growth and plans to investigate potential available sources.

## Item 1. BUSINESS (Continued).

### *General*

The Company is not able to predict: (i) whether or not problems may be encountered in the future in obtaining the fuel and purchased power it will require, (ii) the effect upon its operations of any difficulty it may experience in protecting its rights to fuel and purchased power now under contract, or (iii) the cost of fuel and purchased power. All reasonable costs of fuel and purchased power are generally recoverable subject to the rules of the Public Utility Commission of Texas (PUC). (See Regulation and Rates for information pertaining to the method of recovery of fuel costs.)

## REGULATION AND RATES

### *Regulation*

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

The Company does not transmit electric energy in interstate commerce or sell electric energy at wholesale in interstate commerce, or own or operate facilities therefor, and its facilities are not connected directly or indirectly to other systems which are involved in such interstate activities, except during the continuance of emergencies permitting temporary or permanent connections or under an order of the Federal Energy Regulatory Commission (FERC) exempting the Company from jurisdiction under the Federal Power Act. In view thereof, the Company believes that it is not a public utility as defined in the Federal Power Act and has been advised by its counsel that it is not subject to general regulation under such Act.

The PUC has original jurisdiction over electric rates and service in unincorporated areas and exclusive appellate jurisdiction to review the rate and service orders and ordinances of municipalities. Each municipality within the Company's service area has original jurisdiction over the regulation of electric rates and service within its corporate limits until such time as any such municipality may elect to have the PUC exercise original jurisdiction. Approximately 19% of the Company's revenues for 1987 were derived from electric energy sales to customers in unincorporated areas and municipalities that have ceded original jurisdiction to the PUC. The Texas Public Utility Regulatory Act prohibits the collection of any rates or charges (including charges for fuel) by a public utility that do not have the prior approval of the PUC (see Rates). The provisions for inclusion of construction work in progress in rate base provide that such inclusion is an exceptional form of rate relief to be granted only when necessary to the financial integrity of the utility and that it shall not be included for major projects to the extent they have been inefficiently or imprudently planned or managed.

The System Companies are also subject to various other federal, state and local regulations. (See Comanche Peak Nuclear Generating Station, Environmental Matters and Item 3, Legal Proceedings.)

### *Rates*

Rates for electric service remained unchanged during 1987, except for reductions in fixed fuel factors discussed below. At appropriate times in the future, the Company intends to file rate applications with the PUC and its municipal regulatory authorities to recover the costs and a return on its investment in its electric plant, including the Comanche Peak nuclear units. It anticipates that such rate applications will be subject to challenge with regard to the prudence of costs incurred. The Company has indicated that it does not currently plan to implement increased electric service rates which reflect any additional Comanche Peak costs until Unit 1 is ready for commercial operation. The Company continues to believe, based upon revised cost estimates and using acceptable ratemaking approaches and assumptions, that the rate increase, when Unit 1 goes into service, can be held to about 10% (see Item 2, Properties — Construction Program).

### Item 1. BUSINESS (Continued).

In March 1984, the Company made applications to the PUC and to its municipal regulatory authorities for upward adjustments in rates for electric service throughout its service area. The proposed rate adjustments, affecting all classes of service, were estimated to increase operating revenues by \$304.2 million, or 8.0%, based upon the test year ended September 30, 1983. On October 12, 1984, the PUC issued its final order which decreased rates by approximately \$7.0 million, or 0.2%. The customer classes of Dallas Power, Texas Electric and Texas Power were consolidated and adjustments were made, affecting all classes of service, that recognized said revenue reduction. (See Item 3, Legal Proceedings.) On October 31, 1984, in response to appeals from the ordinances of various municipal regulatory authorities, the PUC issued its final order fixing the Company's rates within the corporate limits of those municipalities at the same level approved by the PUC in its October 12 order (see Item 3, Legal Proceedings). The present rates were placed into effect in November 1984. Prior general rate levels had been established separately for Dallas Power, Texas Electric and Texas Power. Dallas Power had placed rates into effect in February 1984, which recognized a revenue deficiency for the test year ended March 31, 1983 of approximately \$47.3 million, or 6.5%. Texas Electric had placed rates into effect in December 1983, which recognized a revenue deficiency for the test year ended March 31, 1983 of approximately \$73.9 million, or 6.1%. Texas Power had placed rates into effect in July 1982, which recognized a revenue deficiency for the test year ended September 30, 1981 of approximately \$72.0 million, or 5.8%.

In July 1986, the PUC adopted a revised rule relating to the method of recovery of fuel costs. This rule provides for recovery of fuel costs through fixed fuel factors as approved by the PUC. (See Item 3, Legal Proceedings.) The rule requires refunds of material over-recoveries of fuel cost revenues and reductions in the fixed fuel factors in the event that the utility is materially over-recovered and projects that it will materially over-recover its known or reasonably predictable fuel costs. Material as defined in the rule is the amount of over-recovery, including interest, which exceeds the lesser of \$40 million or 4% of the approved annual known or reasonably predictable fuel costs most recently approved by the PUC. Final reconciliation of fuel costs is to be made at the time of the utility's general rate case or at a reconciliation proceeding. The rule also provides for an emergency request to increase the fixed fuel factors, which must be acted upon within thirty days on an interim basis by the PUC, if reasonably unforeseeable circumstances have resulted in a material under-recovery of known or reasonably predictable fuel costs. Reconciliation may be requested only if it has either been over one year since the utility's last final reconciliation or the utility has materially under-recovered its known or reasonably predictable fuel costs. In such reconciliation, the utility has the burden of proving that it has generated electricity efficiently, maintained effective cost controls, its non-affiliated fuel and fuel-related contracts have produced the lowest reasonable cost of fuel to ratepayers, and, for fuels acquired from affiliates, all fuel-related expenses are reasonable and necessary and that the prices charged are no higher than prices charged by the supplying affiliate to other of its affiliates or divisions or to unaffiliated persons or corporations for the same item or class of items. Under-recovery reconciliation will be granted only for that portion of fuel costs increased by conditions or events beyond the utility's control. Interest will be paid or received by the utility on any over or under-recovery of fuel costs at the utility's composite cost of capital as established by the PUC in the utility's most recent general rate case. The rule imposes penalties of up to 10% in the event that interim refunds, when required, are not timely requested and in the event that an emergency increase is granted when there was no emergency.

In February 1986, the Company received approval from the PUC to reduce its composite interim fixed fuel factor by approximately 12.4% and such reduction was implemented in March 1986. In April 1986, the Company was authorized to refund approximately \$140.4 million, representing the cumulative amount of over-recovered fuel revenues, including applicable interest, as of January 1986. The refund was implemented with the May 1986 billings. (See Item 3, Legal Proceedings.)

In August 1986, the Company filed an application with the PUC for authority to refund approximately \$64.8 million, representing the cumulative amount of over-recovered fuel revenues,

**Item 1. BUSINESS (Continued).**

including applicable interest, as of June 30, 1986. The refund was implemented with the October 1986 billings. (See Item 3, Legal Proceedings.)

In November 1986, the Company filed an application seeking authority to reduce its composite interim fixed fuel factor by approximately 10.3% and to refund approximately \$58.4 million, representing the cumulative amount of over-recovered fuel revenues, including applicable interest, as of September 30, 1986. The refund was implemented with the December 1986 billings and the reduced interim fixed fuel factors were implemented with the February 1987 billings.

In December 1986, the Company filed an application with the PUC for authority to refund approximately \$55.6 million, representing the cumulative amount of over-recovered fuel revenues, including applicable interest, as of November 30, 1986. The refund was implemented with the February 1987 billings.

In March 1987, the Company filed an application with the PUC for authority to refund approximately \$69.7 million, representing the cumulative amount of over-recovered fuel revenues, including applicable interest, as of February 1987. The refund was implemented with the May 1987 billings.

## **COMANCHE PEAK NUCLEAR GENERATING STATION**

### ***Operating License Application***

The Company is subject to the jurisdiction of the NRC with respect to nuclear power plants. NRC regulations govern the granting of licenses for the construction and operation of nuclear power plants and subject such power plants to continuing review and regulation. Pursuant to such regulations, a review is being conducted by the NRC of the Company's application for licenses to operate the Comanche Peak units. As a part of that review, a proceeding was initiated before an Atomic Safety and Licensing Board (ASLB) and proceedings on various issues have been ongoing since December 1981. After completion of such proceeding, the ASLB will make recommendations to the NRC regarding the issuance of operating licenses for the Comanche Peak units. An intervenor is actively involved in this ASLB proceeding.

The one remaining Contention before the ASLB in the operating license proceeding relates to the Company's quality assurance/quality control (QA/QC) program for the plant. In December 1983, the ASLB issued a memorandum questioning the QA program for design of certain portions of the plant and requested that the Company offer additional proof of adequate design and design review procedures. The ASLB is also reviewing several other related issues and has indicated its intent to review the results of the NRC's Technical Review Team (TRT) investigation discussed below. In July 1984, a separate ASLB, including two of the three members of the original ASLB, was convened to receive testimony on allegations that QC inspectors at the plant had been subjected to an atmosphere of harassment and intimidation which is alleged to have affected the implementation of the Company's QA program. In January 1986, this separate ASLB was disestablished with all issues thereafter to be resolved by the original ASLB.

As a separate part of the NRC's review of the Company's operating license application, in March 1984, the NRC established a task force to consolidate and carry out the various reviews necessary for the NRC Staff to reach its decision regarding the operating licenses. This effort involved the establishment of the TRT, which began an intensive onsite investigation in July 1984 and subsequently has issued reports requesting additional information from the Company with respect to several functional areas of the plant's construction program. The Company then formed a special team, the Comanche Peak Response Team (CPRT), which includes a number of independent experts in each area addressed by the TRT, and submitted a Program Plan (Plan) to respond to the questions raised. Such Plan, which is described further below, is presently being implemented and has been expanded to address the design and other ASLB issues described herein.

**Item 1. BUSINESS (Continued).**

In January 1985, the TRT issued a report on its review of the QA/QC programs at Comanche Peak. The report stated that although the QA program documentation met NRC requirements, the implementation of the QA program demonstrated that the Company had lacked the commitment to aggressively implement an effective QA/QC program in several areas. The TRT indicated that it had found evidence of faulty construction and ineffective QA and QC inspections. Questions were also raised concerning the training and qualification of QC personnel and in the reporting of deficiencies. The TRT further found that prior to July 1984 problems had existed in the control of documentation. In addition, deficiencies in several other areas were described. The Company was requested to submit to the NRC a program and schedule for completing a detailed and thorough assessment of these QA/QC issues presented by the TRT. The Company also was asked to consider the use of management personnel with a fresh perspective to evaluate the TRT findings and implement corrective action, and to consider the use of an independent consultant to oversee the corrective action program.

In June 1985, the Company filed with the NRC and the ASLB a revision to the Plan which is being utilized by the CPRT to address all outstanding design and construction concerns. This Plan, which was substantially revised and reissued in January 1986, and further revised in July 1987, provides for a complete design review of virtually all safety related systems in the plant, and for the development of a corrective action program as required. In August 1985, the ASLB issued a Memorandum which described areas of the Plan that concerned the ASLB. The Memorandum indicated, however, that if the Plan were revised to address the ASLB's concerns and if it were appropriately implemented, the Plan may demonstrate the quality of the plant. In May 1986, the Staff of the NRC issued a Supplemental Safety Evaluation Report (SSER) containing an evaluation of the Plan as it existed at that time. The SSER concluded that the Plan provided an overall structure and process for addressing and resolving all existing construction and design issues and any future issues that may be identified from further evaluations. In June 1986, the ASLB issued a Memorandum which addressed "Board Concerns" about the adequacy of the CPRT program. The Memorandum stated that, based upon the ASLB's current knowledge of the program, after having reviewed the first results reports and the SSER on the Plan, the ASLB continued to have the concerns expressed in the earlier memorandum described above. The ASLB also raised additional concerns about how findings in one area of the reinspection effort may affect the Company's program in other areas, whether sufficient attention is being paid to problems of quality assurance and quality control regarding design, the adequacy of the CPRT sampling program, and perceived oversights in one of the results reports that had been issued. The Company is addressing these concerns. In November 1987, the ASLB established a schedule for resolution of all issues remaining in the operating license proceeding. In January 1988, the Staff of the NRC, after further review and analysis, approved the Plan and corrective action program as the basis to resolve outstanding issues. At the end of February 1988, the CPRT completed the publication of its final reports. In March 1988, the Staff issued an SSER approving the design of piping and pipe supports at Comanche Peak, which had been a major issue in the operating license proceeding, and concluded that the Plan provides an effective means to ensure proper implementation of corrective action in this regard. Delivery of this report sets into motion a prehearing schedule adopted by the ASLB which should result in the resumption of hearings on issuance of the operating licenses in the late summer of 1988. Meanwhile, implementation of the corrective action program continues.

In December 1987, the Company entered into an agreement to settle potential claims against Gibbs & Hill, Inc. (Gibbs & Hill), the original architect-engineer for Comanche Peak relating to engineering and design services performed by Gibbs & Hill for Comanche Peak. Under the terms of this settlement, the owners of Comanche Peak will receive a total of \$25 million in cash, deferred payments and future engineering services which will be provided to the Company on non-nuclear projects.

## **Item 1. BUSINESS (Continued).**

The Company has made a number of key management changes in the nuclear program for Comanche Peak, including the addition of several new officers who bring substantial nuclear experience to the Company. This new management team is responsible for oversight and implementation of the reinspection and corrective action program.

The NRC has created an Office of Special Projects to manage all aspects of the NRC's licensing and inspection efforts for Comanche Peak and certain other nuclear power plants.

### ***Construction Permit Extensions***

In January 1986, the Company filed an application with the NRC for an extension of the construction permit for Unit 1 to reflect a new "latest date for completion" of August 1, 1988; previously such date had been August 1, 1985. In the application, the Company stated that the reason the request for extension of the construction permit was not filed at an earlier time was administrative oversight. In February 1986, the NRC issued an order extending the "latest date for completion" of Unit 1 to August 1, 1988. Subsequently, the intervenor involved in the ASLB operating license proceeding filed with the NRC a request to stay the effectiveness of the construction permit extension and to require the Company to file a new application for a construction permit for Unit 1 or to order that hearings be held prior to any decision on whether to grant the construction permit extension. The request for a stay was denied by the NRC and the question of whether to hold such hearings was remanded to an ASLB, the members of which are the same as the ASLB for the operating license. In November 1986, the ASLB issued a Memorandum and Order in which it accepted for litigation a new Contention, raised by two intervenors, which alleges that the delay in completing Comanche Peak, which has occurred and has necessitated the extension of the construction permit by the NRC, was the result of dilatory action on the part of the Company and that, therefore, good cause did not exist for the extension of such permit. No schedule for hearings on this Contention has been adopted by the ASLB at this time. The Company has also applied to the NRC for an extension of the construction permit for Unit 2. Such application is presently under review by the Staff of the NRC. In early March 1988, the Company filed with the ASLB a motion to consolidate proceedings in the operating license and construction permit proceedings. (See Item 2, Properties — Construction Program.)

### ***Civil Penalties***

In April and June 1986, the Company paid civil penalties to the NRC, each in the amount of \$40,000, relating to allegations of harassment and intimidation at Comanche Peak. The June 1986 penalty was part of an aggregate of \$120,000 in civil penalties previously proposed by the Staff of the NRC. The Company requested the Staff to revisit the other alleged violations to determine whether they did in fact occur and to consider mitigating the amount of the penalties, and in August 1987, the Staff decided not to assess the remaining \$80,000 in proposed civil penalties. In August 1986, the Company paid a civil penalty of \$200,000 previously proposed by the Staff of the NRC relating to the findings of the TRT, described above. In addition, the Company has paid another civil penalty of \$50,000 relating to two alleged violations in the Company's reinspection and corrective action effort.

### ***Investigation Regarding NRC Region IV***

In December 1986, a portion of a report was released by the Office of Inspector and Auditor of the NRC (OIA Report) containing the results of its investigation of allegations of misconduct by the management of Region IV of the NRC with respect to Comanche Peak. The OIA Report expressed concern about allegations of harassment and intimidation by Region IV management to pressure

### **Item 1. BUSINESS (Continued).**

Region IV inspectors to downgrade or delete proposed inspection findings at Comanche Peak. In addition, the OIA Report concluded that it would not be possible to rely on the Region IV QA inspection as evidence of the safe construction of Comanche Peak. Consequently, it stated that it will be necessary for the NRC to rely largely on recent detailed technical inspections conducted by the NRC, including the TRT, at Comanche Peak. The OIA Report also indicated that the data contained in an internal NRC report on inspection procedures was inaccurate and unreliable due to a lack of understanding by NRC inspectors of the proper method of completing a certain NRC form. NRC officials have indicated that a thorough assessment of the results of this investigation will be made; and in addition, certain personnel changes in the Region IV office have occurred. The OIA Report's findings are restricted to activities in Region IV and do not question other NRC regulatory activities with respect to Comanche Peak, including the detailed technical inspections conducted by the TRT as discussed above. The intervenor in the operating license proceedings, discussed above, has indicated its intent to file a motion raising the OIA Report's findings as issues to be the subject of hearings in such proceedings.

#### ***Cost and Schedule Estimates***

For information relating to cost and schedule estimates, see Item 2, Properties — Construction Program.

### **ENVIRONMENTAL MATTERS**

The System Companies are subject to various federal, state and local regulations dealing with air and water quality and related environmental matters (see Item 2, Properties — Construction Program for scheduled expenditures).

#### ***Air***

Under the Texas Clean Air Act, the Texas Air Control Board (TACB) has jurisdiction over the permissible level of air contaminant emissions from generating facilities located within the State of Texas. In addition, the new source performance standards of the Environmental Protection Agency (EPA) promulgated under the federal Clean Air Act, which have also been adopted by the TACB, are applicable to such generating units, the construction of which commenced after March 5, 1972. The Company's generating units have been constructed to operate in compliance with regulations promulgated pursuant to these Acts; however, due to variations in the quality of the lignite fuel, operation of certain of the lignite-fueled generating units at reduced loads is required from time to time in order to maintain compliance with these standards. Generating facilities presently under construction have received state and federal permits and are designed to comply with applicable statutes and regulations. However, the Twin Oak generating station (Twin Oak) and Forest Grove generating station (Forest Grove) will require design modifications in order to comply with more recent EPA standards.

#### ***Water***

The Texas Water Commission (TWC) and the EPA have jurisdiction over all water discharges from generating stations and mining areas. The Company's generating stations presently in operation have been constructed to operate in compliance with applicable state and federal standards relating to the quality of discharges of water. The Company and Mining Company have obtained all required waste water discharge permits from the TWC for facilities in operation and have applied for or obtained all such permits for facilities under construction. Permits have been received from the EPA under the National Pollutant Discharge Elimination System (NPDES) for the discharge of waters from units at the generating stations currently in operation. All NPDES permits required for units under construction and lignite mining areas have been applied for or obtained. The Company and Mining Company believe they can satisfy the requirements necessary to obtain any required renewals.



**Item 1. BUSINESS (Concluded).**

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

***Other***

Federal legislation regulating surface mining was enacted in August 1977 and regulations implementing the law have been issued. Mining Company's lignite mining operations are currently regulated at the state level by the Railroad Commission of Texas. Surface mining permits have been issued for current mining operations that provide fuel for the Big Brown, Monticello, Martin Lake and Sandow generating stations.

Treatment, storage and disposal of solid waste is regulated at the state level under the Texas Solid Waste Disposal Act and at the federal level under the Resource Conservation and Recovery Act of 1976 (RCRA). The EPA has issued regulations under the RCRA and the TWC has issued regulations under the Texas act applicable to the Company's generating units. The Company has registered its disposal sites as required by such regulations.

In August 1982, the EPA issued its final rules on the use of polychlorinated biphenyls (PCBs) in transformers, capacitors and other types of electrical equipment. Under the rules, certain PCB capacitors must be phased out by October 1988. The Company does not expect these regulations to have a material adverse effect on its operations or financial condition.

## Item 2. PROPERTIES.

At December 31, 1987, the Company owned and operated sixty-nine electric generating units at twenty-three stations having a total net capability of 17,804 megawatts. The locations of the principal electric generating stations and transmission lines of the Company are indicated on the map included herein. Forty generating units with a net capability of 8,506 megawatts use natural gas as the primary fuel and are designed to use fuel oil for short periods when the gas supply is interrupted or curtailed; two units with a net capability of 750 megawatts can use natural gas only; five units with a net capability of 2,680 megawatts use natural gas as the primary fuel and are designed to use fuel oil for extended periods; nine units with a net capability of 5,845 megawatts use lignite as fuel; and thirteen units with a net capability of 23 megawatts are diesel units.

In December 1987, the Company entered into an operating lease arrangement for nine combustion turbine generating units, designed to use natural gas or fuel oil, with a total net capability of 585 megawatts. At that time, three of such units having a total net capability of 195 megawatts went into operation. The other six units are expected to become operational in mid-1988. (See Item 2, Properties — Construction Program and Note 9 to Financial Statements.)

The principal generating facilities and load centers of the Company are connected by 3,820 circuit miles of 345,000 volt transmission lines and 8,805 circuit miles of 138,000 and 69,000 volt transmission lines.

The Company is connected by six 345,000 volt lines to Houston Lighting & Power Company; by three 345,000 volt, five 138,000 volt and nine 69,000 volt lines to West Texas Utilities Company; by two 345,000 volt, seven 138,000 volt and one 69,000 volt lines to Lower Colorado River Authority; by four 345,000 volt and eight 138,000 volt lines to Texas Municipal Power Agency (TMPA); and at several points with smaller systems operating wholly within Texas. The Company is a member of the Electric Reliability Council of Texas (ERCOT), an intrastate network of six major investor-owned and seventy-two public entities. ERCOT is the regional reliability coordinating organization for member electric power systems in Texas.

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

During the period from January 1, 1985, to December 31, 1987, the Company made gross property additions of approximately \$4,234,261,000 and retirements of property aggregating approximately \$166,677,000. Such gross additions amounted to 29.9% of electric plant at December 31, 1987.

Item 2. PROPERTIES (Continued).

CONSTRUCTION PROGRAM

Construction expenditures for the years 1988 through 1990 are estimated as follows:

	1988	1989	1990
	Thousands of Dollars		
Electric Property:			
Production*	\$ 842,000	\$ 592,000	\$438,000
Transmission	50,000	69,000	76,000
Distribution	195,000	225,000	233,000
General	20,000	28,000	30,000
Total*	1,107,000	914,000	777,000
AFUDC*	350,000	463,000	50,000
Total construction expenditures*	<u>\$1,457,000</u>	<u>\$1,377,000</u>	<u>\$827,000</u>
Such expenditures do not include AFUDC on Unit 2 of Comanche Peak for any period after March 1988 or the following:			
Nuclear fuel*	\$ 33,000	\$ 15,000	\$ 15,000

\*Includes ongoing amounts for an additional 6.2% interest in Comanche Peak, which is subject to purchase from TMPA (See Note 11 to Financial Statements):

Production	\$ 50,000	\$ 32,000	\$ 16,000
AFUDC	23,000	30,000	1,000
Total construction expenditures	<u>\$ 73,000</u>	<u>\$ 62,000</u>	<u>\$ 17,000</u>
Nuclear fuel	\$ —	\$ 1,000	\$ 1,000

The Company is subject to federal, state and local regulations dealing with environmental protection (see Item 1, Business — Environmental Matters). Construction expenditures for additional items of equipment contributing to the protection of the environment for lignite-fueled generating units (included above in Production) are estimated to be approximately \$15,800,000 for 1988, \$16,200,000 for 1989 and \$26,400,000 for 1990. Similar such expenditures approximated \$9,800,000 for 1987, \$4,800,000 for 1986 and \$6,900,000 for 1985.

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

**Combustion Turbines**

The Company is installing gas/oil fueled combustion turbines totaling 585 megawatts at two locations for service in the peak season of 1988. In addition, the Company expects to install 390 megawatts of additional turbines for service in the peak season of 1990. In December 1987, the Company entered into an operating lease arrangement covering the 1988 turbines, which became effective at that time for 195 megawatts of such turbines. The remainder of the 1988 turbines, with a total net capability of 390 megawatts, are currently owned and being constructed by a third party and are expected to be sold to the lessor after the tax in-service date, which is expected to occur by mid-1988. Therefore, estimated construction expenditures for 1988 through 1990 do not include these costs.

The Company currently expects to utilize a turnkey construction arrangement for the 1990 turbines, and then enter into an operating lease arrangement with respect to such turbines. Therefore, estimated construction expenditures for 1988 through 1990 do not include costs associated with this arrangement.

## Item 2. PROPERTIES (Continued).

### *Comanche Peak Nuclear Generating Station*

The Company is constructing two nuclear-fueled generating units at Comanche Peak, each of which is designed for a capability of 1,150 megawatts. After giving effect to the anticipated completion of the 1988 agreement to purchase the 6.2% ownership interest of TMPA in the facility, the Company's share of the net capability in each unit is 1,081 megawatts, or approximately 94%. The other participants in the facility are Brazos Electric Power Cooperative, Inc. (BEPC) and Tex-La which own 3.8% and 2<sup>1</sup>/<sub>6</sub>%, respectively. (See Item 3, Legal Proceedings — Comanche Peak Nuclear Generating Station.)

In March 1988, the Company announced that following its review of the cost and schedule for Comanche Peak, commercial operation of Unit 1 is presently anticipated at the end of 1989. All Unit 1 corrective action activities are scheduled for completion to permit fuel loading in mid-1989. The Company also announced the temporary suspension of construction activities and accrual of allowance for funds used during construction (AFUDC) on Unit 2 beginning in April 1988 for a period of approximately one year. Unit 2 is not expected to be ready for commercial operation until after the 1991 peak season. The delay of Unit 2 was implemented to allow the Company to concentrate its resources on the completion of Unit 1, thereby reducing the duplication of effort that would be required to maintain the previous timing between the two units and strengthen the Company's ability to manage construction and start-up activities for both units more efficiently with fewer personnel. Additionally, such delay will allow time to make a more complete determination of any modifications that may be required for Unit 2 based upon the knowledge gained from the reinspection and corrective action program applied to Unit 1. The delay of Unit 2 will also permit the Company time to implement rates for Unit 1 prior to the final completion and operation of Unit 2. Although construction on Unit 2 has been temporarily suspended, there will be some ongoing expenditures required to maintain the unit until construction is resumed. Additionally to the extent the work necessary to place Unit 1 into service affects various common systems, some capital expenditures will be associated with Unit 2.

Based upon this revised schedule, the total cost of the Company's 94% share of the plant, excluding AFUDC, is estimated to be \$6.37 billion. The Company's estimated cost of its share, including AFUDC, is \$8.54 billion or about \$3,950 per kilowatt. Because of the uncertainty regarding the date of commercial operation of Unit 2, a provision has been included in such amount for re-establishing the accrual of AFUDC on Unit 2 after construction resumes. The total cost of the plant, excluding AFUDC, is estimated to be \$6.62 billion. Because of the uncertainties regarding payments by the other owners of Comanche Peak of their share of the remaining construction costs, no estimate of the amount of AFUDC that may be attributable to their interests in the plant has been made.

The Company had previously estimated, in November 1986, that commercial operation of Unit 1 would be achievable in early 1989 and that Unit 2 would not be ready for commercial operation until after the 1989 summer peak season. Based upon such schedule, the total cost, excluding AFUDC, of the Company's 87<sup>5</sup>/<sub>6</sub>% share of the plant (which excludes the presently anticipated purchase of TMPA's share) was estimated to be \$4.63 billion. The Company's estimated cost for its 87<sup>5</sup>/<sub>6</sub>% share, including AFUDC, was \$6.70 billion or about \$3,300 per kilowatt. The total cost of the plant, excluding AFUDC, was estimated to be \$5.27 billion.

Because of numerous uncertainties in the licensing process, no assurance can be given that the revised estimated schedule can be met or that the estimated completion cost will not be exceeded. Failure to secure timely and favorable regulatory approvals or further delays occasioned by additional reanalysis, reinspection or rework will increase the cost of the plant and will likely increase financing requirements.

Item 2. PROPERTIES (Continued).

*Lignite-Fueled Generating Units*

The Company's resource plan includes two 750 megawatt units at the Twin Oak generating station scheduled for service for the peak seasons of 1994 and 1995, and one 750 megawatt unit at the Forest Grove generating station scheduled for service for the peak season of 1997. Based upon this schedule, the anticipated completed cost of the two Twin Oak units is \$2.30 billion, or \$1,531 per kilowatt, and for the Forest Grove unit \$1.33 billion, or \$1,770 per kilowatt. Expenditures through December 31, 1987 on the Twin Oak units and the Forest Grove unit were \$373 million and \$231 million, respectively.

The Company's previous resource plan had included the Twin Oak units in 1991 and 1993 and the Forest Grove unit in 1994. As a part of the Company's regular annual review of its resource plan and in response to the decrease in the long-range forecasted growth in customer demand for electricity and a decision to defer some previously planned retirements of certain gas-fueled generating units, in September 1987 the Company announced a delay in the in-service dates of these units. Concurrently, the Company discontinued the accrual of AFUDC on these units until active construction resumes. The previously disclosed consideration of bids for the turnkey construction of Unit 1 and common facilities at the Twin Oak generating station has been discontinued. (See Item 1, Business — Peak Load and Capability.)

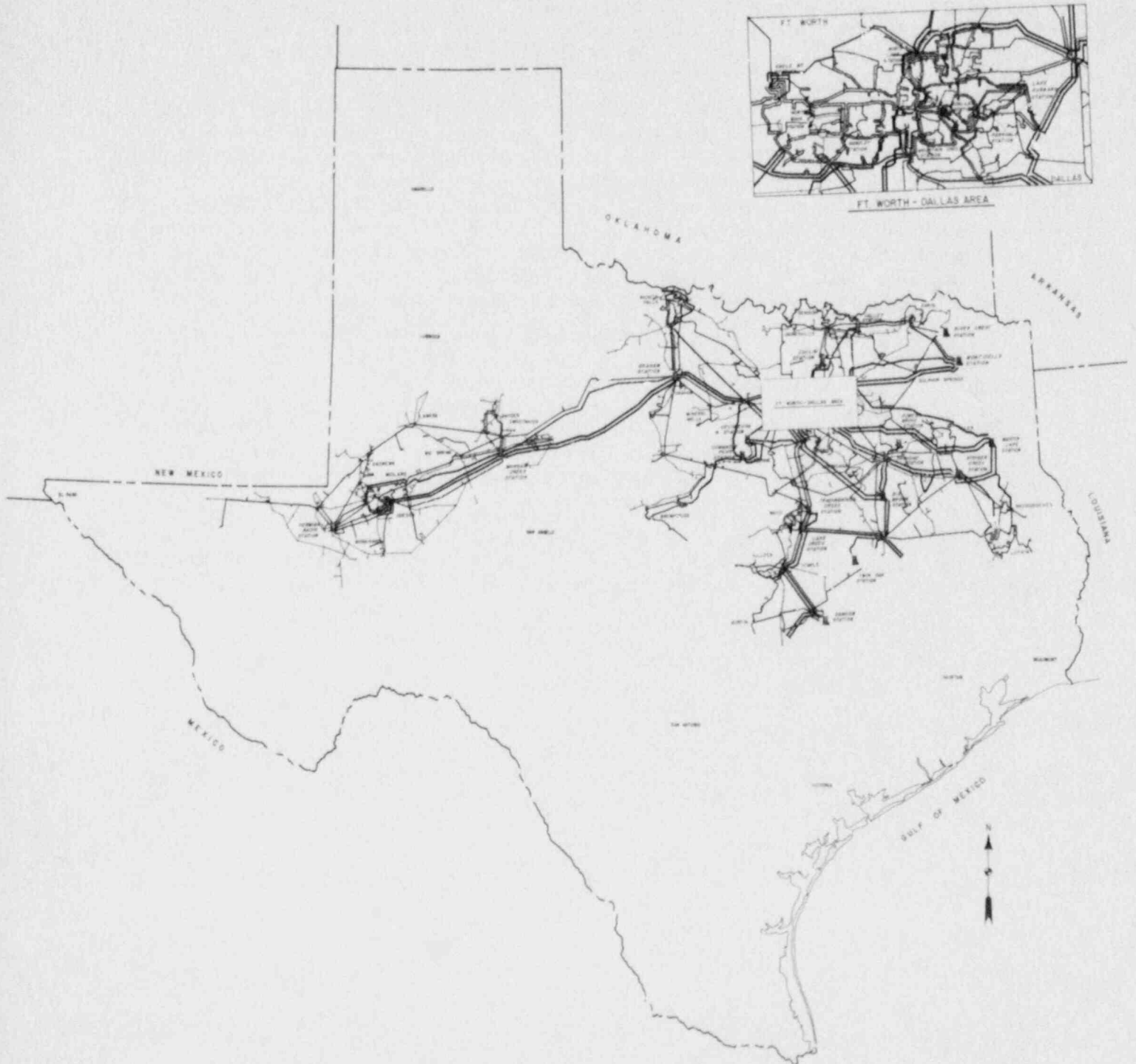
The effects of inflation on construction costs, the reevaluation of growth expectations or additional regulatory requirements may result in changes in estimated completed costs and in-service dates for certain generating units in design or under construction. Actual expenditures and dates of completion may further vary because of other uncertain factors such as licensing delays, changes in peak load requirements and cost and availability of fuel, labor, materials and capital. Commitments in connection with the construction program, principally for generating stations and related facilities, are generally revocable subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties.

Of the funds required to finance the construction program in 1988, present estimates indicate that approximately 9% will be provided from internal sources. For information regarding financing of the construction program see Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 2. PROPERTIES (Concluded).

THE COMPANY SYSTEM MAP

December 31, 1987



### Item 3. LEGAL PROCEEDINGS.

#### *Regulation and Rates*

In December 1984, the Company filed suit in the 98th Judicial District Court of Travis County, Texas, the Office of Public Utility Counsel (OPUC) filed suit in the 147th Judicial District Court of Travis County, Texas, Texas Municipal League (TML) filed suit in the 200th Judicial District Court of Travis County, Texas, and Texas-New Mexico Power Company (TNMP) filed suit in the 353rd Judicial District Court of Travis County, Texas, seeking review of the PUC order of October 12, 1984 in the Company's 1984 rate proceeding. The Company's suit seeks judicial review and a reversal of certain aspects of the order. The OPUC, TML and TNMP suits complain of certain aspects of the order and ask that excessive rates be refunded. In December 1984, the Company filed suit in the 250th Judicial District Court of Travis County, Texas, and in January 1985 certain municipalities filed suit in the 126th Judicial District Court of Travis County, Texas for review of the PUC order of October 31, 1984 in the appeals from various municipal ordinances in connection with the Company's 1984 rate proceeding. The Company's suit seeks judicial review and a reversal of certain aspects of the order. The municipalities' suit complains of certain aspects of the order and asks that excessive rates be refunded. (See Item 1, Business — Regulation and Rates.)

In April 1986, the Attorney General of Texas, on behalf of several state agencies, filed suit in the 345th Judicial District Court of Travis County, Texas, against the PUC and several utilities, including the Company, challenging the validity of the PUC's emergency rule, adopted in February 1986, relating to the method of making refunds of over-recovered fuel revenues. The suit seeks to enjoin the application of the rule and additional refunds of the difference between the amounts that the State agencies were overcharged and the amounts of the refunds they received under the rule.

In June and November 1986, the Attorney General of Texas filed suits in the 98th and 331st Judicial District Courts of Travis County, Texas, respectively, on behalf of several state agencies against the PUC and the Company seeking reversal of the PUC's orders authorizing the refund of over-recovered fuel revenues implemented with the May and October 1986 Company billings, respectively. These suits seek additional refunds of the difference between the amounts that the state agencies were overcharged and the amounts of the refunds they received pursuant to such PUC orders. (See Item 1, Business — Regulation and Rates.)

#### *Comanche Peak Nuclear Generating Station*

The Company, TMPA, BEPC and Tex-La have been the owners of 87 $\frac{5}{6}$ %, 6.2%, 3.8% and 2 $\frac{1}{6}$ % interests, respectively, in Comanche Peak under the terms of a Joint Ownership Agreement (Agreement) which provides that the Company is the Project Manager for Comanche Peak. BEPC has failed to make numerous payments of its portion of the costs of Comanche Peak. BEPC has been experiencing difficulty in obtaining additional financing for Comanche Peak from the Rural Electrification Administration. In addition, since May 1986, Tex-La has failed to make payments to the Company for its portion of Comanche Peak and TMPA has made payments under protest. In May 1986, the Company filed suit in the 14th Judicial District Court of Dallas County, Texas against TMPA, BEPC and Tex-La because of controversies which exist under the Agreement with respect to the obligations of the parties. The Company asserted that each of the defendants has either claimed that it has no further obligation to pay its share of the remaining costs of construction of Comanche Peak, or has claimed that the Company has failed to properly construct Comanche Peak or otherwise has breached its obligations under the Agreement. The Company sought recovery of damages against Tex-La for its anticipatory breach of the Agreement and asked for a declaratory judgment against Tex-La, BEPC and TMPA declaring among other things that they were obligated to pay their share of the remaining costs of construction of Comanche Peak and that the Company has not failed to use prudent utility practices in constructing Comanche Peak in accordance with the Agreement. TMPA, BEPC and Tex-La filed cross-actions in such suit against Texas Utilities and the Company asserting various causes of action, including a number of alleged breaches of the Agreement by the Company and violations of the Texas Deceptive Trade Practices Act (DTPA). In September 1986, the Court in the Dallas County suit ruled in favor of the Company with regard to a plea of the defendants

### **Item 3. LEGAL PROCEEDINGS (Concluded).**

attempting to change the venue of such suit. The case is in the discovery phase and trial is currently scheduled for October 1988.

In June 1986, TMPA and Tex-La filed suit in the 98th Judicial District Court of Travis County, Texas against Texas Utilities and the Company. The petition asserted various causes of action, including a number of alleged breaches of the Agreement by the Company and violations of the DTPA. TMPA and Tex-La asked for rescission and modification of the Agreement and payment for damages, including treble damages based upon violations of the DTPA. The Company and Texas Utilities intend to vigorously contest this suit, which has been stayed as a result of the ruling in the Dallas County suit.

In February 1988, the Company entered into an Agreement with TMPA pursuant to which the Company will purchase TMPA's ownership interest in Comanche Peak and all outstanding claims and pending lawsuits between TMPA and the Company will be settled and terminated. Finalization of the agreement is subject to the approval of the NRC and the PUC with respect to the transfer of TMPA's ownership interest. The Company has filed applications to obtain such approvals and cannot predict when action with respect thereto will be taken. (See Note 11 to Financial Statements.)

In June 1986, BEPC filed suit in the 345th Judicial District Court of Travis County, Texas against the Company, Texas Utilities, Mining Company and TU Services. BEPC alleges that the defendants have breached the Agreement, certain implied warranties and fiduciary duties, and have been grossly negligent, acted with willful misconduct and have violated the DTPA and Texas and federal securities laws. BEPC asks for an injunction against efforts by the defendants to recover additional payments, rescission and reformation of the Agreement and payment for damages, trebled pursuant to the DTPA. BEPC alleges actual damages to that date of at least \$216 million. The defendants intend to vigorously contest this suit, which has been stayed as a result of the ruling in the Dallas County suit. In March 1987, BEPC filed a request with the NRC to modify the construction permits and licenses already issued and to impose a prospective condition to any permits and licenses subsequently issued or renewed to require the Company to assume BEPC's ownership interest in Comanche Peak by purchase thereof at its net book cost, and for other unspecified relief. In June 1987, the NRC Office of Special Projects denied this request and the Company is unable to predict what further action may be taken.

See Item 1, Business — Comanche Peak Nuclear Generating Station.

#### ***Environmental Matters***

In July 1979, a suit was filed in the 4th Judicial District Court of Rusk County, Texas against Texas Utilities Generating Company (now Mining Company), TU Services, and the former electric utility subsidiaries of Texas Utilities, by the State of Texas on behalf of the TACB. The petition alleged that Texas Utilities Generating Company (now Mining Company) and TU Services, acting as agents for the electric utility subsidiaries, violated regulations issued under the federal Clean Air Act, provisions of the Texas Clean Air Act, and permits issued by the TACB, in allowing the start-up of Unit 3 at the Martin Lake generating station before the completion and operation of its associated air pollution control equipment. The State sought an injunction against further violations and penalties from each of the defendants of \$1,000 for each day and each act of violation. An agreed judgement providing for recovery by the State of \$50,000 was entered in March 1987. (See Item 1, Business — Environmental Matters.)

### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.



## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

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

Reference is made to Note 5 to Financial Statements regarding limitations upon payment of dividends on common stock of the Company.

Item 6. SELECTED FINANCIAL DATA.

FINANCIAL STATISTICS

	Year Ended December 31,				
	1987	1986	1985	1984	1983
TOTAL ASSETS end of year (thousands) . . . . .	\$12,938,555	\$11,276,886	\$9,800,753	\$8,782,507	\$7,897,421
ELECTRIC PLANT end of year (thousands) . . .	\$14,149,647	\$12,543,249	\$11,154,092	\$10,082,063	\$9,108,056
Accumulated depreciation end of year . . . . .	2,355,827	2,174,441	2,011,061	1,848,146	1,687,098
Construction expenditures (including allowance for funds used during construction) . . . . .	1,662,483	1,475,177	1,057,057	878,581	854,507
CAPITALIZATION end of year (thousands)					
Long-term debt . . . . .	\$4,679,111	\$3,748,931	\$3,048,329	\$2,798,105	\$2,592,152
Preferred stock:					
Not subject to mandatory redemption . . . . .	909,633	811,418	811,418	727,911	629,779
Subject to mandatory redemption . . . . .	232,906	232,424	34,696	34,696	34,696
Common stock equity . . . . .	4,827,145	4,282,405	3,793,118	3,219,729	3,040,710
Total . . . . .	<u>\$10,608,795</u>	<u>\$9,075,178</u>	<u>\$7,687,561</u>	<u>\$6,880,441</u>	<u>\$6,297,337</u>
EMBEDDED INTEREST COST ON LONG-TERM DEBT end of year . . . . .	9.8%	10.0%	10.3%	10.1%	9.7%
EMBEDDED DIVIDEND COST ON PREFERRED STOCK end of year . . . . .	8.3%	8.1%	8.2%	8.3%	8.0%
NET INCOME (thousands) . . . . .	\$781,178	\$712,292	\$654,417	\$590,765	\$520,901
CASH DIVIDENDS DECLARED ON COMMON STOCK (thousands) . . . . .	\$447,200	\$395,430	\$354,752	\$317,638	\$282,376
RATIO OF EARNINGS TO FIXED CHARGES . . . . .	3.3	3.7	3.9	4.0	3.9
SUPPLEMENTAL RATIO OF EARNING TO FIXED CHARGES* . . . . .	3.0	3.3	3.4	3.5	3.5
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AS PERCENT OF EARNINGS TO COMMON STOCK . . . . .	55.9%	47.9%	39.1%	32.4%	33.8%
RETURN ON AVERAGE COMMON STOCK EQUITY . . . . .	15.2%	15.7%	16.5%	16.7%	16.5%
NET FUNDS FROM OPERATIONS AS PERCENT OF CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction) . . . . .	13.7%	28.1%	44.4%	54.6%	48.8%

\* The supplemental ratio of earnings to fixed charges includes interest billed the Company on senior notes of affiliated companies which provide services to the Company. (See Note 2 to Financial Statements.)

Item 6. SELECTED FINANCIAL DATA (Concluded).

OPERATING STATISTICS

	Year Ended December 31,				
	1987	1986	1985	1984	1983
<b>ELECTRIC ENERGY GENERATED AND PURCHASED (mwh)</b>					
Generated — net station output.....	71,878,925	75,467,871	76,355,396	72,582,637	67,706,594
Purchased and net interchange.....	11,019,037	4,712,082	2,057,490	382,651	343,581
Total generated and purchased.....	82,897,962	80,179,953	78,412,886	72,965,288	68,050,175
Company use, losses and unaccounted for.....	5,125,310	4,925,178	5,047,990	3,839,517	5,340,248
Total electric energy sales.....	<u>77,772,652</u>	<u>75,254,775</u>	<u>73,369,896</u>	<u>69,125,771</u>	<u>62,709,927</u>
<b>ELECTRIC ENERGY SALES (mwh)</b>					
Residential.....	25,716,080	24,694,109	24,300,788	22,693,290	20,162,506
Commercial.....	22,324,328	21,453,435	20,349,334	19,026,267	17,366,563
Industrial.....	21,420,705	21,013,278	20,921,530	20,343,558	18,690,077
Government and municipal.....	2,499,981	2,385,168	2,324,785	1,920,420	1,790,476
Total general business.....	71,961,094	69,455,990	67,876,437	63,983,535	58,009,622
Other electric utilities.....	5,811,558	5,798,785	5,473,459	5,142,236	4,700,305
Total electric energy sales.....	<u>77,772,652</u>	<u>75,254,775</u>	<u>73,369,896</u>	<u>69,125,771</u>	<u>62,709,927</u>
<b>OPERATING REVENUES (thousands)</b>					
Residential.....	\$1,603,446	\$1,570,750	\$1,673,378	\$1,546,081	\$1,306,912
Commercial.....	1,166,827	1,137,944	1,077,784	1,127,766	998,362
Industrial.....	800,635	822,831	935,849	893,531	808,016
Government and municipal.....	140,291	134,927	145,256	117,793	104,730
Total general business.....	3,711,294	3,625,960	3,962,267	3,685,171	3,218,020
Other electric utilities.....	221,413	222,644	250,857	233,296	202,387
Total from electric energy sales.....	3,932,617	3,848,604	4,213,124	3,918,467	3,420,407
Other operating revenues (including over/under-recovered fuel revenue).....	146,684	78,795	(48,744)	7,271	67,219
Total operating revenues.....	<u>\$4,079,301</u>	<u>\$3,927,399</u>	<u>\$4,164,380</u>	<u>\$3,925,738</u>	<u>\$3,487,626</u>
<b>ELECTRIC CUSTOMERS (end of year)</b>					
Residential.....	1,838,457	1,820,381	1,764,346	1,669,735	1,556,760
Commercial.....	218,641	217,232	214,386	208,477	198,548
Industrial.....	24,006	23,912	24,148	24,058	22,761
Government and municipal.....	13,690	13,180	12,080	11,455	10,210
Total general business.....	2,094,804	2,074,705	2,014,960	1,913,725	1,788,279
Other electric utilities.....	62	61	63	66	68
Total electric customers.....	<u>2,094,866</u>	<u>2,074,766</u>	<u>2,015,023</u>	<u>1,913,791</u>	<u>1,788,347</u>
<b>RESIDENTIAL STATISTICS (excludes master-metered customers, mwh sales and revenues)</b>					
Average kwh per customer.....	13,147	12,749	13,062	12,887	12,073
Average revenue per kwh.....	6.33¢	6.31¢	6.99¢	6.93¢	6.60¢
Industrial classification includes service to Alcoa - Sandow:					
Electric energy sales (mwh).....	3,405,332	3,092,696	2,861,454	2,989,272	2,660,564
Operating revenues (thousands).....	\$62,630	\$65,664	\$68,946	\$70,825	\$68,121

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

***Liquidity and Capital Resources***

The primary capital requirements of the Company for 1987 and as estimated for 1988 through 1990 are as follows:

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
	Thousands of Dollars			
Construction expenditures (excluding AFUDC) . . . . .	\$1,275,000	\$1,107,000	\$ 914,000	\$777,000
Nuclear fuel . . . . .	1,000	33,000	15,000	15,000
Maturities of long-term debt and sinking fund requirements (includes early redemptions in 1987 of \$133,000,000) . . . . .	156,000	23,000	20,000	2,000
Installment/principal payments to TMPA (see Notes 10 and 11 to Financial Statements) . . . . .	—	125,000	58,000	64,000
<b>Total</b> . . . . .	<u>\$1,432,000</u>	<u>\$1,288,000</u>	<u>\$1,007,000</u>	<u>\$858,000</u>

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

The Company generates funds from operations sufficient to meet operating needs, pay dividends on capital stock and finance a portion of capital requirements. These funds are derived from net income, depreciation, deferred taxes and investment tax credits. Factors affecting the ability of the Company to continue to fund a portion of its capital requirements from operations include adequate rate relief and regulatory practices allowing a substantial portion of construction work in progress (CWIP) in rate base, adequate depreciation rates, normalization of federal income taxes, recovery of the cost of fuel and purchased power and the opportunity to earn competitive rates of return required in the capital markets. For 1987, approximately 14% of the funds needed for construction was generated from operations.

External funds of a permanent or long-term nature are obtained through the sales of common stock to Texas Utilities, preferred stock and long-term debt. The capitalization ratios at December 31, 1987 consisted of approximately 44% long-term debt, 11% preferred stock and 45% common stock equity. Similar ratios are expected to be maintained in the future. To provide for immediate cash requirements during periods between long-term financings, the Company obtains short-term loans from Texas Utilities, which had lines of credit with commercial banks aggregating \$1,025,000,000 at December 31, 1987. The Company does not maintain separate credit arrangements with banks or other lenders.

Financings in 1987 by the Company included the following:

Long-Term Debt:

<u>Month</u>	<u>Principal Amount</u>	<u>Description</u>
February	\$ 250,000,000	9¼% First Mortgage and Collateral Trust Bonds due 2017
March	100,000,000	7¾% Collateralized Pollution Control Revenue Bonds due 2017
April	250,000,000	10½% First Mortgage and Collateral Trust Bonds due 2017
July	150,000,000	9½% First Mortgage and Collateral Trust Bond; due 1997
July	150,000,000	10½% First Mortgage and Collateral Trust Bonds due 2017
September	67,000,000	9% Collateralized Pollution Control Revenue Bonds due 2007
October	112,000,000	9¾% Collateralized Pollution Control Revenue Bonds due 2017
<b>Total</b>	<u>\$1,079,000,000</u>	

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

**Liquidity and Capital Resources — (Concluded)**

Preferred Stock:

<u>Month</u>	<u>Shares</u>	<u>Net Proceeds</u>	<u>Description</u>
July	1,000,000	\$98,215,000	Stated Rate Auction Preferred Stock, Series A

Common Stock:

<u>Month</u>	<u>Shares</u>	<u>Amount</u>	<u>Description</u>
June	4,700,000	\$199,750,000	Without Par Value
December	2,300,000	100,050,000	Without Par Value
Total		<u>\$299,800,000</u>	

Early redemptions of long-term debt by the Company in 1987 included the following:

<u>Month</u>	<u>Principal Amount</u>	<u>Redemption Cost</u>	<u>Description</u>
April	\$ 32,531,000	\$ 36,523,000	16% First Mortgage Bonds due 2012
June	50,000,000	56,085,000	15½% First Mortgage Bonds due 2012
July	50,000,000	56,335,000	16% First Mortgage Bonds due 2012
Total	<u>\$132,531,000</u>	<u>\$148,943,000</u>	

Additional early redemptions may occur from time to time in amounts presently undetermined. The Company anticipates the issuance in April 1988 by the Brazos River Authority of \$100,000,000 principal amount of pollution control revenue bonds to be collateralized by the issuance of an equal principal amount of the Company's first mortgage and collateral trust bonds. The Company expects to sell securities as needed, including the possible future sale of up to \$300,000,000 principal amount of first mortgage and collateral trust bonds and up to 1,000,000 shares of cumulative preferred stock, both currently registered with the Securities and Exchange Commission for offering pursuant to Rule 415 under the Securities Act of 1933 and sales of additional securities from time to time, in amounts and of types presently undetermined.

The Tax Reform Act of 1986 (TRA), among other things, repealed the investment tax credit, lengthened depreciation lives, created an alternative minimum tax and lowered the corporate tax rate subject to certain transition rules. Other tax accounting changes were required including the capitalization of items previously expensed and a change in the timing of income recognition for certain items. Substantially all of the tax changes, with the exception of the rate reduction, will result in the Company paying more taxes currently, will eliminate sources of internally generated funds for the Company and thereby increase financing requirements in the future. The TRA did not have a material effect on the Company for the years ended December 31, 1987 and 1986.

Although the Company cannot predict future regulatory practices, the extent of any further delays in the licensing of the Comanche Peak Nuclear Generating Station (Comanche Peak) or any changes in economic and securities market conditions, no changes are expected in trends or commitments which might significantly alter its basic financial position or ability to finance capital requirements. However, the Company has indicated that it does not currently plan to implement increased electric service rates which reflect any additional Comanche Peak costs until Unit 1 is ready for commercial operation and it continues to believe, based upon revised cost estimates and using acceptable ratemaking approaches and assumptions, that the rate increase, when Unit 1 goes into service, can be held to about 10%. Therefore, prior to the completion of Comanche Peak and its inclusion in rate base, a relatively small percentage of capital requirements may be generated internally. (See Item 1, Business — Regulation and Rates and Notes 10 and 11 to Financial Statements.)

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

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

*Results of Operations*

*Operating revenues* increased \$151,902,000 in 1987 and decreased \$236,981,000 in 1986. The following table details the factors contributing to the increase and decrease:

<u>Factors</u>	<u>Increase (Decrease)</u>	
	<u>1987</u>	<u>1986</u>
	<u>Thousands of Dollars</u>	
Fuel revenue .....	\$ 73,589	\$(316,545)
Power cost recovery factor revenue ....	32,485	25,668
Increased energy sales .....	51,954	61,492
Other .....	(6,126)	(7,596)
Total .....	<u>\$151,902</u>	<u>\$(236,981)</u>

The increase in operating revenues for 1987 was the result of increased fuel and purchased power revenue and increased energy sales. Energy sales for 1987 increased 3.3% and were attributable to increased customers and customer usage. Operating revenues decreased in 1986 as the result of decreased fuel revenue partially offset by increases in purchased power revenue and energy sales. (See Item 1, Business — Fuel Supply and Purchased Power and Regulation and Rates and Item 6, Selected Financial Data — Operating Statistics.)

*Fuel and purchased power* expense increased \$101,595,000 in 1987 and decreased \$305,814,000 in 1986. The increase for 1987 was due primarily to increased off-system purchases partially offset by lower fuel costs. Lower fuel expense for 1987 reflects the decrease in the unit cost of gas from \$2.77 per million Btu in 1986 to \$2.56 in 1987. The decrease in 1986 was due primarily to the decrease in the unit cost of gas offset in part by increased purchased power. (See Item 1, Business — Fuel Supply and Purchased Power and Item 6, Selected Financial Data — Operating Statistics.)

*Operation* expense increased \$63,812,000 and \$33,069,000 for 1987 and 1986, respectively. Operation expense for 1987 was affected by increases in the cost of labor, liability and property insurance and the one-time cost of the special early retirement program. Increases in wheeling costs and liability and property insurance had a significant impact on operation expense for 1986.

*Maintenance* expense decreased \$20,024,000 for 1987 and increased \$18,881,000 for 1986. The decrease for 1987 was due primarily to revisions in the scope of certain scheduled overhauls. The increase in maintenance for 1986 was the result of increases in power production expenses associated with lignite and gas plants and programs to improve and ensure the availability of all generating units. Increased distribution maintenance also added to the increase for 1986.

*Taxes other than income* increased \$14,006,000 and \$5,014,000 for 1987 and 1986, respectively. The increases for 1987 and 1986 resulted primarily from increases in franchise and property based taxes.

*Allowance for funds used during construction (AFUDC)* increased as a result of the ongoing construction program and the resultant increase in the level of CWIP of the Company not included in rate base partially offset, in 1987, by the reduction in the AFUDC rates and the suspension of AFUDC on the Twin Oak and Forest Grove generating stations.

*Other income and deductions — net* increased \$13,102,000 and \$14,529,000 for 1987 and 1986, respectively. The increase for 1987 was due primarily to increased interest on temporary cash investments. The increase for 1986 was the result of a gain on the sale of certain properties.

*Interest on first mortgage bonds* increased in 1987 and 1986 due to the sale of new issues during the years and annualized interest of issues sold in the prior years, partially offset by retirements and redemptions of certain higher interest rate issues.

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

***Results of Operations — (Concluded)***

*Other interest charges* decreased \$19,890,000 for 1987 and increased \$6,360,000 for 1986. The decrease for 1987 reflects decreased interest cost over-recovered fuel revenue. The increase for 1986 reflects increased interest cost on over-recovered fuel revenue.

*Net income* increased \$68,886,000 in 1987 and \$57,875,000 in 1986 which represents a culmination of the factors described above. Included in net income were increases in AFUDC of \$83,297,000 in 1987 and \$74,114,000 in 1986 which represent non-cash earnings to the Company.

*Preferred stock dividends* increased for 1987 and 1986, \$10,663,000 and \$12,099,000, respectively, due to new issues sold during these periods and the full year's effect of prior period issuances, offset in part in 1986 by lower dividend rates on the adjustable rate series.

***Estimated Effect of Pending Accounting Change***

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 entitled "Accounting for Income Taxes" which becomes effective for fiscal years beginning after December 15, 1988. The Statement, among other things, requires the liability method of recognition for all temporary differences, requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates and prohibits net-of-tax accounting and reporting. Certain provisions of the Statement provide that regulated enterprises are permitted to recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. Although the application of the Statement will increase both total assets and liabilities, these requirements are not expected to have a material effect on the Company's financial position or results of operations.

***Suspension of Capitalization of AFUDC***

In September 1987, the Company announced the suspension of construction on the Twin Oak and Forest Grove generating stations. Therefore, capitalization of AFUDC was suspended in October 1987 until active construction resumes. Expenditures not included in rate base as of December 31, 1987, applicable to these stations, totaled approximately \$460,000,000.

In March 1988, the Company announced the temporary suspension of construction on Unit 2 of Comanche Peak for an anticipated period of one year. Therefore, beginning in April 1988, capitalization of AFUDC will be suspended until active construction resumes. Expenditures not included in rate base as of December 31, 1987, applicable to this unit totaled approximately \$1,513,000,000.

The above suspensions of AFUDC reduced net income by approximately \$10,000,000 in 1987 and are expected to reduce net income in 1988 by approximately \$160,000,000 from the level it would otherwise have been.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

TEXAS UTILITIES ELECTRIC COMPANY

STATEMENT OF INCOME

	Year Ended December 31,		
	1987	1986	1985
	Thousands of Dollars		
OPERATING REVENUES.....	\$4,079,301	\$3,927,399	\$4,164,380
OPERATING EXPENSES			
Fuel and purchased power .....	1,695,769	1,594,174	1,899,988
Operation .....	575,532	511,720	478,651
Maintenance .....	296,094	316,118	297,237
Depreciation .....	221,772	209,152	195,959
Federal income taxes (Note 7) .....	201,446	264,584	279,012
Taxes other than income .....	286,777	272,771	267,757
Total operating expenses .....	3,277,390	3,168,519	3,418,604
OPERATING INCOME .....	801,911	758,880	745,776
OTHER INCOME			
Allowance for equity funds used during construction .....	283,061	231,880	173,846
Other income and deductions — net .....	22,676	9,574	(4,955)
Federal income taxes (Note 7) .....	(9,114)	(3,091)	2,136
Total other income .....	296,623	238,363	171,027
TOTAL INCOME .....	1,098,534	997,243	916,803
INTEREST CHARGES			
Interest on mortgage bonds .....	407,389	317,978	285,693
Interest on other long-term debt .....	10,484	10,484	10,484
Other interest .....	8,547	28,435	22,075
Allowance for borrowed funds used during construction .....	(104,061)	(71,946)	(55,866)
Total interest charges .....	317,356	284,951	262,386
NET INCOME .....	781,178	712,292	654,417
PREFERRED STOCK DIVIDENDS .....	89,038	78,375	66,276
NET INCOME AFTER PREFERRED STOCK DIVIDENDS .....	\$ 692,140	\$ 633,917	\$ 588,141

See accompanying Notes to Financial Statements.



**TEXAS UTILITIES ELECTRIC COMPANY**  
**STATEMENT OF SOURCE OF FUNDS FOR CONSTRUCTION**

	Year Ended December 31,		
	1987	1986	1985
	Thousands of Dollars		
<b>FUNDS FROM OPERATIONS</b>			
Net income .....	\$ 781,178	\$ 712,292	\$ 654,417
Depreciation .....	221,772	209,152	195,959
Deferred federal income taxes — net .....	35,894	121,086	99,834
Federal investment tax credits — net .....	59,109	64,243	67,867
Allowance for funds used during construction .....	(387,123)	(303,826)	(229,712)
Total funds from operations .....	710,830	802,947	788,365
Less — Dividends declared:			
Preferred stock .....	89,038	78,375	66,276
Common stock .....	447,200	395,430	354,752
Total dividends declared .....	536,238	473,805	421,028
Net funds from operations .....	174,592	329,142	367,337
<b>FUNDS FROM FINANCING</b>			
Sales of securities:			
First mortgage bonds .....	1,058,852	970,000	475,000
Preferred stock .....	98,697	197,728	83,513
Common stock .....	299,800	250,800	240,000
Retirement of long-term securities (Note 6) .....	(155,844)	(273,312)	(225,676)
Increase (decrease) in notes payable to parent .....	—	(99,300)	(55,400)
Net funds from financing .....	1,301,505	1,045,916	517,437
<b>OTHER SOURCES (USES) OF FUNDS</b>			
Changes in working capital, excluding notes payable, long-term debt due currently and over-recovered fuel revenue:			
Cash in banks and temporary cash investments .....	(79,933)	(183,965)	3,209
Accounts receivable — net .....	(105,420)	7,824	(39,649)
Inventories .....	(3,514)	10,314	(2,932)
Accounts payable .....	33,435	66,884	28,888
Taxes accrued .....	(31,056)	(32,186)	(14,868)
Other — net .....	63,683	(17,447)	9,140
Net change .....	(122,805)	(148,576)	(16,212)
Nuclear fuel .....	(797)	2,760	(54,803)
Over/under-recovered fuel revenue — net of deferred income taxes .....	(60,834)	(12,309)	52,301
Unamortized loss on reacquired debt — net (Note 6) .....	(15,548)	(23,398)	(32,021)
Other — net .....	(753)	(22,184)	(6,694)
Net other sources (uses) of funds .....	(200,737)	(203,707)	(57,429)
Total .....	\$1,275,360	\$1,171,351	\$ 827,345
<b>CONSTRUCTION EXPENDITURES</b>			
Electric plant .....	\$1,662,483	\$1,475,177	\$1,057,057
Allowance for funds used during construction .....	(387,123)	(303,826)	(229,712)
<b>CONSTRUCTION EXPENDITURES (excluding allowance for funds used during construction)</b>			
.....	\$1,275,360	\$1,171,351	\$ 827,345

See accompanying Notes to Financial Statements.

**TEXAS UTILITIES ELECTRIC COMPANY**  
**BALANCE SHEET**  
**ASSETS**

	December 31,	
	1987	1986
	Thousands of Dollars	
<b>ELECTRIC PLANT</b>		
In service:		
Production .....	\$ 3,038,866	\$ 2,980,395
Transmission .....	1,214,642	1,166,066
Distribution .....	2,696,523	2,543,163
General .....	361,888	328,575
Total .....	7,311,919	7,018,199
Construction work in progress (Notes 10 and 11) .....	6,565,327	5,266,729
Nuclear fuel .....	252,761	251,964
Held for future use .....	19,640	6,357
Total electric plant .....	14,149,647	12,543,249
Less accumulated depreciation .....	2,355,827	2,174,441
Electric plant, less accumulated depreciation .....	11,793,820	10,368,808
<b>INVESTMENTS</b> .....	3,218	6,122
<b>CURRENT ASSETS</b>		
Cash in banks .....	6,502	4,769
Temporary cash investments — at cost .....	262,400	184,200
Special deposits .....	37,007	30,203
Accounts receivable:		
Customers .....	250,684	212,153
Minority owners of Comanche Peak (Note 10) .....	109,284	58,826
Other .....	42,886	27,029
Allowance for uncollectible accounts .....	(13,243)	(13,817)
Inventories — at average cost:		
Materials and supplies .....	114,633	107,570
Fuel stock .....	96,888	100,437
Deferred federal income taxes (over-recovered fuel revenue) .....	—	29,253
Other current assets .....	34,018	48,340
Total current assets .....	941,059	788,963
<b>DEFERRED DEBITS</b>		
Under-recovered fuel revenue .....	44,119	—
Unamortized loss on reacquired debt (Note 6) .....	70,967	55,419
Cancelled lignite unit costs (Note 11) .....	37,246	36,810
Other deferred debits .....	38,226	20,764
Total deferred debits .....	190,558	112,993
Total .....	\$12,938,655	\$11,276,886

See accompanying Notes to Financial Statements.

**TEXAS UTILITIES ELECTRIC COMPANY**  
**BALANCE SHEET**  
**CAPITALIZATION AND LIABILITIES**

	December 31,	
	1987	1986
	Thousands of Dollars	
<b>CAPITALIZATION</b>		
Common stock — without par value (Note 3):		
Authorized shares — 180,000,000		
Outstanding shares — 1987, 112,150,000; 1986, 105,150,000	\$ 2,965,600	\$ 2,665,800
Retained earnings (Note 5)	1,861,545	1,616,605
Total common stock equity	4,827,145	4,282,405
Preferred stock (Note 4):		
Not subject to mandatory redemption	909,633	811,418
Subject to mandatory redemption	232,906	232,424
Long-term debt, less amounts due currently (Note 6)	4,639,111	3,748,931
Total capitalization	10,608,795	9,075,178
<b>CURRENT LIABILITIES</b>		
Long-term debt due currently (to be refinanced)	22,500	22,000
Accounts payable:		
Affiliates	109,591	122,700
Other	247,875	201,331
Dividends declared	23,694	21,159
Customers' deposits	51,259	44,877
Taxes accrued	119,560	150,716
Interest accrued	128,616	96,755
Over-recovered fuel revenue	—	63,594
Other current liabilities	24,439	9,052
Total current liabilities	727,834	732,184
<b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES</b>		
Accumulated deferred federal income taxes	835,410	781,890
Unamortized federal investment tax credits	737,220	678,102
Other deferred credits and noncurrent liabilities	29,596	9,532
Total deferred credits and other noncurrent liabilities	1,602,226	1,469,524
<b>COMMITMENTS AND CONTINGENCIES (Notes 2, 10 and 11)</b>		
Total	\$12,938,655	\$11,276,886

See accompanying Notes to Financial Statements.

**TEXAS UTILITIES ELECTRIC COMPANY**  
**STATEMENT OF RETAINED EARNINGS**

	Year Ended December 31,		
	1987	1986	1985
	Thousands of Dollars		
BALANCE AT BEGINNING OF YEAR .....	\$1,616,605	\$1,378,118	\$1,144,729
ADD — NET INCOME .....	781,178	712,292	654,417
Total .....	<u>2,397,783</u>	<u>2,090,410</u>	<u>1,799,146</u>
DEDUCT			
Cash Dividends			
Preferred stock:			
\$ 4.50 series (\$ 4.50 per share per annum) .....	334	334	334
4.00 series (\$ 4.00 per share per annum) .....	280	280	280
4.56 series (\$ 4.56 per share per annum) .....	609	609	609
4.00 series (\$ 4.00 per share per annum) .....	440	440	440
4.56 series (\$ 4.56 per share per annum) .....	296	296	296
4.24 series (\$ 4.24 per share per annum) .....	424	424	424
4.64 series (\$ 4.64 per share per annum) .....	464	464	464
4.84 series (\$ 4.84 per share per annum) .....	339	339	339
4.00 series (\$ 4.00 per share per annum) .....	280	280	280
4.76 series (\$ 4.76 per share per annum) .....	476	476	476
5.08 series (\$ 5.08 per share per annum) .....	407	407	407
4.80 series (\$ 4.80 per share per annum) .....	480	480	480
4.44 series (\$ 4.44 per share per annum) .....	666	666	666
7.20 series (\$ 7.20 per share per annum) .....	1,440	1,440	1,440
7.80 series (\$ 7.80 per share per annum) .....	2,339	2,339	2,339
8.92 series (\$ 8.92 per share per annum) .....	1,784	1,784	1,784
6.84 series (\$ 6.84 per share per annum) .....	1,368	1,368	1,368
7.24 series (\$ 7.24 per share per annum) .....	1,809	1,809	1,809
7.44 series (\$ 7.44 per share per annum) .....	2,232	2,232	2,232
7.48 series (\$ 7.48 per share per annum) .....	2,244	2,244	2,244
8.20 series (\$ 8.20 per share per annum) .....	2,460	2,460	2,460
8.44 series (\$ 8.44 per share per annum) .....	2,532	2,532	2,532
9.32 series (\$ 9.32 per share per annum) .....	2,796	2,796	2,796
9.36 series (\$ 9.36 per share per annum) .....	2,808	2,808	2,808
8.68 series (\$ 8.68 per share per annum) .....	2,604	2,604	2,604
8.16 series (\$ 8.16 per share per annum) .....	2,444	2,444	2,444
8.32 series (\$ 8.32 per share per annum) .....	2,496	2,496	2,496
8.84 series (\$ 8.84 per share per annum) .....	2,652	2,652	2,652
9.48 series (\$ 9.48 per share per annum) .....	9,480	8,032	—
8.92 series (\$ 8.92 per share per annum) .....	4,460	1,995	—
10.00 series (\$10.00 per share per annum) .....	5,000	2,236	—
10.92 series (\$10.92 per share per annum) .....	3,276	3,276	3,276
10.12 series (\$10.12 per share per annum) .....	3,542	3,542	3,542
10.08 series (\$10.08 per share per annum) .....	3,528	3,528	3,528
11.32 series (\$11.32 per share per annum) .....	3,396	3,396	3,396
Adjustable rate series A .....	6,762	6,662	8,713
Adjustable rate series B .....	6,162	6,205	4,318
Stated rate auction series A .....	3,525	—	—
Common stock (per share: 1987, \$4.16; 1986, \$3.92; 1985, \$3.68) .....	447,200	395,430	354,752
Total cash dividends .....	<u>535,834</u>	<u>473,805</u>	<u>421,028</u>
Dividends other than cash - accretions .....	404	—	—
Total dividends .....	<u>536,238</u>	<u>473,805</u>	<u>421,028</u>
BALANCE AT END OF YEAR (Note 5) .....	<u><u>\$1,861,545</u></u>	<u><u>\$1,616,605</u></u>	<u><u>\$1,378,118</u></u>

See accompanying Notes to Financial Statements.

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**

1. SIGNIFICANT ACCOUNTING POLICIES

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

*Allowance for Funds Used During Construction* — Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on equity capital used to finance construction are charged to electric plant. The accrual of AFUDC is in accord with generally accepted accounting principles for the industry, but does not represent current cash income.

Texas Utilities Electric Company (Company) is capitalizing AFUDC, compounded semi-annually, on expenditures for ongoing construction work in progress (CWIP) not otherwise allowed in rate base by regulatory authorities. In 1985 and 1986, AFUDC was capitalized using a net-of-tax rate of 9½%. In 1987, pursuant to the passage of the Tax Reform Act of 1986 (TRA), the Company began using a comparable gross capitalization rate on projects commenced after March 1, 1986. Beginning July 1, 1987, a net-of-tax rate of 9% and a gross rate of 10½% have been used. All such rates were determined on the basis of, but are less than, the cost of capital used to finance the construction program.

*Depreciation* — Depreciation is based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties. Depreciation as a percent of average depreciable property approximated 3.3% for 1987 and 3.2% for 1986 and 1985.

*Revenues* — Revenues include billings under approved rates (including a fixed fuel factor) applied to meter readings each month on a cycle basis and an amount for under or over recovery of fuel revenue representing the difference between actual fuel cost and billings on the approved fixed fuel factor. Pursuant to a rule adopted in July 1986 by the Public Utility Commission of Texas (PUC), the Company is required to refund over-recovered fuel revenue if the amount of over-recovery, including interest, exceeds the lesser of \$40 million or 4% of its annual known or reasonably predictable fuel costs most recently approved by the PUC. Reconciliation of fuel costs is to be made in a general rate case or a reconciliation proceeding. Reconciliation may be requested only if it has either been over one year since the utility's last final reconciliation or the utility has materially under-recovered its known or reasonably predictable fuel costs.

*Federal Income Taxes* — The Company is included in the consolidated federal income tax return of Texas Utilities Company (Texas Utilities) and subsidiary companies, and federal income taxes are allocated to all subsidiary companies based upon taxable income or loss. Deferred federal income taxes are currently provided for timing differences between book and taxable income; such differences result primarily from the use of liberalized depreciation and cost recovery deductions allowable under the Internal Revenue Code, the under or over recovery of fuel revenue and unbilled revenues on a cycle basis. Cumulative timing differences in earlier years for which deferred federal income taxes were not provided approximated \$236,000,000 at December 31, 1987. Investment tax credits are being amortized to income over the estimated service lives of the properties.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 entitled "Accounting for Income Taxes" which becomes effective for fiscal years beginning after December 15, 1988. The Statement, among other things, requires the liability method of recognition for all temporary differences, requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates and prohibits net-of-tax accounting and reporting. Certain provisions of the Statement provide that regulated enterprises are permitted to recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

1. SIGNIFICANT ACCOUNTING POLICIES — (concluded)

be recovered from or returned to customers in future rates. Although the application of the Statement will increase both total assets and liabilities, these requirements are not expected to have a material effect on the Company's financial position or results of operations.

2. AFFILIATES

Texas Utilities provides common stock capital and short-term financing to the Company. Texas Utilities has three other subsidiaries which perform specialized services for the System Companies, including the Company: Texas Utilities Services Inc. (TU Services) furnishes financial, accounting, computer and other administrative services; Texas Utilities Fuel Company (Fuel Company) owns a natural gas pipeline system, acquires, stores and delivers fuel gas and provides other fuel services for the generation of electric energy by the Company; and Texas Utilities Mining Company (Mining Company) owns and operates fuel production facilities for the surface mining and recovery of lignite for use at the Company's generating stations.

The Company has entered into agreements with Fuel Company to procure certain fuels and related services and with Mining Company for the procurement and production of lignite; payments are at cost for the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Mining Company. The Company is, in effect, obligated for the principal, \$534,860,000 at December 31, 1987, and interest on long-term notes of Fuel Company and of Mining Company through payments described above. Such notes mature at various dates through 1999 and have interest rates ranging from 8.50% to 12.20%.

3. COMMON STOCK

	Shares Outstanding December 31,		Amount December 31,	
	1987	1986	1987	1986
			Thousands of Dollars	
Common stock-without par value; authorized 180,000,000 shares .....	112,150,000	105,150,000	\$2,965,600	\$2,665,800

The Company issued and sold shares of its authorized common stock to Texas Utilities as follows: December 1987, 2,300,000 shares for \$100,050,000; June 1987, 4,700,000 shares for \$199,750,000; December 1986, 2,400,000 shares for \$100,800,000; June 1986, 3,750,000 shares for \$150,000,000; December 1985, 2,600,000 shares for \$101,400,000; and February 1985, 3,600,000 shares for \$138,600,000.

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

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

4. PREFERRED STOCK (cumulative, without par value; entitled upon liquidation to \$100 a share; authorized 17,000,000 shares)

Series Groups		Shares Outstanding		Amount		Redemption Price Per Share (before adding accumulated dividends)			
		December 31,		December 31,		Current		Eventual Minimum	
From	To	1987	1986	1987	1986	From	To	From	To
Thousands of Dollars									
<b>Not Subject to Mandatory Redemption</b>									
\$ 4.00	\$ 4.84	1,142,942	1,142,942	\$114,588	\$114,588	\$101.79	\$112.00	\$101.79	\$112.00
5.08	7.80	1,629,675	1,629,675	163,270	163,270	102.40	104.82	102.40	103.60
8.16	8.92	1,999,475	1,999,475	198,642	198,642	103.60	106.13	101.00	103.60
9.32	11.32	1,550,000	1,550,000	153,205	153,205	104.65	111.37	100.00	102.73
Adjustable rate (a)		1,850,000	1,850,000	181,713	181,713	—	—	100.00	100.00
Stated rate auction (b)		1,000,000	—	98,215	—	—	—	100.00	100.00
Total		<u>9,172,092</u>	<u>8,172,092</u>	<u>\$909,633</u>	<u>\$811,418</u>				
<b>Subject to Mandatory Redemption (c)</b>									
\$ 8.92	\$ 9.48	1,500,000	1,500,000	\$148,610	\$148,315	\$108.92*	\$109.48*	\$100.00	\$100.00
10.00	10.08	850,000	850,000	84,296	84,109	110.00*	110.08*	100.00	100.00
Total		<u>2,350,000</u>	<u>2,350,000</u>	<u>\$232,906</u>	<u>\$232,424</u>				

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

- (a) Adjustable rate series A bears a dividend rate for the period ended January 31, 1988 of 7.55% per annum and adjustable rate series B bears a dividend rate for the period ended December 31, 1987 of 8.00% per annum, both of which are based on a fixed liquidation price of \$100.00 per share. The series are not redeemable prior to June 1, 1989 and June 1, 1990, respectively.
- (b) Stated rate auction series A bear a dividend rate of 8.24% per annum for the fixed dividend period through September 30, 1992 and shares are not redeemable prior to September 29, 1992. The dividend rate for each 49 day dividend period thereafter will be determined on the basis of certain auction procedures. The maximum rate determined by the auction may range from 110% to 200% of the 60-day "AA" composite commercial paper rate index. All redemptions are at a price of \$100.00 per share plus accumulated dividends.
- (c) The Company is required to redeem a specified minimum number of shares annually commencing on the initial dates shown below, except for the \$8.92 series which does not have a sinking fund provision. The Company may annually redeem, at its option, an aggregate of up to twice the number of shares shown for each series. All such redemptions are at a price of \$100.00 per share plus accumulated dividends:

Series	Minimum Redeemable Shares	Initial Date of Mandatory Redemption
\$10.08	14,000 annually	4/1/89
9.48	66,700 annually	4/1/92
10.00	20,000 annually	7/1/92
8.92	All outstanding shares	7/1/96

The carrying value of preferred stock subject to mandatory redemption is being increased periodically to equal the the redemption amounts at the mandatory redemption dates with a corresponding increase in preferred stock dividends.

The Company issued and sold shares of its authorized preferred stock as follows: July 1987, 1,000,000 shares of stated rate auction series A for \$98,215,000; July 1986, 500,000 shares of \$10.00 series cumulative preferred stock, subject to mandatory redemption, for \$49,413,000; July 1986, 500,000 shares of \$8.92 series cumulative preferred stock, subject to mandatory redemption, for \$49,437,000; February 1986, 1,000,000 shares of \$9.48 series cumulative preferred stock, subject to mandatory redemption, for \$98,878,000; and June 1985, 850,000 shares of adjustable rate series B preferred stock for \$83,513,000.

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

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

5. RETAINED EARNINGS RESTRICTIONS

The Company's articles of incorporation, the mortgages, as supplemented, and the debenture agreements contain provisions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At December 31, 1987, \$138,736,000 of retained earnings were thus restricted as a result of the provisions of such articles of incorporation.

The articles of incorporation restriction provides in effect that the Company shall not pay any common dividend which would reduce retained earnings to less than one and one half times annual preferred dividend requirements. The mortgage restrictions are based primarily on the replacement fund requirements of the mortgages. The restriction contained in the debenture agreements is designed to maintain the aggregate preferred and common stock equity at or above 33 1/3% of total capitalization.

6. LONG-TERM DEBT, less amounts due currently

Maturity Groups		Interest Rate Groups		December 31,	
				1987	1986
From	To	From	To	Thousands of Dollars	
First mortgage bonds:					
1988	1992	4 1/2%	4 1/2%	\$ 12,000	\$ 34,500
1993	1997	4%	9 1/2%	356,000	206,000
1998	2002	6%	9%	340,000	340,000
2003	2007	7 1/2%	10%	750,000	750,000
2008	2012	9%	16	250,000	382,531
2013	2017	9 1/4%	13%	2,200,000	1,550,000
Pollution control series:					
2007	2017	7 3/4%	10	589,000	310,000
Funds on deposit with trustee				(20,148)	—
Sinking fund debentures:					
1989	1989	4 1/2%	4 1/2%	17,854	18,454
1993	1994	6%	7%	31,735	32,448
Total				4,526,441	3,623,933
Pollution control revenue bonds:					
2004	2009	5.70	7%	160,000	160,000
Unamortized premium and discount				(47,330)	(35,002)
Total long-term debt, less amounts due currently				\$4,639,111	\$3,748,931

Sinking fund and maturity requirements for the years 1988 through 1992 under long-term debt instruments in effect at December 31, 1987, were as follows:

Year	Sinking Fund(a)	Maturity	Minimum
			Cash Requirement(b)
Thousands of Dollars			
1988	\$17,370	\$22,500	\$22,500
1989	18,452	17,854	18,436
1990	18,476	—	700
1991	18,296	12,000	12,700
1992	19,366	—	1,770

(a) Excluding requirements satisfied prior to December 31, 1987: \$2,433,000 for 1988, \$438,000 for 1989, \$320,000 for 1990, \$320,000 for 1991 and \$320,000 for 1992.

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



**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

6. LONG-TERM DEBT, less amounts due currently — (concluded)

In 1987 and prior years, various principal amounts of first mortgage bonds were redeemed by the Company prior to maturity. Pursuant to expected regulatory treatment, the net losses on reacquired debt have been deferred and are being amortized over the remaining lives of the bonds retired.

The total amounts of sinking fund debentures authorized in the debenture agreements have been issued. The Company's first mortgage and collateral trust bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings and other provisions of the mortgages. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Electric plant of the Company is generally subject to the liens of its mortgages.

7. FEDERAL INCOME TAXES

The details of federal income taxes are as follows:

	Year Ended December 31,		
	1987	1986	1985
	Thousands of Dollars		
Charged to operating expenses:			
Current .....	\$ 59,587	\$ 67,320	\$155,864
Deferred — net:			
Differences between depreciation methods and lives .....	58,600	70,451	70,342
Certain capitalized construction costs .....	(4,444)	19,428	19,080
Over/under-recovered fuel revenue .....	46,856	11,935	(44,553)
Cancelled lignite unit .....	(971)	12,293	—
Early redemptions of long-term debt .....	6,091	10,763	14,730
Prepaid (accrued) pension cost .....	(11,676)	6,162	—
Unbilled revenues .....	(17,367)	(322)	932
Other .....	5,661	2,311	(5,250)
Total .....	82,750	133,021	55,281
Investment tax credits — net .....	59,109	64,243	67,867
Total to operating expenses .....	201,446	264,584	279,012
Charged (credited) to other income:			
Current .....	9,091	4,541	(2,136)
Deferred — net .....	23	(1,450)	—
Total to other income .....	9,114	3,091	(2,136)
Total federal income taxes .....	<u>\$210,560</u>	<u>\$267,675</u>	<u>\$276,876</u>

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

	Year Ended December 31,		
	1987	1986	1985
	Thousands of Dollars		
Federal income taxes at statutory rate (39.95% for 1987 and 46% for 1986 and 1985) .....	\$396,199	\$450,785	\$428,395
Reductions in federal income taxes resulting from:			
Allowance for funds used during construction .....	152,816	139,760	105,668
Depletion allowance .....	26,393	23,770	25,168
Amortization of investment tax credits .....	13,697	13,347	12,410
Other .....	(7,267)	6,233	8,273
Total reductions .....	185,639	183,110	151,519
Total federal income taxes .....	<u>\$210,560</u>	<u>\$267,675</u>	<u>\$276,876</u>
Effective tax rate .....	21.2%	27.3%	29.7%

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

8. RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

The Company has retirement plans covering substantially all employees. The benefits are based on years of accredited service and the employee's average annual earnings received during the three years of highest earnings. The costs of the plans are determined by independent actuaries. Contributions to the plans were determined using the frozen attained age method which is one of the several actuarial methods allowed by the Employee Retirement Income Security Act of 1974. During 1986, the Company adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The new standard requires, among other things, the use of the projected unit credit actuarial method for determining pension cost for financial reporting purposes. The cumulative difference between pension cost as determined under the new standard and contributions to the plans is recorded either as prepaid pension cost or as accrued pension liability. The adoption of the new accounting standard did not have a material effect upon the Company's financial position or results of operations.

In 1987, the Company offered a special early retirement program to those employees who had attained the age of 55 and had 15 or more years of accredited service. The offer provided for a waiver of reduced benefits for early retirement plus 5 additional years of accredited service up to a maximum of 40 years. The cost of the program was recorded in accordance with Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefits Pension Plans and for Termination Benefits."

The following table sets forth the plans' funded status and amount recognized in the Company's balance sheet:

	December 31,	
	<u>1987</u>	<u>1986</u>
	Thousands of Dollars	
Actuarial present value of accumulated benefits:		
Accumulated benefit obligation, including vested benefits (\$457,826,000 for 1987 and \$256,279,000 for 1986) .....	\$(510,829)	\$(403,227)
Projected benefit obligation for service rendered to date .....	\$(652,066)	\$(575,947)
Plan assets at fair value, primarily equity investments, government bonds and corporate bonds .....	632,897	631,997
Plan assets in excess of (less than) projected benefit obligation .....	(19,169)	56,050
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions .....	1,440	(44,474)
Prior service cost not yet recognized in net periodic pension expense .....	15,439	16,292
Unrecognized plan assets in excess of projected benefit obligation at January 1, 1986 .....	(11,410)	(13,496)
Prepaid pension cost (accrued pension liability) .....	<u>\$ (13,700)</u>	<u>\$ 14,372</u>

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

8. RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS — (concluded)

Assumptions used for 1987 and 1986 include a discount rate of 8.0%, an expected long-term rate of return on assets of 8.0% and increases in compensation levels of 5.3% and 6.3%, respectively. Total pension costs for 1987 and 1986, including amounts charged to fuel cost and capitalized, were comprised of the following components:

	December 31,	
	1987	1986
	Thousands of Dollars	
Service cost — benefits earned during the period .....	\$23,919	\$26,208
Interest cost on projected benefit obligation .....	48,126	40,921
Actual return on plan assets .....	(519)	(87,306)
Net amortization and deferral .....	(50,145)	44,904
Net periodic pension cost .....	21,381	24,727
Termination cost .....	36,097	—
Total pension cost .....	\$57,478	\$24,727

The cost of the plan for 1985, including amounts charged to fuel cost and capitalized, approximated \$39,708,000.

In addition to retirement plans, the Company offers certain health care and life insurance benefits to active and retired employees. The costs of such benefits are generally recognized as claims are paid. The costs of providing such benefits to retired employees, net of employee contributions, approximated \$8,040,000 for 1987, \$6,570,000 for 1986 and \$4,551,000 for 1985.

9. LEASES

The Company has entered into operating leases covering various facilities and properties including such items as office space and data processing and transportation equipment. Lease costs charged to operation expense for the years ended December 31, 1987, 1986 and 1985 were \$23,554,000, \$22,826,000 and \$22,488,000, respectively.

In December 1987, the Company entered into an operating lease arrangement covering certain combustion turbine generating facilities with an initial lease term of approximately 27 years. The Company expects to lease additional similar facilities in 1988.

The Company's future minimum lease commitments under such operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1987 were as follows:

Year	Combustion	Other	Total
	Turbines		
	Thousands of Dollars		
1988 .....	\$ —	\$12,043	\$ 12,043
1989 .....	6,082	8,802	14,884
1990 .....	6,082	5,286	11,368
1991 .....	6,082	3,552	9,634
1992 .....	6,082	3,049	9,131
Thereafter .....	158,130	6,603	164,733
Total minimum lease commitments .....	\$182,458	\$39,335	\$221,793

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

10. COMANCHE PEAK NUCLEAR GENERATING STATION

The Company is constructing two nuclear-fueled generating units at Comanche Peak Nuclear Generating Station (Comanche Peak), each of which is designed for a capability of 1,150 megawatts. This project is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC). NRC regulations govern the granting of licenses for the construction and operation of nuclear power plants. After giving effect to the anticipated completion of the 1988 agreement to purchase the 6.2% ownership interest of Texas Municipal Power Agency (TMPA) in the facility, the Company's share of the net capability in each unit is 1,081 megawatts, or approximately 94%. The other participants in the facility are Brazos Electric Power Cooperative, Inc. (BEPC) and Tex-La Electric Cooperative of Texas, Inc. (Tex-La) which own 3.8% and 21/6%, respectively.

*Operating License Application*

The NRC has been reviewing the Company's application for operating licenses for the Comanche Peak units. As a part of that review, a proceeding was initiated before an Atomic Safety and Licensing Board (ASLB) and proceedings on various issues have been ongoing since December 1981. After completion of such proceeding, the ASLB will make recommendations to the NRC regarding the issuance of operating licenses for the Comanche Peak units. An intervenor is actively involved in this ASLB proceeding.

The one remaining Contention before the ASLB in the operating license proceeding relates to the Company's quality assurance/quality control (QA/QC) program for the plant. In December 1983, the ASLB issued a memorandum questioning the QA program for design of certain portions of the plant and requested that the Company offer additional proof of adequate design and design review procedures. The ASLB is also reviewing several other related issues and has indicated its intent to review the results of the NRC's Technical Review Team (TRT) investigation discussed below. In July 1984, a separate ASLB, including two of the three members of the original ASLB, was convened to receive testimony on allegations that QC inspectors at the plant had been subjected to an atmosphere of harassment and intimidation which is alleged to have affected the implementation of the Company's QA program. In January 1986, this separate ASLB was disestablished with all issues thereafter to be resolved by the original ASLB.

As a separate part of the NRC's review of the Company's operating license application, in March 1984, the NRC established a task force to consolidate and carry out the various reviews necessary for the NRC Staff to reach its decision regarding the operating licenses. This effort involved the establishment of the TRT, which began an intensive onsite investigation in July 1984 and subsequently has issued reports requesting additional information from the Company with respect to several functional areas of the plant's construction program. The Company then formed a special team, the Comanche Peak Response Team (CPRT), which includes a number of independent experts in each area addressed by the TRT, and submitted a Program Plan (Plan) to respond to the questions raised. Such Plan, which is described further below, is presently being implemented and has been expanded to address the design and other ASLB issues described herein.

In January 1985, the TRT issued a report on its review of the QA/QC programs at Comanche Peak. The report stated that although the QA program documentation met NRC requirements, the implementation of the QA program demonstrated that the Company had lacked the commitment to aggressively implement an effective QA/QC program in several areas. The TRT indicated that it had found evidence of faulty construction and ineffective QA and QC inspections. Questions were also raised concerning the training and qualification of QC personnel and in the reporting of deficiencies. The TRT further found that prior to July 1984 problems had existed in the control of documentation. In addition, deficiencies in several other areas were described. The Company was requested to

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

10. COMANCHE PEAK NUCLEAR GENERATING STATION — (continued)

submit to the NRC a program and schedule for completing a detailed and thorough assessment of these QA/QC issues presented by the TRT. The Company also was asked to consider the use of management personnel with a fresh perspective to evaluate the TRT findings and implement corrective action, and to consider the use of an independent consultant to oversee the corrective action program.

In June 1985, the Company filed with the NRC and the ASLB a revision to the Plan which is being utilized by the CPRT to address all outstanding design and construction concerns. This Plan, which was substantially revised and reissued in January 1986, and further revised in July 1987, provides for a complete design review of virtually all safety related systems in the plant, and for the development of a corrective action program as required. In August 1985, the ASLB issued a Memorandum which described areas of the Plan that concerned the ASLB. The Memorandum indicated, however, that if the Plan were revised to address the ASLB's concerns and if it were appropriately implemented, the Plan may demonstrate the quality of the plant. In May 1986, the Staff of the NRC issued a Supplemental Safety Evaluation Report (SSER) containing an evaluation of the Plan as it existed at that time. The SSER concluded that the Plan provided an overall structure and process for addressing and resolving all existing construction and design issues and any future issues that may be identified from further evaluations. In June 1986, the ASLB issued a Memorandum which addressed "Board Concerns" about the adequacy of the CPRT program. The Memorandum stated that, based upon the ASLB's current knowledge of the program, after having reviewed the first results reports and the SSER on the Plan, the ASLB continued to have the concerns expressed in the earlier memorandum described above. The ASLB also raised additional concerns about how findings in one area of the reinspection effort may affect the Company's program in other areas, whether sufficient attention is being paid to problems of quality assurance and quality control regarding design, the adequacy of the CPRT sampling program, and perceived oversights in one of the results reports that had been issued. The Company is addressing these concerns. In November 1987, the ASLB established a schedule for resolution of all issues remaining in the operating license proceeding. In January 1988, the Staff of the NRC, after further review and analysis, approved the Plan and corrective action program as the basis to resolve outstanding issues. At the end of February 1988, the CPRT completed the publication of its final reports. In March 1988, the Staff issued an SSER approving the design of piping and pipe supports at Comanche Peak, which had been a major issue in the operating license proceeding, and conclude that the Plan provides an effective means to ensure proper implementation of corrective action in this regard. Delivery of this report sets into motion a prehearing schedule adopted by the ASLB which should result in the resumption of hearings on issuance of the operating licenses in the late summer of 1988. Meanwhile, implementation of the corrective action program continues.

In December 1987, the Company entered into an agreement to settle potential claims against Gibbs & Hill, Inc. (Gibbs & Hill), the original architect-engineer for Comanche Peak, relating to engineering and design services performed by Gibbs & Hill for Comanche Peak. Under the terms of this settlement, the owners of Comanche Peak will receive a total of \$25 million in cash, deferred payments and future engineering services which will be provided to the Company on non-nuclear projects.

The Company has made a number of key management changes in the nuclear program for Comanche Peak, including the addition of several new officers who bring substantial nuclear experience to the Company. This new management team is responsible for oversight and implementation of the reinspection and corrective action program.

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

10. COMANCHE PEAK NUCLEAR GENERATING STATION — (continued)

The NRC has created an Office of Special Projects to manage all aspects of the NRC's licensing and inspection efforts for Comanche Peak and certain other nuclear power plants.

*Construction Permit Extensions*

In January 1986, the Company filed an application with the NRC for an extension of the construction permit for Unit 1 to reflect a new "latest date for completion" of August 1, 1988; previously such date had been August 1, 1985. In the application, the Company stated that the reason the request for extension of the construction permit was not filed at an earlier time was administrative oversight. In February 1986, the NRC issued an order extending the "latest date for completion" of Unit 1 to August 1, 1988. Subsequently, the intervenor involved in the ASLB operating license proceeding filed with the NRC a request to stay the effectiveness of the construction permit extension and to require the Company to file a new application for a construction permit for Unit 1 or to order that hearings be held prior to any decision on whether to grant the construction permit extension. The request for a stay was denied by the NRC and the question of whether to hold such hearings was remanded to an ASLB, the members of which are the same as the ASLB for the operating license. In November 1986, the ASLB issued a Memorandum and Order in which it accepted for litigation a new Contention, raised by two intervenors, which alleges that the delay in completing Comanche Peak, which has occurred and has necessitated the extension of the construction permit by the NRC, was the result of dilatory action on the part of the Company and that, therefore, good cause did not exist for the extension of such permit. No schedule for hearings on this Contention has been adopted by the ASLB at this time. The Company has also applied to the NRC for an extension of the construction permit for Unit 2. Such application is presently under review by the Staff of the NRC. In early March 1988, the Company filed with the ASLB a motion to consolidate proceedings in the operating license and construction permit proceedings.

*Civil Penalties*

In April and June 1986, the Company paid civil penalties to the NRC, each in the amount of \$40,000, relating to allegations of harassment and intimidation at Comanche Peak. The June 1986 penalty was part of an aggregate of \$120,000 in civil penalties previously proposed by the Staff of the NRC. The Company requested the Staff to revisit the other alleged violations to determine whether they did in fact occur and to consider mitigating the amount of the penalties, and in August 1987, the Staff decided not to assess the remaining \$80,000 in proposed civil penalties. In August 1986, the Company paid a civil penalty of \$200,000 previously proposed by the Staff of the NRC relating to the findings of the TRT, described above. In addition, the Company has paid another civil penalty of \$50,000 relating to two alleged violations in the Company's reinspection and corrective action effort.

*Investigation Regarding NRC Region IV*

In December 1986, a portion of a report was released by the Office of Inspector and Auditor of the NRC (OIA Report) containing the results of its investigation of allegations of misconduct by the management of Region IV of the NRC with respect to Comanche Peak. The OIA Report expressed concern about allegations of harassment and intimidation by Region IV management to pressure Region IV inspectors to downgrade or delete proposed inspection findings at Comanche Peak. In addition, the OIA Report concluded that it would not be possible to rely on the Region IV QA inspection as evidence of the safe construction of Comanche Peak. Consequently, it stated that it will be necessary for the NRC to rely largely on recent detailed technical inspections conducted by the

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

10. COMANCHE PEAK NUCLEAR GENERATING STATION — (continued)

NRC, including the TRT, at Comanche Peak. The OIA Report also indicated that the data contained in an internal NRC report on inspection procedures was inaccurate and unreliable due to a lack of understanding by NRC inspectors of the proper method of completing a certain NRC form. NRC officials have indicated that a thorough assessment of the results of this investigation will be made; and in addition, certain personnel changes in the Region IV office have occurred. The OIA Report's findings are restricted to activities in the NRC's Region IV and do not question other NRC regulatory activities with respect to Comanche Peak, including the detailed technical inspections conducted by the TRT as discussed above. The intervenor in the operating license proceedings, discussed above, has indicated its intent to file a motion raising the OIA Report's findings as issues to be the subject of hearings in such proceedings.

*Litigation Relating to Comanche Peak*

The Company, TMPA, BEPC and Tex-La have been the owners of 87<sup>5</sup>/<sub>6</sub>%, 6.2%, 3.8% and 2<sup>1</sup>/<sub>6</sub>% interests, respectively, in Comanche Peak under the terms of a Joint Ownership Agreement (Agreement) which provides that the Company is the Project Manager for Comanche Peak. BEPC has failed to make numerous payments of its portion of the costs of Comanche Peak. BEPC has been experiencing difficulty in obtaining additional financing for Comanche Peak from the Rural Electrification Administration. In addition, since May 1986, Tex-La has failed to make payments to the Company for its portion of Comanche Peak and TMPA has made payments under protest. Accounts receivable at December 31, 1987 included \$109,284,000 of amounts due from BEPC and Tex-La. The portion of future construction expenditures due from BEPC and Tex-La is estimated to be \$48,200,000 in 1988, \$30,900,000 in 1989 and \$15,300,000 in 1990. In May 1986, the Company filed suit in the 14th Judicial District Court of Dallas County, Texas against TMPA, BEPC and Tex-La because of controversies which exist under the Agreement with respect to the obligations of the parties. The Company asserted that each of the defendants has either claimed that it has no further obligation to pay its share of the remaining costs of construction of Comanche Peak, or has claimed that the Company has failed to properly construct Comanche Peak or otherwise has breached its obligations under the Agreement. The Company sought recovery of damages against Tex-La for its anticipatory breach of the Agreement and asked for a declaratory judgment against Tex-La, BEPC and TMPA declaring among other things that they were obligated to pay their share of the remaining costs of construction of Comanche Peak and that the Company has not failed to use prudent utility practices in constructing Comanche Peak in accordance with the Agreement. TMPA, BEPC and Tex-La filed cross-actions in such suit against the Company and Texas Utilities asserting various causes of action, including a number of alleged breaches of the Agreement by the Company and violations of the Texas Deceptive Trade Practices Act (DTPA). In September 1986, the Court in the Dallas County suit ruled in favor of the Company with regard to a plea of the defendants attempting to change the venue of such suit. The case is in the discovery phase and trial is currently scheduled for October 1988.

In June 1986, TMPA and Tex-La filed suit in the 98th Judicial District Court of Travis County, Texas against the Company and Texas Utilities. The petition asserted various causes of action, including a number of alleged breaches of the Agreement by the Company and violations of the DTPA. TMPA and Tex-La asked for rescission and modification of the Agreement and payment for damages, including treble damages based upon violations of the DTPA. The Company and Texas Utilities intend to vigorously contest this suit, which has been stayed as a result of the ruling in the Dallas County suit.

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

10. COMANCHE PEAK NUCLEAR GENERATING STATION — (continued)

In February 1988, the Company entered into an agreement with TMPA pursuant to which the Company will purchase TMPA's ownership interest in Comanche Peak and all outstanding claims and pending lawsuits between TMPA and the Company will be settled and terminated. Finalization of the agreement is subject to the approval of the NRC and the PUC with respect to the transfer of TMPA's ownership interest. The Company has filed applications to obtain such approvals and cannot predict when action with respect thereto will be taken. (See Note 11 to Financial Statements.)

In June 1986, BEPC filed suit in the 345th Judicial District Court of Travis County, Texas against the Company, Texas Utilities, Mining Company and TU Services. BEPC alleges that the defendants have breached the Agreement, certain implied warranties and fiduciary duties, and have been grossly negligent, acted with willful misconduct and have violated the DTPA and Texas and federal securities laws. BEPC asks for an injunction against efforts by the defendants to recover additional payments, rescission and reformation of the Agreement and payment for damages, trebled pursuant to the DTPA. BEPC alleges actual damages to that date of at least \$216 million. The defendants intend to vigorously contest this suit, which has been stayed as a result of the ruling in the Dallas County suit. In March 1987, BEPC filed a request with the NRC to modify the construction permits and licenses already issued and to impose a prospective condition to any permits and licenses subsequently issued or renewed to require the Company to assume BEPC's ownership interest in Comanche Peak by purchase thereof at its net book cost, and for other unspecified relief. In June 1987, the NRC Office of Special Projects denied this request and the Company is unable to predict what further action may be taken.

*Cost and Schedule Estimates*

In March 1988, the Company announced that following its review of the cost and schedule for Comanche Peak, commercial operation of Unit 1 is presently anticipated at the end of 1989. All Unit 1 corrective action activities are scheduled for completion to permit fuel loading in mid-1989. The Company also announced the temporary suspension of construction activities and accrual of AFUDC on Unit 2 beginning in April 1988 for a period of approximately one year. Unit 2 is not expected to be ready for commercial operation until after the 1991 peak season. The delay of Unit 2 was implemented to allow the Company to concentrate its resources on the completion of Unit 1, thereby reducing the duplication of effort that would be required to maintain the previous timing between the two units and strengthen the Company's ability to manage construction and start-up activities for both units more efficiently with fewer personnel. Additionally, such delay will allow time to make a more complete determination of any modifications that may be required for Unit 2 based upon the knowledge gained from the reinspection and corrective action program applied to Unit 1. The delay of Unit 2 will also permit the Company time to implement rates for Unit 1 prior to the final completion and operation of Unit 2. Although construction on Unit 2 has been temporarily suspended, there will be some ongoing expenditures required to maintain the unit until construction is resumed. Additionally, to the extent the work necessary to place Unit 1 into service affects various common systems, some capital expenditures will be associated with Unit 2.

Based upon this revised schedule, the total cost of the Company's 94% share of the plant, excluding AFUDC, is estimated to be \$6.37 billion. The Company's estimated cost of its share, including AFUDC, is \$8.54 billion or about \$3,950 per kilowatt. Because of the uncertainty regarding the date of commercial operation of Unit 2, no provision has been included in such amount for reestablishing the accrual of AFUDC on Unit 2 after construction resumes. The total cost of the plant, excluding AFUDC, is estimated to be \$6.62 billion. Because of the uncertainties regarding payments by the



TEXAS UTILITIES ELECTRIC COMPANY  
NOTES TO FINANCIAL STATEMENTS — (Continued)

10. COMANCHE PEAK NUCLEAR GENERATING STATION — (concluded)

other owners of Comanche Peak of their share of the remaining construction costs, no estimate of the amount of AFUDC that may be attributable to their interests in the plant has been made.

The Company had previously estimated, in November 1986, that commercial operation of Unit 1 would be achievable in early 1989 and that Unit 2 would not be ready for commercial operation until after the 1989 summer peak season. Based upon such schedule, the total cost, excluding AFUDC, of the Company's 87<sup>5</sup>/<sub>6</sub>% share of the plant (which excludes the presently anticipated purchase of TMPA's share) was estimated to be \$4.63 billion. The Company's estimated cost for its 87<sup>5</sup>/<sub>6</sub>% share, including AFUDC, was \$6.70 billion or about \$3,300 per kilowatt. The total cost of the plant, excluding AFUDC, was estimated to be \$5.27 billion.

Because of numerous uncertainties in the licensing process, no assurance can be given that the revised estimated schedule can be met or that the estimated completion cost will not be exceeded. Failure to secure timely and favorable regulatory approvals or further delays occasioned by additional reanalysis, reinspection or rework will increase the cost of the plant and will likely increase financing requirements. At December 31, 1987 and 1986, the Company's investment in Comanche Peak, including AFUDC, was \$5,808,000,000 and \$4,600,000,000, respectively, of which \$1,284,000,000 has been allowed in rate base by regulatory authorities. The Company has indicated that it does not currently plan to implement increased electric service rates which reflect any additional Comanche Peak costs until Unit 1 is ready for commercial operation. The Company continues to believe, based upon revised cost estimates and using acceptable ratemaking approaches and assumptions, that the rate increase, when Unit 1 goes into service, can be held to about 10%. Such rate application will be subject to challenge with respect to the prudence of certain costs, for which an estimate is not presently determinable.

11. COMMITMENTS AND CONTINGENCIES

*Construction Program*

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

*Cooling Water Contracts*

The Company has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee the principal, \$47,920,000 at December 31, 1987, and interest on bonds issued to finance the reservoirs from which the water is supplied. The bonds mature at various dates through 2011 and have interest rates ranging from 5<sup>1</sup>/<sub>2</sub>% to 9%. The Company is required to make periodic payments equal to such principal and interest for the years 1988 through 1992 as follows: \$4,387,000 for 1988, \$4,396,000 for 1989, \$4,423,000 for 1990, \$4,435,000 for 1991 and \$4,430,000 for 1992. In addition, the Company is obligated to pay certain variable costs of operating and maintaining the reservoirs. Total payments, including amounts capitalized, under such contracts for 1987, 1986 and 1985 were \$4,400,000, \$4,833,000, and \$4,779,000, respectively. The Company has assigned to a municipality all contract rights and obligations in connection with \$100,695,000 remaining principal amount of bonds at December 31, 1987 issued for similar purposes which had previously been guaranteed by the Company; the Company is, however, contingently liable in the event of default by the municipality.

**TEXAS UTILITIES ELECTRIC COMPANY**  
**NOTES TO FINANCIAL STATEMENTS — (Concluded)**

11. COMMITMENTS AND CONTINGENCIES — (concluded)

*Capacity and Energy Purchase*

The Company entered into an agreement in 1982 with Tex-La, a 2<sup>1</sup>/<sub>6</sub>% owner of Comanche Peak, whereby the Company agreed to purchase an assignment of portions of Tex-La's entitlement to capacity and energy from Comanche Peak in declining amounts over the first eight years of commercial operation of each generating unit. Under the agreement, the Company is required to make annual payments to Tex-La comprising a pro rata share of operating costs plus a capital charge on Tex-La's net investment applicable to the portion of Tex-La's entitlement assigned. (See Note 10 concerning litigation proceedings regarding Tex-La's participation in Comanche Peak.)

*Martin Lake Unit 4 Construction Cancellation*

In November 1986, the Company announced that it was not economically feasible to construct a fourth unit at the Martin Lake Steam Electric Station (Martin Lake Unit 4) and cancelled the project which was scheduled for service in 1994. Pursuant to expected regulatory treatment, expenditures of approximately \$37,246,000, including contractor termination costs, have been recorded as a deferred asset to be amortized as approved by regulatory authorities. The application in 1988 of Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 90 entitled "Regulated Enterprises — Accounting for Abandonments and Disallowances of Plant Costs" to the accounting for the abandonment of Martin Lake Unit 4 will not have a material effect on the Company's financial statements.

*Purchase of Electric Plant and Nuclear Fuel*

In February 1988, the Company entered into an agreement with TMPA pursuant to which the Company will purchase TMPA's ownership interest in Comanche Peak. Under the terms of the agreement, the Company will make a series of payments to TMPA over approximately a five year period totaling about \$456 million on a present value basis. The purchase price is based on the Company's incurred cost per kilowatt, including AFUDC, for its existing share plus payment for TMPA's interest in the nuclear fuel for Comanche Peak, certain transmission facilities associated with Comanche Peak and certain expenses. In connection with the purchase of TMPA's ownership interest by the Company, all outstanding claims and pending lawsuits between TMPA and the Company will be settled and terminated. Finalization of the agreement is subject to the approval of the NRC and the PUC with respect to the transfer of TMPA's ownership interest. An initial payment of approximately \$58.7 million was made by the Company in February 1988; following such regulatory approvals, which must be received no later than September 22, 1988, the Company will make an additional payment of approximately \$51.8 million plus interest to the date of initial closing. Thereafter, the Company will make ten equal semi-annual payments, including interest, each in the amount of approximately \$45 million, for the balance of the purchase.

*General*

In addition to the above, the Company is involved in various legal and administrative proceedings which, in the opinion of the Company, should not have a material effect upon its financial position or results of operations.

## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Texas Utilities Electric Company:

We have examined the balance sheet of Texas Utilities Electric Company as of December 31, 1987 and 1986 and the related statements of income, retained earnings and source of funds for construction for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Company at December 31, 1987 and 1986 and the results of its operations and the source of its funds for construction for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations also comprehended the supplemental schedules listed in Item 14(a)2. In our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

Dallas, Texas  
March 18, 1988

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None

**PART III**

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

Identification of directors, business experience and other directorships:

<u>Name of Director</u>	<u>Age</u>	<u>Other Positions and Offices Presently Held With the Company (Term Expires May 20, 1988)</u>	<u>Date First Elected as Director</u>	<u>Present Principal Occupation or Employment and Principal Business (preceeding 5 yrs.), Other Directorships</u>
Erle Nye	50	Chairman of the Board and Chief Executive	September 17, 1982	President of Texas Utilities, the parent company of the Company; prior thereto Executive Vice President of Texas Utilities; other directorships: Texas Utilities.
R. K. Campbell	61	Division President	September 17, 1982	Same.
E. D. Scarth	60	Division President	May 20, 1986	President of Texas Electric, formerly a subsidiary of Texas Utilities; prior thereto Vice President of Texas Electric.
Michael D. Spence	46	Division President	September 17, 1982	President of Generating Division; prior thereto Executive Vice President of Texas Utilities; prior thereto Vice President of Texas Power, formerly a subsidiary of Texas Utilities.
W. M. Taylor	45	Division President	May 20, 1986	President of Dallas Power, formerly a subsidiary of Texas Utilities; prior thereto Vice President of the Company; prior thereto Vice President of Texas Electric.
T. L. Baker	42	Senior Vice President	February 20, 1987	Senior Vice President of the Company; prior thereto Vice President of the Company; prior thereto Vice President of Dallas Power; prior thereto served in other management positions with Dallas Power.
J. S. Farrington	53	None	September 17, 1982	Chairman of the Board and Chief Executive Officer of Texas Utilities; prior thereto President of Texas Utilities; prior thereto President of Dallas Power; other directorships: Texas Utilities.
E. L. Watson	53	Senior Vice President	February 20, 1987	Senior Vice President of the Company; prior thereto Vice President of Texas Electric.

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (Continued).**

Identification of executive officers and business experience:

<u>Name of Officer</u>	<u>Age</u>	<u>Position and Offices Presently Held (Current Term Expires May 20, 1988)</u>	<u>Date First Elected to Present Office(s)</u>	<u>Business Experience (Preceding Five Years)</u>
Erle Nye	50	Chairman of the Board and Chief Executive	February 20, 1987	President of Texas Utilities, the parent company of the Company; prior thereto Executive Vice President of Texas Utilities; other directorships: Texas Utilities.
R. K. Campbell	61	Division President	January 1, 1984	Same.
E. D. Scarth	60	Division President	May 20, 1986	Vice President of Texas Electric, formerly a subsidiary of Texas Utilities.
Michael D. Spence	46	Division President	January 1, 1984	Executive Vice President of Texas Utilities, the parent company of the Company; prior thereto Vice President of Texas Power, formerly a subsidiary of Texas Utilities.
W. M. Taylor	45	Division President	May 20, 1986	Vice President of the Company; prior thereto Vice President of Texas Electric, formerly a subsidiary of Texas Utilities.
T. L. Baker	42	Senior Vice President	May 20, 1986	Vice President of the Company; prior thereto Vice President of Dallas Power, formerly a subsidiary of Texas Utilities; prior thereto served in other management positions with Dallas Power.
E. L. Watson	53	Senior Vice President	May 20, 1986	Vice President of the Company; prior thereto Vice President of Texas Electric, formerly a subsidiary of Texas Utilities.
Thomas E. Blakey	55	Executive Vice President	July 14, 1987	Vice President of Operations for Texas Power, formerly a subsidiary of Texas Utilities; prior thereto served in other management positions with Texas Power.
H. Jarrell Gibbs	49	Vice President	December 28, 1987	Treasurer and Assistant Secretary of TU Electric; served in other management positions in the Company and TU Services.

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT (Concluded).

Identification of executive officers and business experience:

<u>Name of Officer</u>	<u>Age</u>	<u>Position and Offices Presently Held (Current Term Expires May 20, 1988)</u>	<u>Date First Elected to Present Office(s)</u>	<u>Business Experience (Preceding Five Years)</u>
T. R. Locke, Jr.	50	Vice President	January 1, 1984	Vice President of TU Services; prior thereto served in other management positions with Texas Electric, formerly a subsidiary of Texas Utilities.
T. Michael Ozymy	47	Vice President	May 20, 1986	Served in other management positions in the Company.
G. W. Sellar	54	Vice President	January 1, 1984	Vice President of Dallas Power, formerly a subsidiary of Texas Utilities; prior thereto served in other management positions with Dallas Power.
S. C. Swiger	52	Vice President and Controller	January 1, 1984	Controller of Texas Utilities, the parent company of the Company.
Paul D. Williams	48	Vice President	December 17, 1986	Vice President of Texas Electric, formerly a subsidiary of Texas Utilities; prior thereto served in other management positions with Texas Electric.
Peter B. Tankham	43	Secretary	September 24, 1982	Secretary and Assistant Treasurer of Texas Utilities, the parent company of the Company; prior thereto Assistant Secretary of Texas Utilities.
John Farrell	38	Treasurer and Assistant Secretary	December 28, 1987	Director of Finance of TU Services; Controller of TU Services and served in other management positions in TU Services.
J. D. Karney	54	Assistant Controller	December 17, 1986	Controller of Dallas Power, formerly a subsidiary of Texas Utilities; prior thereto Treasurer and Assistant Secretary of Dallas Power.
J. P. Knierim	45	Assistant Treasurer	January 1, 1984	Treasurer and Assistant Secretary of Texas Electric, formerly a subsidiary of Texas Utilities; prior thereto served in other management positions with Texas Electric.
Gary L. Price	43	Assistant Controller	January 1, 1984	Treasurer and Assistant Secretary of Texas Power, formerly a subsidiary of Texas Utilities.

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

**Item 11. EXECUTIVE COMPENSATION.**

The Company paid cash compensation during 1987 to the following executive officers for services in all capacities:

<u>Name of Individual and number of persons in group</u>	<u>Capacity in which compensation was received</u>	<u>Cash compensation</u>
Erle Nye .....	Chairman of the Board and Chief Executive	\$ 316,667(1)
Michael D. Spence .....	Division President	266,667
R. K. Campbell .....	Division President	233,500
E. D. Scarth .....	Division President	158,750
W. M. Taylor .....	Division President	158,750
All executive officers of the Company as a group (16), not including those named above .....		1,466,500(2)

(1) Consists entirely of compensation paid by Texas Utilities.

(2) Includes compensation paid by the Company, Texas Utilities and TU Services. Does not include payments for any portion of the period during which any individual was not an executive officer of the Company.

Under the Employees' Thrift Plan of the Texas Utilities Company System, all employees with at least one year of full time service with any of the System Companies may invest up to 12% of their regular salary or wages in common stock of Texas Utilities, a United States Government Bond fund, a guaranteed fixed income fund, an equity mutual fund or a percentage in each. Employer-corporations make a contribution to each participant's account of 40%, 50%, or 60% of the employee's savings, up to the 6% level, depending upon length of service, which amount is invested in the common stock of Texas Utilities. During 1987, employer contributions under this Plan made for all executive officers of the Company as a group (21) amounted to \$71,691, including contributions made for Messrs. Nye, Spence, Campbell, Scarth and Taylor in the amounts of \$10,815, \$7,367, \$7,981, \$5,418 and \$1,875, respectively. Employer contributions are not included in amounts under Cash Compensation in the table above.

Under the Employee Stock Ownership Plan of the Texas Utilities Company System which covers substantially all System employees, Texas Utilities and its subsidiaries, including the Company, have elected additional federal income tax credits to the extent that amounts equal to such credits have been contributed to the Plan. The Plan Trustee uses contributions from the companies and their eligible employees to purchase common stock of Texas Utilities which is allocated to participating employees in proportion to their compensation. During 1987, employer contributions made for Plan year 1986 for all executive officers of the Company as a group (21) amounted to \$8,800, including contributions made in the amount of \$500 for each of Messrs. Nye, Spence, Campbell, Scarth and Taylor. Employer contributions are not included in amounts under Cash Compensation in the table above. Due to changes in federal tax laws eliminating such tax credits subsequent to 1986, the Company does not anticipate making any further contributions to the Plan.

Under the Deferred and Incentive Compensation Plan of the Texas Utilities Company System adopted during 1987, officers of Texas Utilities and its subsidiaries with a title of Vice President or above may defer a percentage of their compensation not to exceed a maximum percentage determined by the Board of Directors for each Plan year and in any event not to exceed 15% of the participant's compensation. For the Plan year 1987, the maximum deferral percentage was 10%. Such deferred compensation is included in amounts reported under Cash Compensation in the table above. The Company will make a matching award equal to 150% of the deferred compensation. In addition, the Company can also make incentive awards. In no event will the sum of all incentive

**Item 11. EXECUTIVE COMPENSATION (Concluded).**

awards in any Plan year exceed 25% of the aggregate compensation of eligible employees. The Company will establish accounts for each participant containing performance units equal in number to the number of shares of common stock purchased by a trustee with an amount of cash equal to the deferred compensation, matching award and any incentive award. On the expiration of the applicable maturity period (3 years for incentive awards and 5 years for deferrals and matching awards), the value of the participants' accounts will be paid in cash. The maturity requirement is waived if the participant dies or becomes totally and permanently disabled.

The Company maintains a retirement plan qualified under applicable provisions of the Internal Revenue Code. Annual retirement benefits are computed as follows: For each year of accredited service prior to age 65, 1.3% of the first \$7,800, plus 1.5% of the excess over \$7,800 of average annual earnings received by the participant during his three years of highest earnings. Such benefits are not subject to any reduction for Social Security payments. Amounts reported as salaries for specified officers approximate earnings as defined by the retirement plan. As of January 31, 1988, years of accredited service under the plan for Messrs. Nye, Spence, Campbell, Scarth and Taylor were 25, 21, 39, 35 and 19, respectively. The table below illustrates the annual benefit payable at retirement after age 65 under this formula:

<u>3-year average annual Earnings</u>	<u>20 years service</u>	<u>30 years service</u>	<u>40 years service</u>
\$ 25,000	\$ 7,188	\$ 10,782	\$ 14,376
50,000	14,688	22,032	29,376
100,000	29,688	44,532	59,376
200,000	59,688	89,532	119,376
300,000	89,688	134,532	179,376
400,000	119,688	179,532	239,376

Benefits payable from a qualified retirement plan are limited by provisions of the Internal Revenue Code. The Company maintains an unfunded Supplemental Retirement Plan to provide for the payment of retirement benefits calculated in accordance with the foregoing retirement plan formula which would otherwise be limited by the provisions of the Internal Revenue Code.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Security ownership of certain beneficial owners at January 31, 1988:

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common Stock, without par value, of the Company	Texas Utilities Company 2001 Bryan Tower Dallas, Texas 75201	109,850,000 shares sole voting and investment power	100.0%

Security ownership of management at December 31, 1987:

<u>Title of Class</u>	<u>Number of Shares Beneficially Owned*</u>	<u>Percent of Class</u>
Preferred Stock, without par value, of the Company .....	4	Less than 1%
Common Stock of Texas Utilities (parent) .....	95,172	Less than 1%

\* Amount of shares with respect to which such persons have the right to acquire beneficial ownership.

**Item 13. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS.**

None.



PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

	<u>Page</u>
(a) Documents filed as part of this Report.	
1. Financial Statements (included in Item 8, Financial Statements and Supplementary Data):	
Statement of Income for each of the three years in the period ended December 31, 1987 .....	26
Statement of Source of Funds for Construction for each of the three years in the period ended December 31, 1987 .....	27
Balance Sheet, December 31, 1987 and 1986 .....	28
Statement of Retained Earnings for each of the three years in the period ended December 31, 1987 .....	30
Notes to Financial Statements .....	31
Opinion of Independent Certified Public Accountants .....	45
2. Financial Statement Schedules:	
V—Electric Plant for each of the three years in the period ended December 31, 1987 .....	57
VI—Accumulated Depreciation for each of the three years in the period ended December 31, 1987 .....	58
VIII—Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 1987 .....	59
X—Supplementary Information for each of the three years in the period ended December 31, 1987 .....	60

The following financial statement schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the Financial Statements or notes thereto: I, II, III, IV, VII, IX, XI, XII and XIII.

(b) Reports on Form 8-K:

Reports on Form 8-K filed since September 30, 1987, are as follows:

<u>Date of Report</u>	<u>Items Reported</u>
November 25, 1987	Item 5. OTHER EVENTS
December 18, 1987	Item 5. OTHER EVENTS
February 16, 1988	Item 5. OTHER EVENTS

(c) Exhibits:

\*3(a)—Articles of Incorporation of Texas Utilities Electric Company (filed as Exhibit 3(a), File No. 2-80537).

\*3(b)—Bylaws of Texas Utilities Electric Company (filed as Exhibit 3(b), File No. 2-80537).

\*4(a)—DALLAS POWER & LIGHT COMPANY

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

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (Continue J).

TEXAS ELECTRIC SERVICE COMPANY

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

TEXAS POWER & LIGHT COMPANY

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

TEXAS UTILITIES ELECTRIC COMPANY

Mortgage and Deed of Trust, dated as of December 1, 1983, between Texas Utilities Electric Company and Irving Trust Company, as Trustee, filed as Exhibit 4(a), File No. 2-90185.

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

DALLAS POWER & LIGHT COMPANY

<u>Number</u>	<u>Dated</u>	<u>File Reference</u>	<u>Exhibit</u>
First	April 1, 1949	2-7855	7(a)
Second	June 1, 1950	2-8466	7(a)-2
Third	March 1, 1953	2-10071	4(b)-3
Fourth	February 1, 1956	2-12200	2(b)-1
Fifth	December 1, 1956	2-77857	4(b)-5
Sixth	December 1, 1959	2-77857	4(b)-6
Seventh	February 1, 1963	2-20997	2(b)-7
Eighth	January 1, 1966	2-77857	4(b)-8
Ninth	February 1, 1967	2-25805	2(b)-9
Tenth	June 1, 1970	2-37161	2(c)
Eleventh	November 1, 1971	2-42043	2(c)
Twelfth	September 1, 1972	2-45403	2(c)
Thirteenth	March 1, 1975	2-52708	2(c)
Fourteenth	May 1, 1977	2-77857	4(b)-14
Fifteenth	June 1, 1981	2-71621	4(c)
Sixteenth	November 1, 1981	2-77857	4(b)-16
Seventeenth	July 1, 1982	2-77857	4(c)
Eighteenth	November 1, 1982	2-81476	4(b)-18
Nineteenth	February 1, 1983	2-81476	4(c)
Twentieth	June 1, 1983	2-90185	4(c)-1
Twenty-first	January 1, 1984	2-90185	4(c)-2
Twenty-second	April 1, 1984	2-90185	4(c)-3
Twenty-third	September 1, 1984	2-92738	4(b)-1
Twenty-fourth	September 1, 1985	2-99940	4(b)-1
Twenty-fifth	October 1, 1986	33-11326	4(b)-1
Twenty-sixth	March 1, 1987	33-14584	4(b)-1
Twenty-seventh	July 1, 1987	Form 8-K, File No. 0-11442 (July 7, 1987)	4(b)

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON  
FORM 8-K (Continued).

TEXAS ELECTRIC SERVICE COMPANY

<u>Number</u>	<u>Dated</u>	<u>File Reference</u>	<u>Exhibit</u>
First	October 1, 1947	2-7186	7(b)
Second	April 1, 1948	2-7423	7(c)
Third	April 1, 1949	2-7894	7(d)
Fourth	June 1, 1951	2-8982	7(e)
Fifth	May 1, 1952	2-9547	4(c)
Sixth	April 1, 1953	2-10118	4(c)
Seventh	March 1, 1955	2-12227	2(c)
Eighth	March 1, 1956	2-60449	2(b)-1
Ninth	July 1, 1957	2-60449	2(b)-1
Tenth	November 1, 1958	2-60449	2(b)-1
Eleventh	April 1, 1963	2-21105	2(b)
Twelfth	February 1, 1965	2-23056	2(b)
Thirteenth	February 1, 1966	2-24384	2(c)
Fourteenth	May 1, 1967	2-26297	2(c)
Fifteenth	March 1, 1969	2-31474	2(c)
Sixteenth	October 1, 1970	2-38358	2(c)
Seventeenth	April 1, 1971	2-39627	2(c)
Eighteenth	January 1, 1972	2-42552	2(c)
Nineteenth	April 1, 1974	2-60449	2(b)-1
Twentieth	December 1, 1974	2-60449	2(b)-1
Twenty-first	June 1, 1975	2-60449	2(b)-1
Twenty-second	March 1, 1976	2-60449	2(b)-1
Twenty-third	February 1, 1979	2-63425	2(c)
Twenty-fourth	March 1, 1980	2-66633	2(c)
Twenty-fifth	November 1, 1981	2-74809	4(c)-1
Twenty-sixth	December 1, 1981	2-74809	4(d)-1
Twenty-seventh	April 1, 1982	2-76675	4(c)
Twenty-eighth	November 1, 1982	2-80329	4(c)
Twenty-ninth	December 1, 1982	2-80329	4(d)
Thirtieth	June 1, 1983	2-90185	4(d)-1
Thirty-first	January 1, 1984	2-90185	4(d)-2
Thirty-second	April 1, 1984	2-90185	4(d)-3
Thirty-third	September 1, 1984	2-92738	4(c)-1
Thirty-fourth	August 1, 1985	2-99940	4(c)-1
Thirty-fifth	March 1, 1986	33-9583	4(c)-1
Thirty-sixth	December 1, 1986	33-11376	4(c)-1
Thirty-seventh	February 1, 1987	33-14584	4(c)-1

TEXAS POWER & LIGHT COMPANY

<u>Number</u>	<u>Dated</u>	<u>File Reference</u>	<u>Exhibit</u>
First	October 1, 1947	2-7204	7(a)
Second	April 1, 1948	2-7446	7(a)
Third	April 1, 1952	2-9474	4(c)
Fourth	May 1, 1953	2-10204	4(c)
Fifth	October 1, 1954	2-11162	2(b)
Sixth	November 1, 1956	2-12856	4(c)
Seventh	December 1, 1958	2-14553	2(b)

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (Continued).

TEXAS POWER & LIGHT COMPANY (Concluded)

<u>Number</u>	<u>Dated</u>	<u>File Reference</u>	<u>Exhibit</u>
Eighth	January 1, 1961	2-19452	2(b)-1
Ninth	February 1, 1963	2-21028	2(b)
Tenth	January 1, 1965	2-24326	2(c)
Eleventh	February 1, 1966	2-24326	2(d)
Twelfth	February 1, 1967	2-25885	2(c)
Thirteenth	January 1, 1968	2-27853	2(c)
Fourteenth	February 1, 1970	2-35941	2(c)
Fifteenth	September 1, 1970	2-38171	2(c)
Sixteenth	February 1, 1971	2-39083	2(c)
Seventeenth	February 1, 1972	2-42763	2(c)
Eighteenth	February 1, 1973	2-46740	2(c)
Nineteenth	February 1, 1974	2-73790	4(b)-19
Twentieth	October 1, 1974	2-73790	4(b)-20
Twenty-first	April 1, 1975	2-52865	2(c)
Twenty-second	January 1, 1976	2-55210	2(c)
Twenty-third	February 1, 1977	2-57963	2(c)
Twenty-fourth	February 1, 1979	2-63369	2(c)
Twenty-fifth	May 1, 1980	2-67594	(b)(2)-2
Twenty-sixth	September 1, 1981	2-73790	4(c)
Twenty-seventh	November 1, 1981	2-77733	4(b)
Twenty-eighth	June 1, 1982	2-77733	4(c)
Twenty-ninth	November 1, 1982	2-90185	4(e)-1
Thirtieth	June 1, 1983	2-90185	4(e)-2
Thirty-first	October 1, 1983	2-90185	4(e)-3
Thirty-second	January 1, 1984	2-90185	4(e)-4
Thirty-third	April 1, 1984	2-90185	4(e)-5
Thirty-fourth	September 1, 1984	2-92738	4(d)-1
Thirty-fifth	April 1, 1985	2-97185	4(d)-1
Thirty-sixth	December 1, 1985	33-01774	4(d)-1
Thirty-seventh	May 1, 1986	33-9583	4(d)-1
Thirty-eighth	December 1, 1986	33-11376	4(d)-1
Thirty-ninth	April 1, 1987	33-14584	4(d)-1

TEXAS UTILITIES ELECTRIC COMPANY

<u>Number</u>	<u>Dated</u>	<u>File Reference</u>	<u>Exhibit</u>
First	April 1, 1984	2-90185	4(b)
Second	September 1, 1984	2-92738	4(a)-1
Third	April 1, 1985	2-97185	4(a)-1
Fourth	August 1, 1985	2-99940	4(a)-1
Fifth	September 1, 1985	2-99940	4(a)-2
Sixth	December 1, 1985	33-01774	4(a)-2
Seventh	March 1, 1986	33-9583	4(a)-1
Eighth	May 1, 1986	33-9583	4(a)-2
Ninth	October 1, 1986	33-11376	4(a)-1
Tenth	December 1, 1986	33-11376	4(a)-2
Eleventh	December 1, 1986	33-11376	4(a)-3
Twelfth	February 1, 1987	33-14584	4(a)-1
Thirteenth	March 1, 1987	33-14584	4(a)-2
Fourteenth	April 1, 1987	33-14584	4(a)-3
Fifteenth	July 1, 1987	Form 8-K,	4(a)

File No. 0-11442  
(July 7, 1987)

**Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON  
FORM 8-K (Continued).**

- \*4(c)—Debenture Agreement dated as of February 1, 1964, between Dallas Power & Light Company and Morgan Guaranty Trust Company of New York, as Trustee, filed as Exhibit 2(b)-10, File No. 2-22020.
- \*4(c)-1—First Supplemental Agreement dated as of June 21, 1983, to the Debenture Agreement dated as of February 1, 1964, between Dallas Power & Light Company and Morgan Guaranty Trust Company of New York, as Trustee, filed as Exhibit 4(c)-1, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.
- \*4(c)-2—Second Supplemental Agreement dated as of January 1, 1984, to the Debenture Agreement dated as of February 1, 1964, between Texas Utilities Electric Company and Morgan Guaranty Trust Company of New York, as Trustee, filed as Exhibit 4(c)-2, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.
- \*4(d)—Debenture Agreement dated as of February 1, 1968, between Dallas Power & Light Company and Morgan Guaranty Trust Company of New York, as Trustee, filed as Exhibit 2(b)-13, File No. 2-28016.
- \*4(d)-1—First Supplemental Agreement dated as of June 21, 1983, to the Debenture Agreement dated as of February 1, 1968, between Dallas Power & Light Company and Morgan Guaranty Trust Company of New York, as Trustee, filed as Exhibit 4(c)-3, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.
- \*4(d)-2—Second Supplemental Agreement dated as of January 1, 1984, to the Debenture Agreement dated as of February 1, 1968, between Texas Utilities Electric Company and Morgan Guaranty Trust Company of New York, as Trustee, filed as Exhibit 4(c)-4, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.
- \*4(e)—Debenture Agreement dated as of February 1, 1968, between Texas Electric Service Company and The First National Bank of Fort Worth, (now First RepublicBank Fort Worth, N.A.) as Trustee, filed as Exhibit 2(d), File No. 2-27908.
- \*4(e)-1—First Supplemental Agreement dated as of June 29, 1983, to the Debenture Agreement dated as of February 1, 1968, between Texas Electric Service Company and The First National Bank of Fort Worth, (now First RepublicBank Fort Worth, N.A.) as Trustee, filed as Exhibit 4(d)-3, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.
- \*4(e)-2—Second Supplemental Agreement dated as of January 1, 1984, to the Debenture Agreement dated as of February 1, 1968, between Texas Utilities Electric Company and InterFirst Bank Fort Worth, N.A. (now First RepublicBank Fort Worth, N.A.), as Trustee, filed as Exhibit 4(d)-4, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.
- \*4(f)—Debenture Agreement dated as of January 1, 1964, between Texas Power & Light Company and First National Bank in Dallas, as Trustee, (now First RepublicBank Dallas, National Association, as successor Trustee) filed as Exhibit 2(c)-3, File No. 2-21962.
- \*4(f)-1—First Supplemental Agreement dated as of June 28, 1983, to the Debenture Agreement dated as of January 1, 1964, between Texas Power & Light Company and InterFirst Bank Dallas, National Association, as Trustee, (now First RepublicBank Dallas, National Association, as successor Trustee) filed as Exhibit 4(e)-3, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.

**Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (Concluded).**

- \*4(f)-2—Second Supplemental Agreement dated as of January 1, 1984, to the Debenture Agreement dated as of January 1, 1964, between Texas Utilities Electric Company and InterFirst Bank Dallas, National Association, as Trustee, (now First RepublicBank Dallas, National Association, as successor Trustee) filed as Exhibit 4(e)-4, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.
- \*4(g)—Debenture Agreement dated as of April 1, 1969, between Texas Power & Light Company and First National Bank in Dallas, as Trustee, (now First RepublicBank Dallas, National Association as successor Trustee), filed as Exhibit 4(c). File No. 2-31966.
- \*4(g)-1—First Supplemental Agreement dated as of June 28, 1983, to the Debenture Agreement dated as of April 1, 1969, between Texas Power & Light Company and InterFirst Bank Dallas, National Association, as Trustee, (now First RepublicBank Dallas, National Association, as successor Trustee), filed as Exhibit 4(e)-5, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.
- \*4(g)-2—Second Supplemental Agreement dated as of January 1, 1984, to the Debenture Agreement dated as of April 1, 1969, between Texas Utilities Electric Company and InterFirst Bank Dallas, National Association, as Trustee, (now First RepublicBank Dallas, National Association, as successor Trustee), filed as Exhibit 4(e)-6, Texas Utilities Company 1983 Form 10-K, File No. 1-3591.

4(h)—Supplemental Indentures to Mortgage and Deed of Trust.

Texas Electric Service Company

<u>Number</u>	<u>Date</u>
Thirty-eighth	September 1, 1987
Thirty-ninth	October 1, 1987

Texas Utilities Electric Company

<u>Number</u>	<u>Date</u>
Sixteenth	September 1, 1987
Seventeenth	October 1, 1987

- 4(i)—Agreement to furnish certain debt instruments.
- 12(a)—Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends.
- 12(b)—Computation of Supplemental Ratio of Earnings to Fixed Charges and Preferred Dividends.
- 24(a)—Consent of Deloitte Haskins & Sells.
- 24(b)—Consent of Counsel.
- 28—Agreement, dated as of February 12, 1988, between the Company and Texas Municipal Power Agency.

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\*Incorporated herein by reference.

**TEXAS UTILITIES ELECTRIC COMPANY**  
**SCHEDULE V — ELECTRIC PLANT**

For Each of the Three Years in the Period Ended December 31, 1987

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Classification	Balance at Beginning of Year	Additions at Cost	Retirements	Other Changes—Add (Deduct)	Balance at End of Year
Thousands of Dollars					
Year Ended December 31, 1987					
Electric plant					
In service					
Production .....	\$ 2,980,395	\$ 81,311	\$22,840	\$ —	\$ 3,038,866
Transmission .....	1,166,066	51,457	2,881	—	1,214,642
Distribution .....	2,543,163	183,505	30,145	—	2,696,523
General .....	328,575	40,368	7,055	—	361,888
Total .....	7,018,199	356,641	62,921	—	7,311,919
Construction work in progress .....	5,266,729	1,317,716	—	(19,118)(a)	6,565,327
Nuclear fuel .....	251,964	797	—	—	252,761
Held for future use .....	6,357	1,583	—	11,700 (a)	19,640
Total electric plant .....	<u>\$12,543,249</u>	<u>\$1,676,737</u>	<u>\$62,921</u>	<u>\$ (7,418)</u>	<u>\$14,149,647</u>
Year Ended December 31, 1986					
Electric plant					
In service					
Production .....	\$ 2,878,212	\$ 111,519	\$ 9,336	\$ —	\$ 2,980,395
Transmission .....	1,111,704	60,686	6,324	—	1,166,066
Distribution .....	2,331,764	246,151	34,752	—	2,543,163
General .....	283,722	52,980	8,127	—	328,575
Total .....	6,605,402	471,336	58,539	—	7,018,199
Construction work in progress .....	4,288,525	1,007,842	—	(29,638)(b)	5,266,729
Nuclear fuel .....	254,724	(2,760)	—	—	251,964
Held for future use .....	5,441	916	—	—	6,357
Total electric plant .....	<u>\$11,154,092</u>	<u>\$1,477,334</u>	<u>\$58,539</u>	<u>\$(29,638)</u>	<u>\$12,543,249</u>
Year Ended December 31, 1985					
Electric plant					
In service					
Production .....	\$ 2,808,488	\$ 77,726	\$ 8,002	\$ —	\$ 2,878,212
Transmission .....	1,042,821	71,050	2,167	—	1,111,704
Distribution .....	2,125,962	235,343	29,541	—	2,331,764
General .....	249,124	40,105	5,507	—	283,722
Total .....	6,226,395	424,224	45,217	—	6,605,402
Construction work in progress .....	3,650,889	637,636	—	—	4,288,525
Nuclear fuel .....	199,921	54,803	—	—	254,724
Held for future use .....	4,858	583	—	—	5,441
Total electric plant .....	<u>\$10,082,063</u>	<u>\$1,117,246</u>	<u>\$45,217</u>	<u>\$ —</u>	<u>\$11,154,092</u>

(a) Includes \$11,700,000 associated with the transfer of facilities to electric plant held for future use and \$7,418,000 associated with the cancellation of lignite unit. (See Note 11 to Financial Statements.)

(b) Cancellation of lignite unit. (See Note 11 to Financial Statements.)

TEXAS UTILITIES ELECTRIC COMPANY  
SCHEDULE VI — ACCUMULATED DEPRECIATION

For Each of the Three Years in the Period Ended December 31 1987

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Net Retirements	Other Changes— Add (a) (Deduct)	Balance at End of Year
Thousands of Dollars					
Year ended December 31, 1987					
Accumulated depreciation .....	\$2,174,441	\$221,772	\$49,464	\$9,078	\$2,355,827
Year ended December 31, 1986					
Accumulated depreciation .....	\$2,011,061	\$209,152	\$53,622	\$7,850	\$2,174,441
Year ended December 31, 1985					
Accumulated depreciation .....	\$1,848,146	\$195,959	\$39,831	\$6,787	\$2,011,061

(a) Depreciation of transportation and work equipment, based on the estimated lives thereof, is charged to a clearing account and allocated on the basis of the use of such equipment, and depletion of lignite is charged to fuel.



TEXAS UTILITIES ELECTRIC COMPANY  
SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS

For Each of the Three Years in the Period Ended December 31, 1987

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
Description	Balance at Beginning of Year	Additions		Deductions(a)	Balance at End of Year
		Charged to Cost and Expenses	Charged to Other Accounts		
		Thousands of Dollars			
Valuation account, deducted from related asset on the balance sheet—					
Year Ended December 31, 1987					
Allowance for uncollectible accounts . . . .	\$13,817	\$20,732	\$ —	\$21,306	\$13,243
Year Ended December 31, 1986					
Allowance for uncollectible accounts . . . .	\$15,011	\$20,326	\$ —	\$21,520	\$13,817
Year Ended December 31, 1985					
Allowance for uncollectible accounts . . . .	\$12,360	\$21,299	\$ —	\$18,648	\$15,011

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

TEXAS UTILITIES ELECTRIC COMPANY  
SCHEDULE X — SUPPLEMENTARY INFORMATION

For Each of the Three Years in the Period Ended December 31, 1987

COLUMN A	COLUMN B		
Item	Charged to Expenses and Other Accounts		
	Year Ended December 31,		
	1987	1986	1985
	Thousands of Dollars		
Taxes other than income:			
Ad valorem .....	\$ 82,054	\$ 69,534	\$ 63,594
Local gross receipts .....	101,069	102,017	104,724
State gross receipts .....	55,734	56,494	58,965
State franchise .....	30,222	26,523	22,106
Social security and unemployment .....	34,600	33,286	31,363
Public Utility Commission assessment .....	6,180	6,085	6,630
Miscellaneous .....	11,465	8,982	8,211
Total .....	<u>\$321,324</u>	<u>\$302,921</u>	<u>\$295,593</u>
Charged to:			
Operating expenses .....	\$286,777	\$272,771	\$267,757
Electric plant and sundry accounts .....	34,547	30,150	27,836

Maintenance and repairs, depreciation, depletion, amortization, royalties, research and development, and advertising, other than amounts set out separately in the financial statements, are not material.

