Central and South West
Corporation

directions

Directions

No clear road map exists yet for the evolving electric power industry, but the general direction is becoming clearer — toward greater competition ... low-cost generation ... innovation ... customer satisfaction ... market reach.

That's the direction CSW has been traveling with considerable success. In late 1997, we took a major step to prepare for the future by announcing a proposed merger with American Electric Power Company, Inc.

Today CSW is a successful regional electric utility holding company well positioned as a supplier of electricity and other services in the United States, the United Kingdom and Latin America.

Tomorrow, to benefit our shareholders, customers and employees, CSW expects to join with AEP to create the nation's premier electric power company — one that will be well positioned for success around the world.

CSW Profile

Central and South West Corporation is an investor-owned electric [illegible]

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Central and South West Corporation

1997 Summary Annual Report

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CSW PROFILE

Central and South West Corporation is an investor-owned electric utility holding company based in Dallas, Texas. CSW owns and operates four electric utilities in the United States: Central Power and Light Company, Public Service Company of Oklahoma, Southwestern Electric Power Company and West Texas Utilities Company. These companies serve 1.7 million customers in an area covering 152,000 square miles of Texas, Oklahoma, Louisiana and Arkansas. CSW also owns a regional electricity company in the United Kingdom, SEEBOARD plc, which serves 2 million customers in Southeast England.

CSW engages in international energy, telecommunications and energy services businesses through these nonutility subsidiaries:

➤ CSW Energy, Inc., which develops, acquires, constructs, owns and operates nonutility power projects in the United States;

➤ CSW International, Inc., which engages in international activities, including developing, acquiring, financing and owning exempt wholesale generators and foreign utility companies;

➤ C3 Communications, Inc. (formerly CSW Communications, Inc.), which provides automated metering services to utilities, energy-service providers and other customers and offers telecommunications services through CSW/ICG ChoiceCom[SM];

➤ EnerShop Inc., which provides energy-management analysis, equipment and information to increase productivity and lower energy costs for commercial and governmental entities;

➤ CSW Energy Services, Inc., which markets electricity in competitive retail markets;

➤ CSW Credit, Inc., which buys the accounts receivable of our electric utility subsidiaries and other utilities;

➤ CSW Leasing, Inc., which owns leveraged leases of capital equipment; and

➤ Central and South West Services, Inc., which provides management and professional services, at cost, primarily for the corporation and its four U.S. electric companies.

Through separate equity investments in various joint ventures, CSW owns indirect interests in:

➤ CSW/ICG ChoiceCom, L.P., a joint venture with ICG Telecom Group, Inc., to provide local and long-distance telephone and data transmission services in Texas, Oklahoma, Louisiana and Arkansas;

➤ Numanco, which provides staffing services for nuclear-powered electric generating plants;

➤ Diversified Energy Contractors Company, which repairs, upgrades, installs and maintains steam, power and process systems in the U.S.;

➤ Empresa de Eletricidade Vale Paranapanema S.A., an electric distribution company serving 1.1 million customers in southern and central Brazil;

➤ Enertek, a joint-venture company that owns Mexico's first major cogeneration project located in Altamira, Tamaulipas;

➤ Beacon Gas, a joint venture with Amoco to market natural gas throughout the U.K.; and

➤ Medway Power, which owns a 675-megawatt independent power station on the Isle of Grain in the U.K.

HIGHLIGHTS

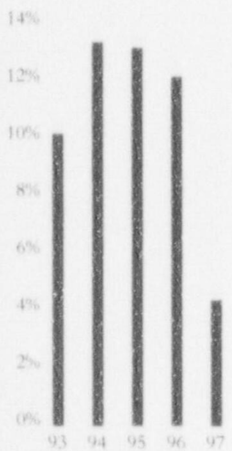
CENTRAL AND SOUTH WEST CORPORATION

	1997	1996
Financial Data *(millions)*		
Operating Revenues	$5,268	$5,155
U.S. Electric Fuel and Purchased Power	1,266	1,228
United Kingdom Cost of Sales	1,291	1,331
Other Operating Expenses	1,630	1,399
Taxes	346	402
Operating Income	735	795
Other Income (Expense)	32	(61)
Interest and Preferred Stock Dividends	(438)	(437)
Income from Discontinued Operations	–	12
Gain on Sale of Discontinued Operations	–	120
Extraordinary Item	(176)	–
Net Income for Common Stock	$ 153	$ 429
Common Stock Data and Dividends		
Basic and Diluted Earnings per Share	$0.72	$2.07
Dividends per Share	$1.74	$1.74
Book Value per Share	$16.76	$17.98
Average Common Shares Outstanding *(millions)*	212.1	207.5
Return on Average Common Equity	4.2%	12.1%
Dividend Yield	6.4%	6.8%
Dividend Payout Ratio	242%	84%
Year-End Market Price	$27 1/16	$25 5/8

	Closing Market Price High	Low	Dividends Paid
1997			
First Quarter	$25 3/4	$21 1/4	$0.435
Second Quarter	22 1/8	18 1/4	0.435
Third Quarter	22 7/16	19 3/4	0.435
Fourth Quarter	27 5/16	20 5/8	0.435
			$1.74
1996			
First Quarter	$28 1/2	$26 3/8	$0.435
Second Quarter	28 7/8	26 1/2	0.435
Third Quarter	28 1/2	25 3/4	0.435
Fourth Quarter	28	25 1/2	0.435
			$1.74

The condensed consolidated financial statements in this summary annual report were derived from the consolidated financial statements that appear in CSW's 1997 Financial Report to shareholders. Copies of the consolidated financial statements and the report of Arthur Andersen LLP thereon may be obtained by calling Central and South West Corporation's Investor Services Department at 1-800-527-5797.

Return on Average Common Equity



Earnings and Dividends per Share

CONTENTS

CSW MILESTONES

Corporate

U.S. Electric Utility Operations

International Utility Operations

Independent Power

Energy Services

Communications

Corporate

➤ Announced a proposed merger with American Electric Power Company, Inc., that is expected to create the nation's largest power company.

➤ Won Edison Electric Institute's National Award for Diversity, recognizing the corporation's programs for employees, suppliers, customers and communities.

U.S. Electric Utility Operations

➤ Ranked second among U.S. electric utilities in customer satisfaction by the American Customer Satisfaction Index™, conducted by the University of Michigan Business School and American Society for Quality.

➤ Controlled operating and maintenance costs despite inflation, saving more than $100 million in 1997 alone.

➤ Began testing with customers our ClearChoice℠ pricing program, which helps pay for developing renewable energy and other environmentally friendly power sources.

➤ Won the first Innovative Energy Efficiency Financing Award of the National Association of Home Builders Energy Subcommittee for our new SmartMove℠ energy-efficiency mortgage program.

International Utility Operations

➤ For the second year in a row, SEEBOARD was ranked as the leading regional electricity company in customer service by the United Kingdom Office of Electricity Regulation.

➤ Expanded our equity investment in Vale, a Brazilian electric distribution company.

➤ Vale and its partners acquired a Brazilian electric distribution company serving some 492,000 customers and won a concession to build an 850-megawatt hydroelectric power plant as part of Brazil's privatization of its electric industry.

➤ SEEBOARD was named the preferred bidder to provide power and services to the London Underground, the world's largest metro rail system.

Independent Power

➤ Completed construction of the Sweeny Cogeneration Facility, the first large-scale U.S. power plant built as a merchant plant.

➤ Completed construction of the Altamira Project, the first major cogeneration project to be built in Mexico under a new law that promotes outside investments in the Mexican energy sector.

Energy Services

➤ EnerShop won new contracts to provide energy-efficiency improvements for a number of office buildings and governmental entities across Texas.

➤ Established CSW Energy Services to participate in a limited marketing of electricity in states where retail competition now exists; Energy Services signed a major contract with The Home Depot® to supply electricity to 14 of its stores in Southern California, with our C3 Communications subsidiary serving as the meter data management agent.

➤ Formed CSW Total EV℠ to promote and sell electric-vehicle battery chargers and to distribute a new line of recreational vehicles, upon regulatory approval.

Communications

➤ Formed CSW/ICG ChoiceCom, a joint venture with ICG Telecom Group, to offer local telephone, long-distance and data services; ChoiceCom connected its first customers in Austin, San Antonio and Corpus Christi, Texas.

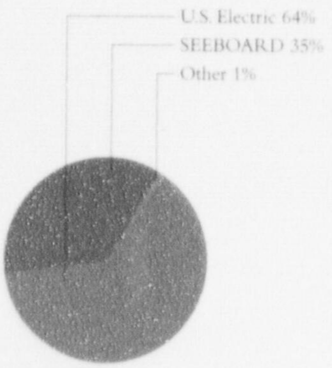
➤ C3 Communications was chosen by City Public Service of San Antonio to install advanced wireless and phone-based utility meter-reading equipment for 5,000 San Antonio customers.

The direction of the electric power industry became dramatically clearer in 1997, and so did the direction of Central and South West Corporation.

In December we announced plans for CSW to merge with American Electric Power Company, Inc., one of the largest electric utility companies in the country. We expect to complete the merger in 1999 and to become part of a new, expanded AEP. Before the merger can be completed, a number of regulatory and other conditions must be satisfied. We expect that the combined company will become the nation's premier power company and a major player in the increasingly competitive worldwide power market.

As the restructuring of the electric utility industry evolves, we believe the most successful companies will be those large enough to operate in international markets with low-cost power generation and a culture of innovation and excellent customer service. In AEP we found a partner that shares these views as well as common goals and strategies. AEP has established a successful brand and marketing program in the United States and in other countries. We are excited about the prospects for the combined company and about the potential benefits for our shareholders, customers and employees.

CSW 1997 Revenues



The new company will be based in Columbus, Ohio, and will be led by Dr. E. Linn Draper, Jr., currently chairman, president and chief executive officer of AEP. I have known Linn for many years as both a colleague and friend. I believe he is one of the most talented and respected leaders in the electric power industry. CSW's operations and employees will be in good hands.

I will serve on the board of the new company but will step down from executive management. Thomas V. Shockley, III, who in 1997 became CSW's president and chief operating officer, will remain a key senior officer of the new company's Southwest region.

You will find more information about the merger in an interview with Dr. Draper and me in this annual report, beginning on page 18.

1997 Financial Challenges. A number of events caused our stock price to decline in early 1997. Most damaging was the unprecedented decision of the Public Utility Commission of Texas in the rate case of our Central Power and Light Company subsidiary. The commission ruled that $800 million of CPL's investment in the South Texas Project nuclear electric generating station was "excess cost over market" and reduced the allowed rate of return on that amount. In addition, the commission ordered CPL to lower its rates by $19 million in 1997 and by an additional $13 million in 1998 and again in 1999.

This ruling led to a significant drop in the stock prices of CSW and the other major investor-owned electric utilities in Texas. We have filed an appeal in court, challenging portions of the commission's decision in the CPL case.

During 1997 several other major financial challenges were resolved.

➤ In Oklahoma, the settlement of a rate inquiry resulted in our Public Service Company of Oklahoma subsidiary making a one-time refund of $29 million and lowering its retail base rates by about $36 million a year, even though its rates already were among the lowest in the region.

➤ In the United Kingdom, Parliament approved the new Labour government's initiative to impose a "windfall profits" tax on privatized electric utilities; the cost for our SEEBOARD unit was significant – $176 million.

➤ In litigation with El Paso Electric Company related to the termination of our proposed merger transaction, we reached a negotiated settlement of all issues by paying $35 million to El Paso Electric and its various creditors.

Although none of these events reflected on the efficiency of our operations, the effectiveness of our employees or the ability of CSW to compete in the electric power marketplace, they significantly hurt CSW's 1997 financial performance. Earnings per share for 1997 were $0.72, compared to $2.07 for 1996.

In January 1998 our board of directors determined that CSW's dividend would remain at the annual indicated rate of $1.74. We believe the combination of CSW with AEP will offer improved prospects for future earnings and dividend growth.

Strategic Progress in 1997. We have been pursuing a six-step strategy to prepare us for success in the competitive era ahead. As the 1997 milestones on page 2 show, we are making substantial progress toward those goals. I am particularly proud of the way our employees have met the challenge of continuing to cut costs, of building on our reputation for customer satisfaction and of taking advantage of growth opportunities through investments in promising new markets, such as Latin America. We believe all the elements of our strategy will be advanced through the merger with AEP.

Because the AEP merger must be approved by state and federal regulators, we are determined to manage CSW so that it remains strong and competitive as a stand-alone company. We are optimistic that our activities in the United States and other countries will help us achieve a number of notable milestones during 1998.

We continue to gain new customers for our telecommunications, energy services and other new businesses, and we hope to win their electric power business when full retail competition is approved.

CSW'S SIX STRATEGIES

1. **Shape the future of the electric utility industry.**
2. **Create a client-driven culture.**
3. **Build a world-class brand and marketing company.**
4. **Build on our low-cost and reliability positions and pursue growth markets.**
5. **Aggressively pursue mergers, acquisitions and alliances for growth.**
6. **Manage our portfolio of assets and businesses to increase shareholder value.**

We also are continuing efforts to acquire the non-nuclear assets of Cajun Electric Power Cooperative, Inc., which is operating in bankruptcy. Cajun sells power to 11 electric distribution cooperatives and one former cooperative that serve more than 330,000 customers and a population of 1 million in Louisiana.

Electric Power Policies. Much of 1997 was spent working on a critical part of our strategy – trying to shape the future of the electric power industry as deliberations occur in Washington and in the capitals of our four states.

In 1997 the Texas Legislature considered legislation that would have functionally restructured the state's electric utilities and would have opened the industry to competition for retail customers. Although the legislation failed in the final days of the legislative session, we expect the 1999 Texas Legislature to address this matter again.

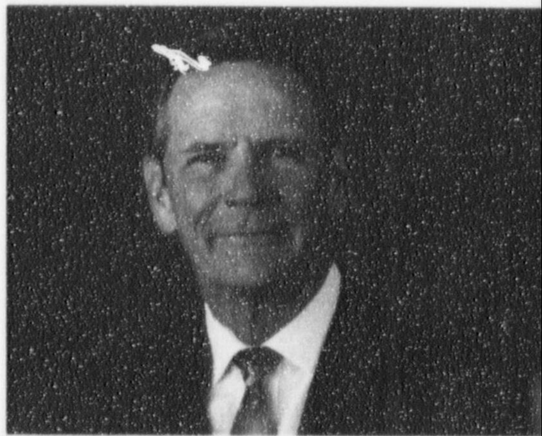
In Oklahoma during 1997, a law was enacted requiring retail competition in electricity to begin by July 1, 2002. The state's lawmakers also mandated that several studies be completed before implementing any restructuring of the state's electric utilities. In Louisiana and Arkansas, the state public service commissions have begun dockets to examine issues surrounding electric utility restructuring.

We believe that all of our companies will be winners in a competitive marketplace because of their low prices and strong customer relationships. In the four states where our U.S. electric companies operate, we are supporting policies that would open our industry to more competition. We support policies that are fair to our shareholders and to all our classes of customers. The new laws must maintain the high degree of electric reliability that consumers expect today and provide for the recovery of all previously approved costs. We will oppose any proposals that would violate these principles.

If the new rules for utilities are written fairly, we believe we will be well positioned as one of the industry's strongest competitors. Our low-cost generating plants, our strong customer relationships, our investments in the U.K., Mexico and South America, and our growing energy services business in the U.S. will make us a formidable competitor on our own. Merging with AEP will make us part of a new company that we believe will be even stronger.

E R Brooks

E. R. Brooks
Chairman and Chief Executive Officer
February 16, 1998



E. R. Brooks
Chairman and Chief Executive Officer
Central and South West Corporation

Position: CSW owns and operates four electric utilities in the Southwest; they are among the nation's leaders in low-cost power production and customer satisfaction.

U.S. ELECTRIC UTILITIES: LOW PRICES, SUPERIOR SERVICE

We believe an electric utility will be successful in the competitive marketplace largely through two factors: low-cost power production and excellent customer relationships. In 1997 our U.S. utilities showed once again that they are succeeding at both.

Lowering Costs. Our employees continued efforts to control operating and maintenance costs of our U.S. electric operations. Excluding extraordinary items, inflation alone would have added approximately $100 million to those costs in 1997 if our employees had not found greater efficiencies and savings.

As with O&M costs, employees also cut costs for fuel, fuel transportation and other expenses. As a result, our production cost of electricity today ranks among the lowest in the region. Of the 20 most efficient electric power generating plants in the U.S., eight are owned and operated by CSW.

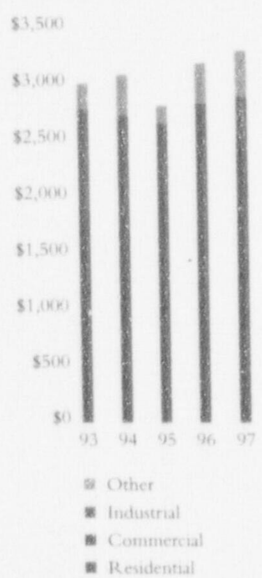
Customer Satisfaction. Our U.S. electric companies have continued to excel at customer satisfaction. During the past four years, the University of Michigan Business School, working with the American Society for Quality, has interviewed more than 50,000 consumers a year to produce the American Customer Satisfaction Index. CSW has been at or near the top in the electric utility category nationally and consistently has placed first in our region.

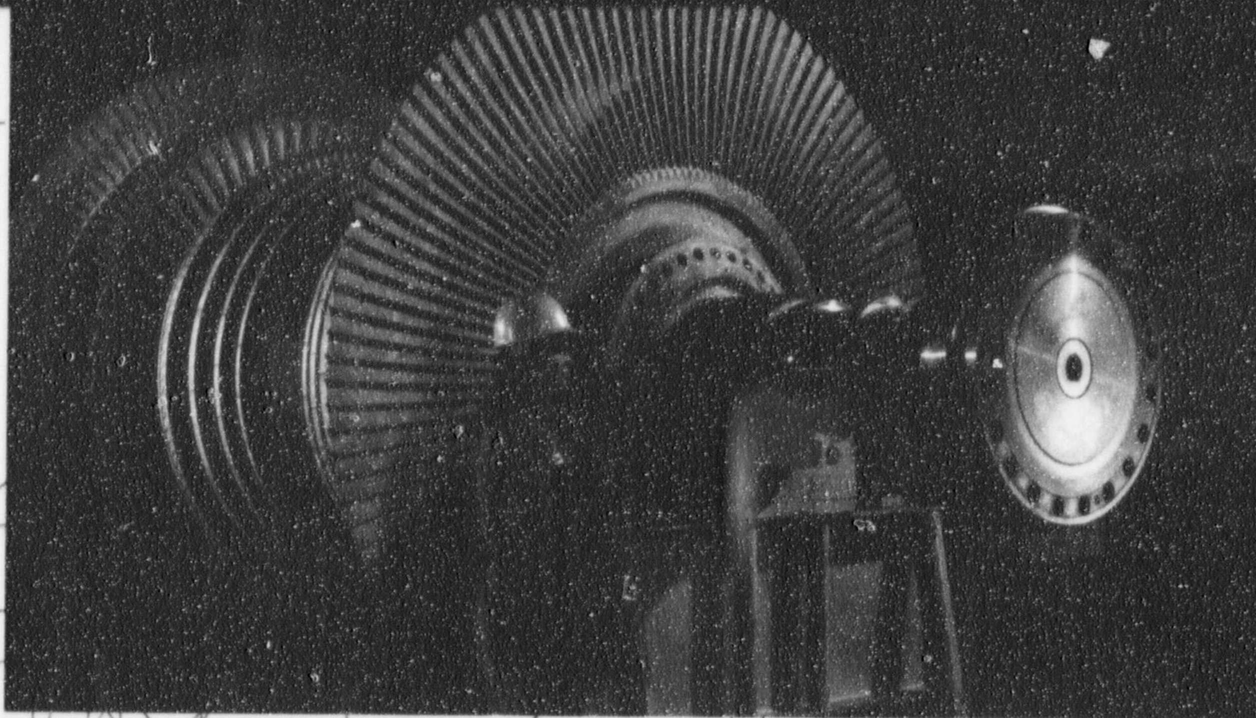
Our U.S. electric companies have launched two initiatives to continue strengthening relationships with customers.

- A new Performance Commitment Program emphasizes five customer commitments that our utilities strive to meet at least 95 percent of the time. They include, among others, the commitment to turn on a customer's electric service within one working day after a request is made (if a meter is installed), arriving at a home or residence within an agreed-upon two-hour period and achieving 100 percent accuracy in customer billing.
- In early 1998, we formed a new Customer Relations group dedicated to satisfying customers and maintaining long-term relationships with them.

Environmental Protection. Our electric companies have been recognized for their strong environmental programs and renewable energy projects. In 1997 we expanded these efforts with our new ClearChoice pricing program, which allows customers to help pay for the use of renewable energy sources.

U.S. Electric Revenues by Class
In Millions





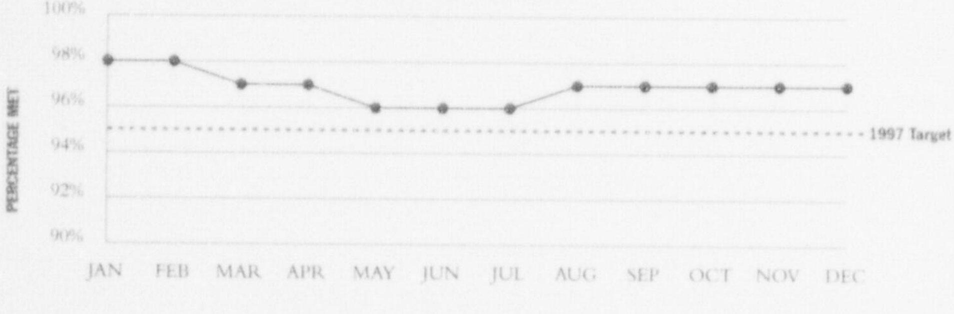
Streamlining maintenance procedures and improving computerized parts inventories for power plants help our U.S. electric utilities control operating and maintenance expenses. These efforts by our employees to save costs have made our generating facilities some of the most efficient in the nation.

When the Tulsa World *installed new printing presses in downtown Tulsa, major changes were required in the underground electric equipment that serves the newspaper. Public Service Company of Oklahoma quickly and efficiently added new facilities to keep the newspaper's presses rolling on time and to keep a major customer satisfied.*

U.S. Electric Average Fuel Costs

Per Million Btu

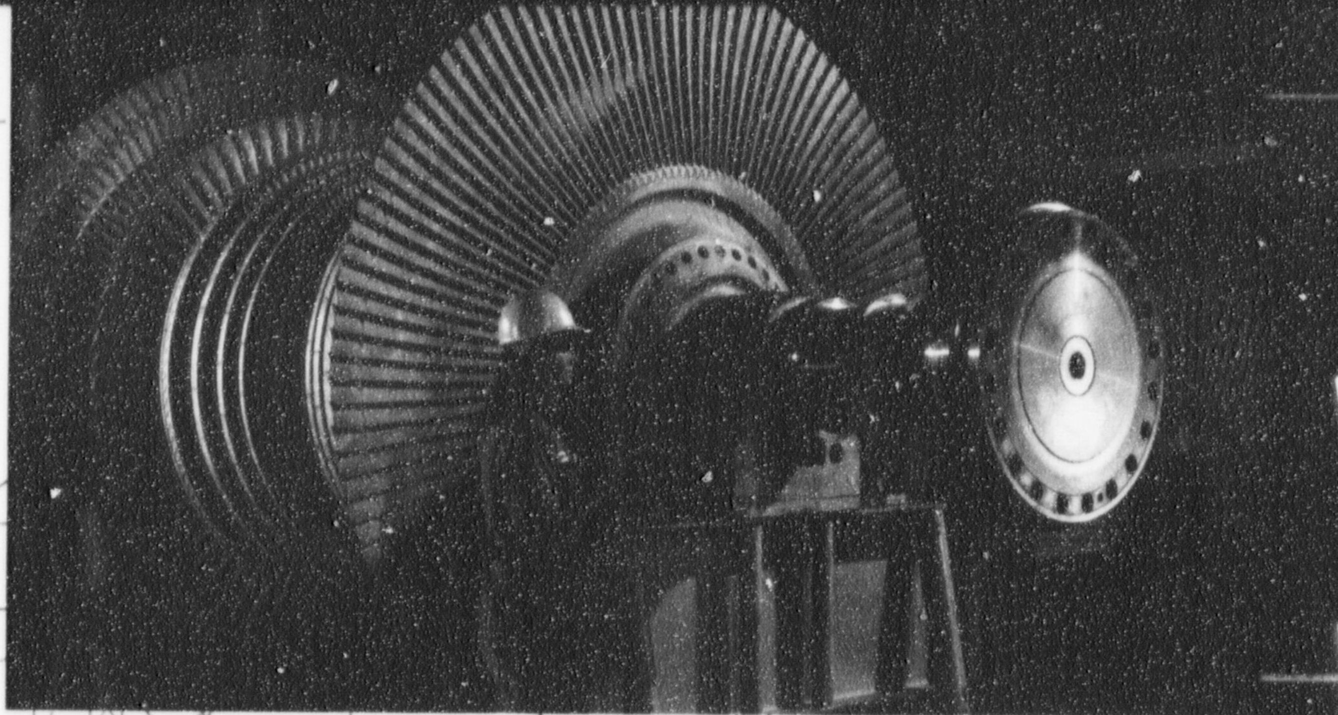
1997 CSW Total Performance Commitment Program



The Harmon Science Center in Tulsa is one of four public institutions to which CSW has contributed solar energy systems to show how renewable energy can be used. CSW is also providing solar systems for 19 public schools in Texas, Louisiana and Arkansas.

CSW's U.S. Electric Utilities

Company	Headquarters	Customers
Central Power and Light Company	Corpus Christi, Texas	627,900
Public Service Company of Oklahoma	Tulsa, Oklahoma	481,400
Southwestern Electric Power Company	Shreveport, Louisiana	415,900
West Texas Utilities Company	Abilene, Texas	186,700



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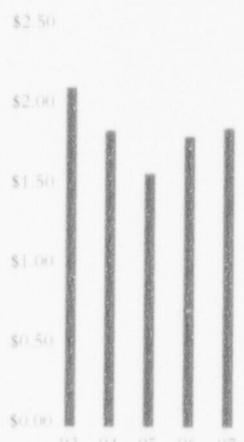

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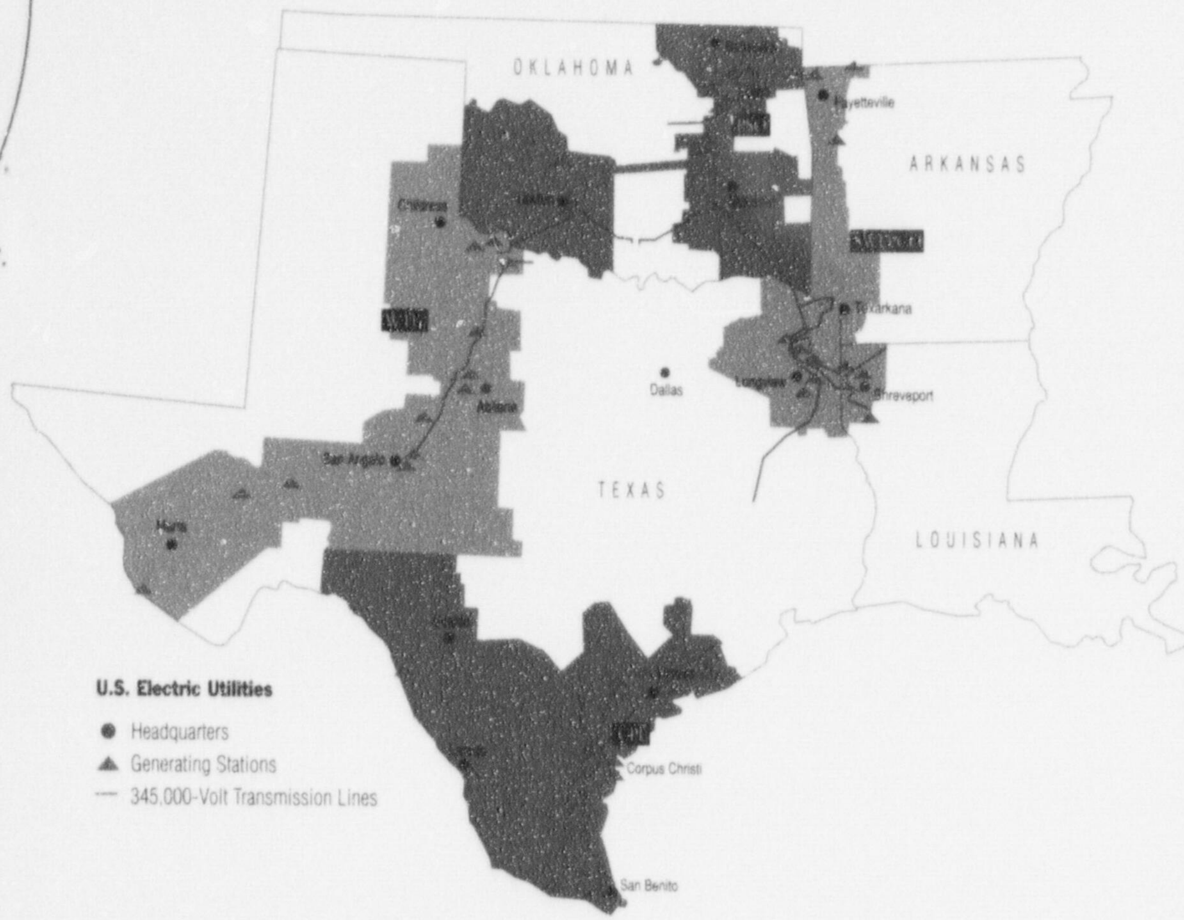
CSW's U.S. Electric Utilities



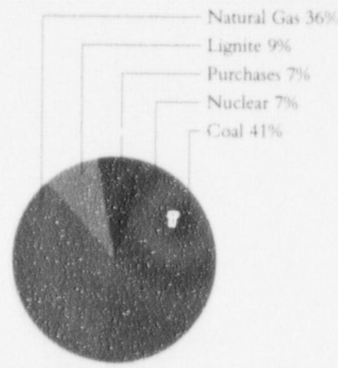
Our West Texas Utilities Company subsidiary in October launched ClearChoice in San Angelo, Texas. Customers there can opt to pay an additional $5, $10 or $20 a month on their electric bills to fund 250, 500 or 1,000 kilowatt-hours, respectively, of electricity generated at a hydroelectric renewable energy source.

On behalf of three of our electric companies, we issued requests for proposals to add up to 160 kilowatts of new photovoltaic power sources, to be installed on the rooftops at 19 schools. As a result of these efforts, we believe students and others in the community will learn more about photovoltaic technology, and our customers will benefit from the use of solar energy.

The National Association of Home Builders Energy Subcommittee gave us its first Innovative Energy Efficiency Financing award in 1997 to honor our new SmartMove program. SmartMove offers our utility customers competitive financing rates for energy-efficiency improvements to new or existing homes without adding to customers' down payments. By lowering household energy bills, SmartMove increases consumers' buying power.

SmartMove also helps protect the environment by reducing energy use as it helps us forge stronger relationships with our customers. Central Power and Light Company first introduced the program, and our other U.S. electric utilities plan to offer it in 1998.

U.S. Electric
1997 Energy Sources



Position: CSW owns SEEBOARD plc, a regional electricity company in Southeast England, and has equity investments in Latin America, including an investment in Empresa de Eletricidade Vale Paranapanema S.A. (Vale), a large electric distribution utility in Brazil. Through these affiliates, CSW has more electric utility customers in other countries than in the United States.

SEEBOARD Service Area

SEEBOARD

Location	*Southeast England, including much of Surrey and West Sussex, all of East Surrey and most of Kent*
Headquarters	*Crawley, West Sussex, United Kingdom*
Services	*Electricity distribution* *Electric power supply* *Natural gas marketing by Beacon Gas, a joint venture with Amoco* *Retail appliance stores* *Contracting and consulting services*
Customers	*2 million electric customers; 150,000 Beacon Gas customers*

INTERNATIONAL UTILITIES: PROVIDING GROWTH AND EXPERIENCE

United Kingdom. SEEBOARD fits well with CSW's U.S. electric utilities in terms of its operation and culture. Placing the same emphasis on excellent customer service, reliability and innovation, it is contributing the steady growth and earnings that we anticipated when we acquired it in 1995.

Our one disappointment has been the magnitude of the "windfall profits" tax that was imposed on privatized utilities by the U.K. government. For SEEBOARD, the full tax assessment was $176 million, which we recognized in 1997.

In both 1996 and 1997, SEEBOARD was the top-rated utility in England for customer service (by the *Daily Telegraph* and British Telecom) and was given the highest rating for customer service by the U.K. government's Office of Electricity Regulation.

A SEEBOARD consortium has been selected as the preferred bidder to upgrade and operate the electric distribution system of the London Underground, the largest metro rail system in the world. The contract for operating, maintaining and upgrading the distribution system for 250 miles of track and more than 270 stations will be, if signed, the largest operating contract ever awarded to a U.K. regional electricity company.

For several years SEEBOARD has been preparing for retail competition in the U.K. electric power market, which now is scheduled to begin in September 1998. British authorities delayed the opening of competition beyond April 1998 after they found that most utilities were unable to meet the deadline because of information-technology issues. SEEBOARD was one of only four companies found to be ready to compete in April.

From SEEBOARD's experience – transitioning from government to private ownership and now to open competition – CSW is learning much to prepare its U.S. electric utilities for the coming competition in this country.

South America. In 1997 we invested an additional $150 million in South America. We made a further investment in Vale of approximately $69 million of convertible securities in early 1998.

Vale – in which we now own a 37 percent interest – expanded its activities across Brazil as the country continued privatizing its power industry.

In association with Inepar, a Brazilian electric and telecommunications company, Vale acquired a controlling interest in Centrais Elétricas

SEEBOARD and its partners have been selected as the preferred bidder to upgrade and operate the electric distribution system for the giant London Underground metro rail system.

CSW has increased its investment in Vale, a Brazilian electric utility with six affiliates. CSW International's executive director of Brazilian operations, Gilbert Moreno (at left), and Vale's Andres Deixler inspect a new substation under construction at Cuiabá, Mato Grosso.

Matogrossenses S.A. (CEMAT), an electric distribution company serving 492,000 customers in the state of Mato Grosso.

A second consortium, in which Vale owns 36 percent, was awarded a federal concession contract to build and operate the Lajeado Plant, an 850-megawatt hydroelectric power plant in the state of Tocantins in central Brazil.

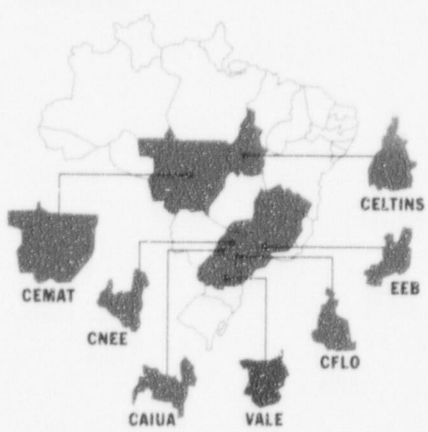
Vale also won a concession to build the Rosal hydroelectric power plant on the Itabapoana River, which forms the border between the Brazilian states of Rio de Janeiro and Espírito Santo. Construction of the 55-megawatt plant is under way, with commercial operation planned for the end of 1999.

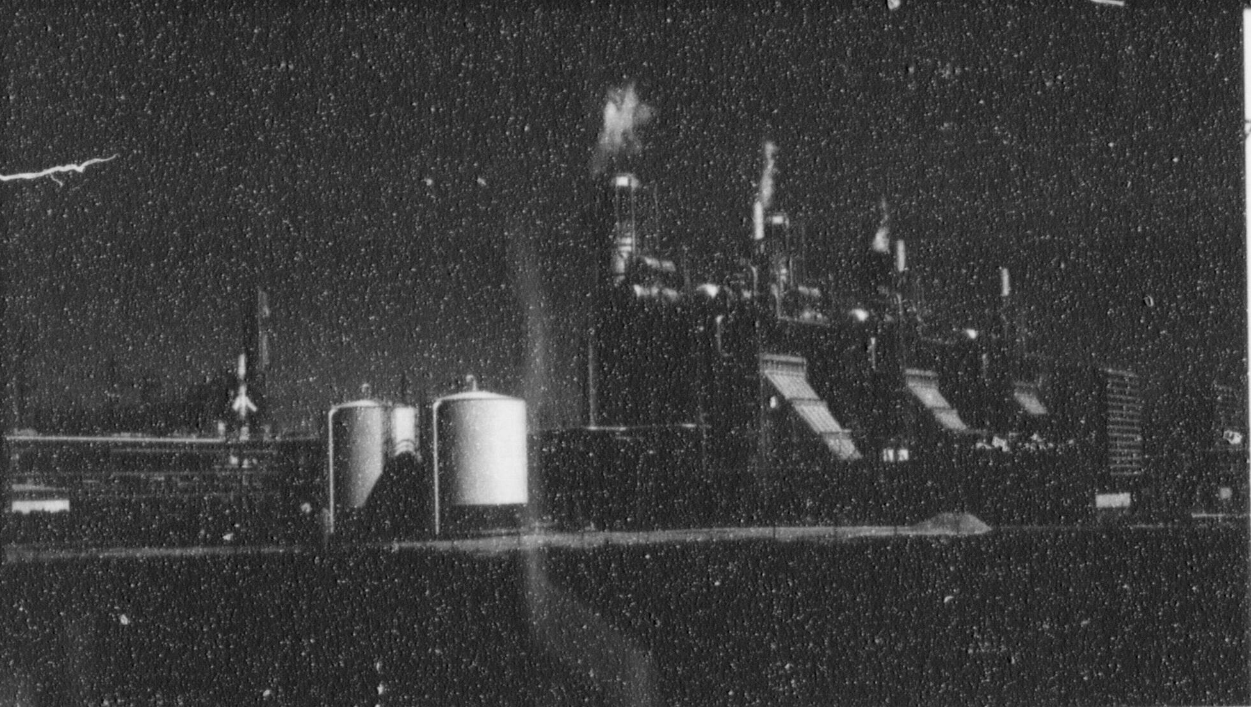
As one of Latin America's largest economies, Brazil continues to show much promise for future development, with electricity demand growing at current rates of 7 to 10 percent. At the same time, Vale's excellent management team has achieved continued system improvements. In November the company was honored by *Eletricidade Moderna* magazine with seven of 12 first-place titles in the Brazilian industry's 1997 Electricity Awards.

Vale

Location	Brazilian states of São Paulo, Paraná, Tocantins, Minas Gerais and Mato Grosso
Headquarters	São Paulo, São Paulo, Brazil
Services	Electricity distribution Electric generation Electric power supply Investment in six other Brazilian electric systems
Customers	1.1 million electric customers

Vale and Affiliates Service Area





CSW Energy put into commercial operation its Sweeny Cogeneration Facility – the first large power facility built in the United States as a merchant plant. Both steam and electricity from the plant are delivered to the Phillips 66 refinery and petrochemicals complex in the background, with the plant's remaining electric output sold to wholesale buyers.

CSW Energy and CSW International Projects

Total Capacity and CSW's Ownership Interest

Brush II Brush, Colorado	68 megawatts 47% interest
Fort Lupton Fort Lupton, Colorado	272 megawatts 50% interest
Mulberry Cogeneration Bartow, Florida	120 megawatts 50% interest
Orange Cogeneration Bartow, Florida	103 megawatts 50% interest
Newgulf Near Boling, Texas	85 megawatts 100% interest
Sweeny Cogeneration Old Ocean, Texas	330 megawatts 50% interest
Medway Power Station Isle of Grain, Kent, U.K.	675 megawatts 37.5% interest
Altamira Altamira, Tamaulipas, Mexico	109 megawatts 50% interest

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Matogrossenses S.A. (CEMAT), an electric distribution company serving 492,000 customers in the state of Mato Grosso.

A second consortium, in which Vale owns 36 percent, was awarded a federal concession contract to build and operate the Lajeado Plant, an 850-megawatt hydroelectric power plant in the state of Tocantins in central Brazil.

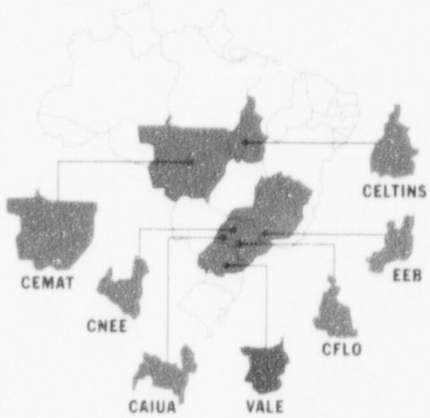
Vale also won a concession to build the Rosal hydroelectric power plant on the Itabapoana River, which forms the border between the Brazilian states of Rio de Janeiro and Espírito Santo. Construction of the 55-megawatt plant is under way, with commercial operation planned for the end of 1999.

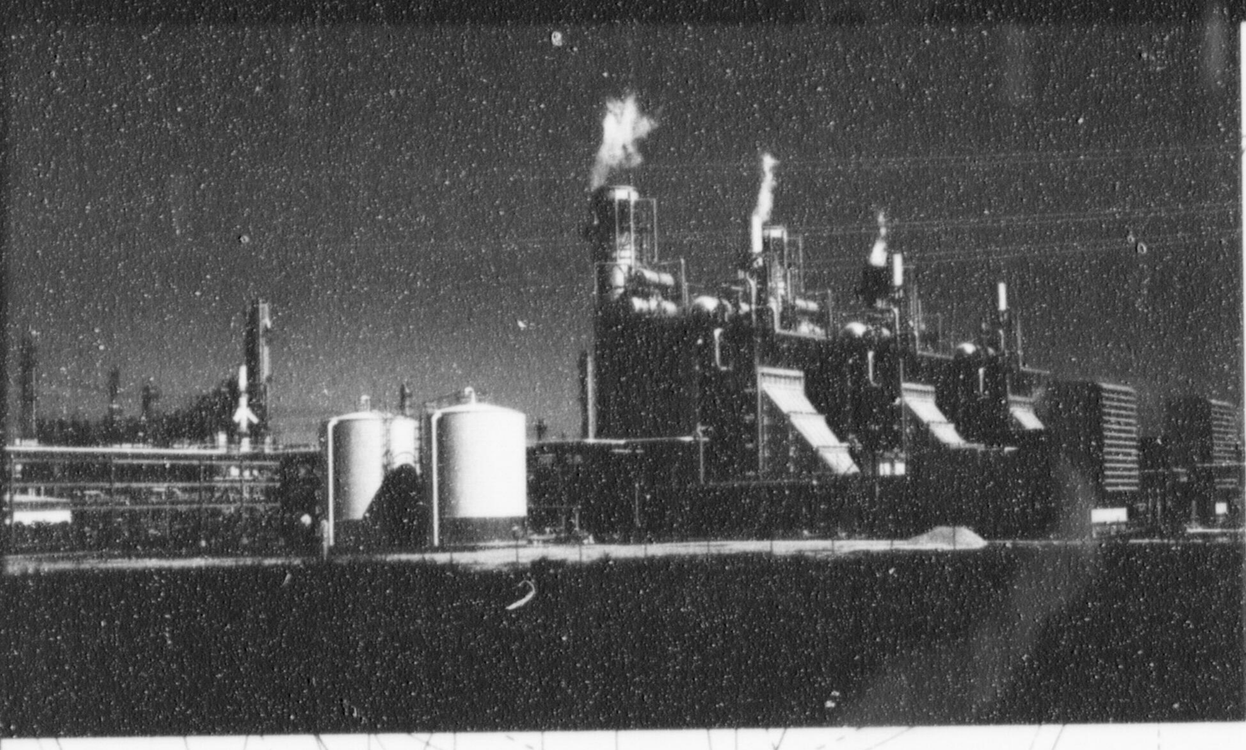
As one of Latin America's largest economies, Brazil continues to show much promise for future development, with electricity demand growing at current rates of 7 to 10 percent. At the same time, Vale's excellent management team has achieved continued system improvements. In November the company was honored by *Eletricidade Moderna* magazine with seven of 12 first-place titles in the Brazilian industry's 1997 Electricity Awards.

Vale

Location	Brazilian states of São Paulo, Paraná, Tocantins, Minas Gerais and Mato Grosso
Headquarters	São Paulo, São Paulo, Brazil
Services	Electricity distribution Electric generation Electric power supply Investment in six other Brazilian electric systems
Customers	1.1 million electric customers

Vale and Affiliates Service Area





CSW Energy put into commercial operation its Sweeny Cogeneration Facility – the first large power facility built in the United States as a merchant plant. Both steam and electricity from the plant are delivered to the Phillips 66 refinery and petrochemicals complex in the background, with the plant's remaining electric output sold to wholesale buyers.

CSW Energy and CSW International Projects

Total Capacity and CSW's Ownership Interest

Brush II	68 megawatts
Brush, Colorado	47% interest
Fort Lupton	272 megawatts
Fort Lupton, Colorado	50% interest
Mulberry Cogeneration	120 megawatts
Bartow, Florida	50% interest
Orange Cogeneration	103 megawatts
Bartow, Florida	50% interest
Newgulf	85 megawatts
Near Boling, Texas	100% interest
Sweeny Cogeneration	330 megawatts
Old Ocean, Texas	50% interest
Medway Power Station	675 megawatts
Isle of Grain, Kent, U.K.	37.5% interest
Altamira	109 megawatts
Altamira, Tamaulipas, Mexico	50% interest

Position: CSW has independent power plants in the United States, the United Kingdom and Mexico; it is aggressively seeking additional opportunities to develop, acquire, construct, own and operate plants.

INDEPENDENT POWER PLANTS: DEVELOPING NONUTILITY GENERATION

U.S. Projects. CSW Energy owns an interest in six cogeneration or independent power plants and operates four of them. The six power plants – two each in Colorado, Florida and Texas – have a total capacity of 978 megawatts.

Our newest and largest project began commercial operation in early 1998, ahead of schedule and under budget. The Sweeny Cogeneration Facility is providing 90 megawatts of electricity to Phillips Petroleum Company's refining and petrochemicals complex at Old Ocean, Texas. The remainder of the plant's 330-megawatt capacity is offered to electric utilities and power marketers on a merchant basis. The Sweeny project is the country's first large power plant built to operate as a merchant plant.

Our Newgulf Project, which began commercial operation in 1997, is Texas' first exempt wholesale generator intended to take advantage of power market fluctuations. Like Sweeny, it is designed to operate successfully both today and in the future in the competitive market for electric power.

International Projects. CSW International's Altamira Project, located near Tampico on the eastern coast of Mexico, went into operation in the first quarter of 1998. We have commitments for all of the plant's steam as well as all of its 109 megawatts of electric capacity.

The Altamira Project is a significant milestone in the Mexican power industry. It is the first major cogeneration project to be built under Mexico's new legal framework, in which power projects are regulated by the Comisión Reguladora de Energía, Mexico's energy regulatory commission.

The Altamira Project also is the first project to have long-term contractual agreements with the Comisión Federal de Electricidad for the interconnection, backup and transmission of energy and with Petróleos Mexicanos for natural gas to fuel the plant. The project is owned by Enertek, a joint venture between CSW International and Alpek, S.A. de C.V., a subsidiary of the ALFA Group. CSW International and Alpek own equal shares in the project.

Through SEEBOARD, we own a 37.5 percent interest in the Medway Power Station on the Isle of Grain in Kent. The 675-megawatt, combined-cycle gas turbine unit is owned and operated through a joint venture among SEEBOARD, Southern Electric Power Generation Limited and AES Medway Electric Ltd.

Position: Through its EnerShop subsidiary, CSW is helping commercial, industrial and governmental customers use energy more efficiently; a new subsidiary, CSW Energy Services, is marketing power in states that now permit retail competition; and another new subsidiary, CSW Total EV, plans to promote and market electric vehicles and battery chargers.

ENERGY SERVICES: HELPING CUSTOMERS USE ENERGY EFFICIENTLY

EnerShop℠. EnerShop identifies better ways for customers to manage and use energy, designs the improvements and shares in the savings. Its main customers are large commercial businesses, light industrial manufacturers and government institutions.

In 1997 EnerShop won contracts to improve the energy efficiency at 15 major facilities. Among these were several large office buildings in Dallas.

EnerShop also announced an alliance with Honeywell, Inc., to jointly market energy-conservation services for municipal and county buildings in Te[illegible] A new state law allows local and county governments to use performance contracting for energy-conservation improvements.

EnerShop's newest product is a state-of-the-art energy monitoring and optimization service, called EnerACT℠, that was developed jointly with Perot Systems. EnerACT communicates with all brands and models of energy-management systems and utility meters, collects load profiles of many facilities for single-source purchasing of energy and optimizes energy controls of multiple buildings using simulation modeling.

CSW Energy Services. CSW entered the competitive retail electricity market in 1997 with the formation of CSW Energy Services, Inc. Headquartered in Boston, Energy Services is marketing electricity supply in selected states where retail competition is now permitted.

Initial efforts have focused on California and New England. California opened its retail markets March 31, 1998, allowing electric suppliers to buy power directly from generators or through a power exchange and then sell the power to users.

Typical of these contracts is Energy Services' pact with The Home Depot, Inc., North America's largest home-improvement retailer. Energy Services will provide an estimated 28 million kilowatt-hours of electricity for 14 Home Depot® retail centers in the San Diego area.

Energy Services also has signed a retail supply contract with La Quinta Inns, Inc., to deliver an estimated 10 million kilowatt-hours to 12 major La Quinta properties in California.

State Activities on Electric Restructuring and Competition

Legislative – 3 | Legislative and Regulatory – 29
Regulatory – 3 | Adopted Retail Competition – 16

All 50 states and the District of Columbia are addressing reforms to retail electric service. Sixteen states so far have adopted plans to implement electricity restructuring.

CSW Energy Services, a new CSW subsidiary, was launched in 1997 to supply electricity to major retail customers in selected states. One of its first agreements was with The Home Depot to supply 14 of the company's stores in Southern California.

In the EnerACT command center in Dallas, employees monitor energy consumption and control energy use to save clients money. Using advanced technologies developed by CSW's EnerShop and Perot Systems, EnerACT provides building managers throughout the country with critical information about their facilities.

Energy Services' new contracts and customers are expected to improve CSW's knowledge of competitive markets while offering customers low costs and excellent service.

CSW Total EV. With concerns about air emissions growing, the potential for electric-powered vehicles appears more promising than ever. For many years, CSW's U.S. electric companies have studied and tested electric vehicles and investigated how they could be used by customers. Now, through a new nonutility business, CSW Total EV, we propose to enter this market.

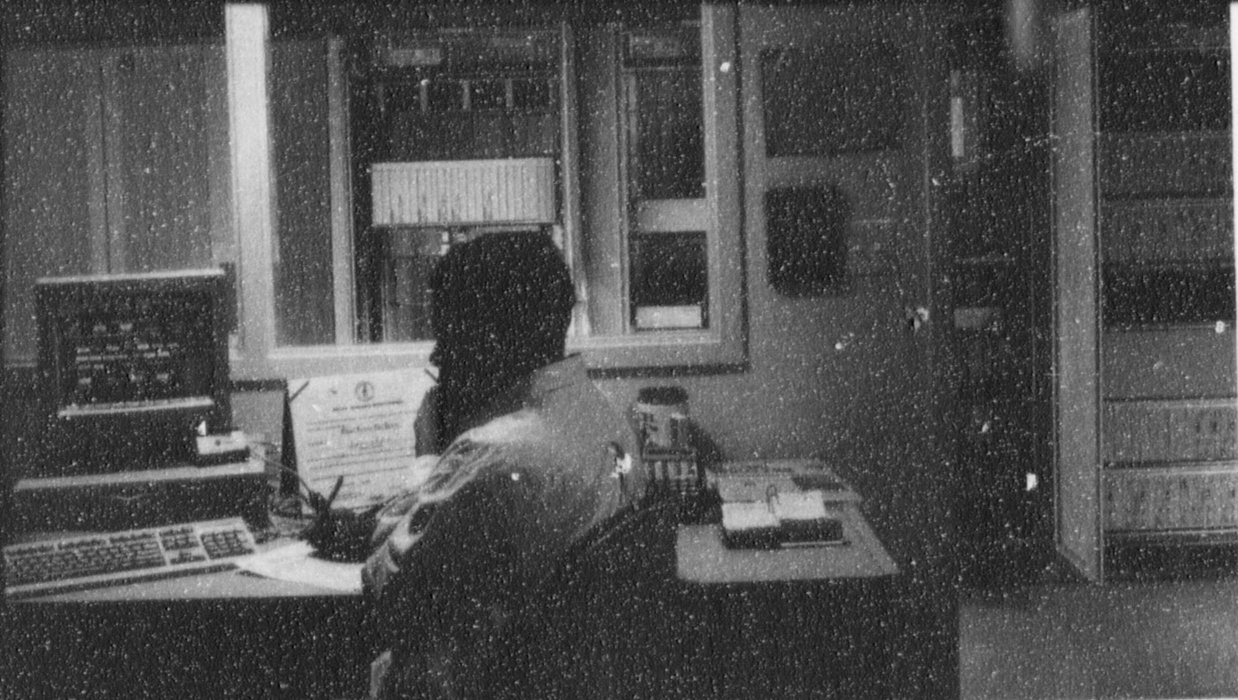
CSW Total EV initially expects to pursue two areas of the business: selling, installing and maintaining battery chargers for electric cars, trucks and buses; and selling and distributing a new line of recreational vehicles, including electric bicycles and scooters. Operations are expected to be conducted in Texas, Oklahoma, Louisiana, Arkansas, New Mexico, Colorado, Kansas and Missouri.

CSW so far has donated more than 50 electric bicycles to police departments in our service-area cities that have air-quality problems. Approval to sell the electric bikes is pending at the Securities and Exchange Commission.

In 1997 CSW was the first electric utility to take delivery of the Chevrolet S-10 Electric pickup, the automotive industry's first factory-built electric truck. CSW is using 10 of the S-10 Electric trucks in daily utility operations to promote electric vehicle technology with customers.

CSW Total EV is working with the Metropolitan Tulsa Transit Authority to obtain electric buses for the city. It also is helping the Tulsa International Airport Authority electrify the tugs, baggage tractors, loaders and other equipment at three gates.

CSW was the first electric utility to take delivery of the Chevrolet S-10 Electric pickup.



C3 Communications' ChoiceCom partnership is offering alternative telephone and data services in major Texas cities, using the latest technology, such as Lucent 5ESS switches.

C3 Communications provides automated meter reading systems to utilities and energy-service providers. C3 also has been certified in California as a meter data management agent to offer independent metering to customers.

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Position: CSW is working to become an industry leader in communications-based utility automation and in telecommunications with its C3 Communications subsidiary and ChoiceCom joint venture.

COMMUNICATIONS: TELEPHONES AND AUTOMATED METER READING

Telephone Service. In 1997 CSW entered the telephone business through a joint venture between our C3 Communications subsidiary and ICG Telecom, a subsidiary of ICG Communications, Inc. The joint venture, CSW/ICG ChoiceCom, connected its first customers with local telephone service in Austin, Corpus Christi and San Antonio, Texas.

In early 1998, ChoiceCom began marketing local telephone service in Dallas and Houston. It plans to offer local telephone, long-distance and data transmission services to businesses in selected cities in Texas, Oklahoma, Louisiana and Arkansas.

ChoiceCom owns and operates high-capacity fiber-optic lines that link several cities in Texas and Louisiana and is completing lines that will connect Dallas, Houston, Austin and San Antonio. It has installed state-of-the-art Lucent Technologies 5ESS® telephone switches in Austin, Corpus Christi and San Antonio and plans to install 5ESS switches in Dallas and Houston during 1998.

Utility Automation. C3 Communications' Utility Automation Division provides metering automation services to utilities and energy-service providers. Focusing on meter data rather than individual system components and communications technologies, C3 can provide the best automation solution for its clients by choosing from a variety of technologies.

C3 Communications was selected by City Public Service, San Antonio's natural gas and electric utility, to provide project management, systems integration and marketing services for an initial 5,000 meters. By installing advanced wireless and phone-based meter-reading equipment, the utility will be able to read customers' electric, gas and water meters at any time.

Work on similar metering projects continued in Austin and Georgetown, Texas. The City of Austin automated 400 water and 800 electric meters and is considering expanding the project in 1998. Installation of Georgetown's citywide automated metering technology will be completed in mid-1998.

In addition, C3 Communications was approved as a meter data management agent (MDMA) for California's open electricity market. C3 is one of only a few nonutility companies in the U.S. to be approved by all three of the state's utility distribution companies to serve the meter data market. MDMAs read meters; validate, edit and estimate meter reading data; publish data to the MDMA server; and archive meter data.

"THIS IS THE BOLDEST MOVE IN THE HISTORY OF CSW, AND WE BELIEVE THE NEW COMBINED COMPANY WILL BE THE EPITOME AND ENVY OF THE INDUSTRY." – E. R. BROOKS

BEHIND THE DECISION TO CREATE AMERICA'S PREMIER ELECTRIC COMPANY

A conversation with E. R. Brooks, chairman and chief executive officer of Central and South West Corporation, and Dr. E. Linn Draper, Jr., chairman, president and chief executive officer of American Electric Power Company, Inc.

You both said when announcing this merger that AEP and CSW were ideal merger partners. Why?

Brooks: We had been looking for an opportunity to merge with a successful company that shared our strategy and our culture. We wanted a partner that was dedicated to serving our shareholders in the competitive era ahead by becoming an innovative, diversified leader in global energy markets and related services – our strategy. And one that emphasized low-cost generation and excellent customer service – our culture. In my 36 years of experience, I've never seen a company that was a more perfect fit with CSW than AEP.

Draper: As we've learned more about each other in the past few months, we've found that our culture is even more compatible than we initially had realized. Except for the climate, our service areas are very similar. We both primarily serve large rural areas and small to mid-size cities. When you think about it, Fort Wayne and Roanoke in AEP's territory are a lot like Tulsa and Shreveport in CSW's. We shouldn't have any trouble adapting to each other's territories because, in all of them, the same types of personal relationships with customers are especially important.

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Brooks: AEP also brings us some important capabilities that we need. We have been working to develop a significant electric power trading and marketing business. AEP already has that. Together, we will have a name brand identity that will be a great springboard for marketing electricity and other products and services throughout the United States.

Draper: We have many more similarities than differences, but even many of the differences are strengths. AEP's industrial customers are largely in primary metals, like steel and aluminum; CSW's industrial customers are largely in petrochemicals and refining. AEP is primarily a coal-burning utility, with a little nuclear power; CSW has a large natural gas capability. This means that we will have greater diversity in types of customers and in fuel use, which will be an important competitive advantage.

How will this merger benefit shareholders?

Draper: We expect shareholders of both companies to benefit from the outset. Our studies show that the merger will add to cash flow from day one, and our financial models show that the merger will dilute the earnings per share of AEP and CSW shareholders only slightly in the early years. The greatest benefit to the shareholders will be the potential of the new combined company. We will have a diversified portfolio of low-cost power plants, a presence in 11 states and three power pools, 38,000 megawatts of generating capacity and a base of customers approaching 5 million nationally. We'll be positioned to be a major player in the international retail energy market as well.

"A COMPANY THAT IS GOOD AT ENERGY DELIVERY WITH STRONG CUSTOMER SERVICE AND THAT HAS A PORTFOLIO OF LOW-COST GENERATING PLANTS WILL BE A VERY STRONG COMPETITOR." – E. LINN DRAPER, JR.

Brooks: Both of these companies have been successful on a stand-alone basis. Together, they will be even more competitive. And they will have the financial wherewithal to implement our strategy in bolder ways, around the world, than either of us could have done separately. All that should turn into shareholder value.

How well will the international activities fit together?

Brooks: CSW and AEP also mesh well in our international activities. AEP is primarily active in Asia, where we have long-term ambitions; CSW is primarily active in Latin America, where AEP has longer-range ambitions. We overlap only in the United Kingdom, where CSW owns a regional electricity company and AEP owns 50 percent of another regional electricity company. We believe that the merger will create a real global powerhouse.

Draper: We also complement each other in the capabilities we offer to other countries. AEP's international work has focused on building efficient coal-fired facilities. CSW has experience in building and operating gas-fired generation and Western-U.S.-type-coal plants. So together we will have the capability to build the type of plant that makes the most sense in any region where we are working.

What kind of obstacles will this merger face?

Draper: We expect to complete the merger in the first half of 1999. Along the way, we expect two issues to be closely examined. The first is a concern about whether the merger could create a market-dominant company. We strongly believe that the proposed merger would not have this effect. AEP and CSW do not operate in the same states or power pools. Neither company is now dominant in any state it serves; the combined company will not be dominant in any state it serves. We'll have more footprints, but none of them will be bigger in any geographic area.

"IT'S IMPRESSIVE THAT OVER THE PAST THREE YEARS BOTH COMPANIES HAVE BEEN RATED AMONG THE TOP FOUR UTILITIES IN THE COUNTRY FOR CUSTOMER SATISFACTION." — E. LINN DRAPER, JR.

"DURING THE MERGER PROCESS, WE'LL BE MOVING FORWARD AGGRESSIVELY TO ASSURE THAT, WHEN THE MERGER IS CONSUMMATED, WE CAN HIT THE GROUND RUNNING." – E. R. BROOKS

The second issue revolves around the Public Utility Holding Company Act of 1935, which requires a holding company to operate, or to be capable of operating, as an integrated public utility system. Historically, this has been interpreted to mean that a holding company system must operate in contiguous states. We are not contiguous, but there is only one energy provider separating us. We will purchase the right to use the transmission system of that company to exchange power between the eastern and western operations of our combined company. We believe that the combined company will be able to operate as an integrated system in this way.

Brooks: This will be the biggest merger in the history of U.S. electric utilities. We expect a lot of regulatory review and a lot of third-party intervention. We will seek the approval of all four states that CSW serves – and based on our initial communications with them, I believe the response will be positive. We believe that we do not need formal approval from the seven states that AEP serves, but some of them are expressing a strong interest. If the country truly is serious about creating a competitive electric power industry, we believe this merger between these two similar companies should be a model for future transactions. We are confident it will succeed.

How will the operating companies be known?

Brooks: One of the strengths of our U.S. electric companies is their strong relationships and name recognition with their customers. That's a competitive advantage. So we expect that CSW's four operating companies will continue using their established names and identities, at least for the near future.

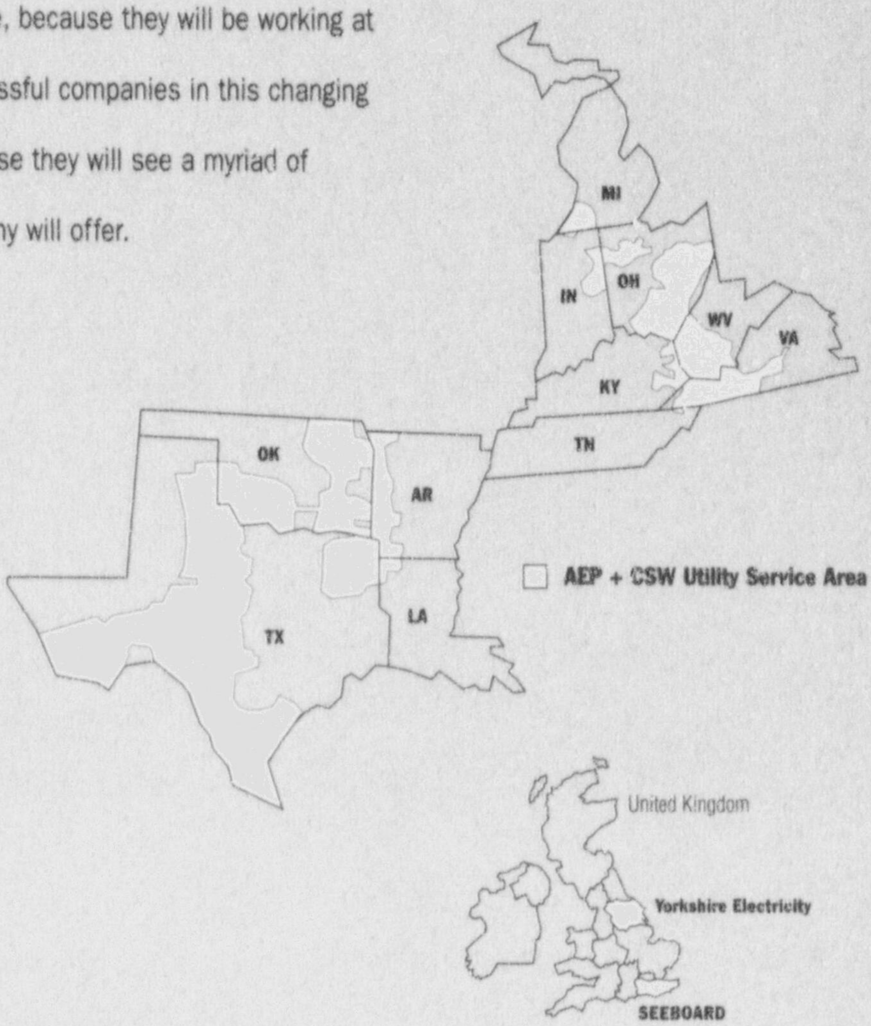
Draper: All nonregulated competitive activities will probably operate under the name of AEP, with our brand as America's Energy Partner℠. Today there's an ongoing debate as to what extent regulated electric companies can use the same names and identities for other services being marketed to their customers. We probably won't change the names of the CSW electric companies until that matter has been decided.

"WE WILL BE A GLOBAL POWER COMPANY WITH A HEALTHY DIVERSITY OF FUELS, TYPES OF INDUSTRIAL CUSTOMERS AND CLIMATE PATTERNS, AND DYNAMIC INTERNATIONAL OPERATIONS." - E. R. BROOKS

How will employees be affected?

Draper: The vast majority of employees who are directly involved with serving customers or producing electricity will not be affected. The jobs that overlap are largely corporate and administrative functions. We have identified about 1,100 duplicate positions that we are planning to eliminate. But we have plenty of time during the regulatory approval process to take advantage of retirements and other attrition and to find employment opportunities in our other growing businesses. We believe the real number of job losses will be much fewer than 1,100.

Brooks: The employees who lose their jobs will be treated fairly. Both companies have a strong tradition of treating their employees well. For the great majority of employees who work for the new combined company, I'm sure there will be a great sense of pride, because they will be working at one of the largest and most successful companies in this changing industry, and of excitement, because they will see a myriad of opportunities that this new company will offer.



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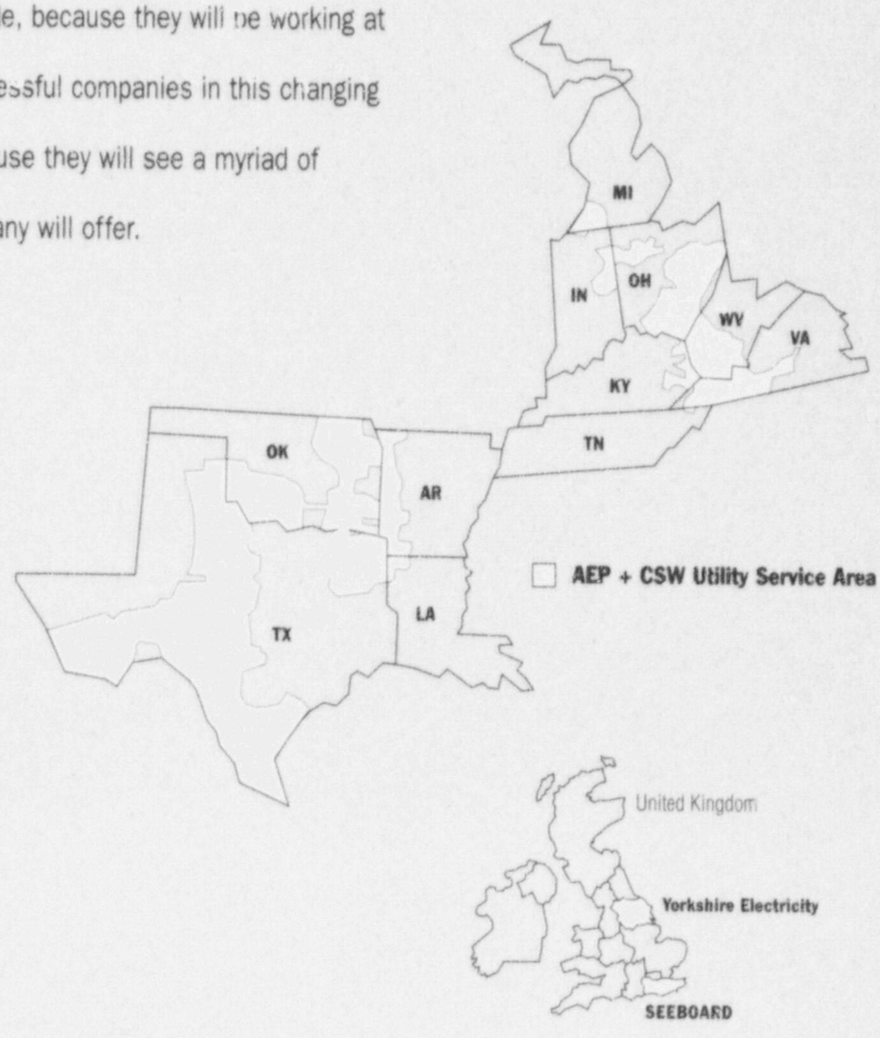

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

CENTRAL AND SOUTH WEST CORPORATION

For the Years Ended December 31,	1997	1996	1995
	(millions, except per share amounts)		
Revenues			
U.S. Electric	$3,321	$3,248	$2,883
United Kingdom	1,870	1,848	208
Other Diversified	77	59	52
	5,268	5,155	3,143
Expenses			
U.S. Electric Fuel and Purchased Power	1,266	1,228	1,045
United Kingdom Cost of Sales	1,291	1,331	158
Operations and Maintenance	1,133	935	712
Depreciation and Amortization	497	464	353
Taxes	346	402	254
	4,533	4,360	2,522
Operating Income	735	795	621
Other Income (Expense)	32	(61)	99
Interest and Other Charges	(438)	(437)	(343)
Income from Continuing Operations	329	297	377
Income from Discontinued Operations	–	12	25
Gain on Sale of Discontinued Operations	–	120	–
Income Before Extraordinary Item	329	429	402
Extraordinary Item – U.K. Windfall Profits Tax	(176)	–	–
Net Income for Common Stock	$ 153	$ 429	$ 402
Average Common Shares	212.1	207.5	191.7
Basic and Diluted Earnings per Share	$ 0.72	$ 2.07	$ 2.10
Dividends Paid per Share	$ 1.74	$ 1.74	$ 1.72

The condensed consolidated financial statements in this summary annual report were derived from the consolidated financial statements that appear in CSW's 1997 Financial Report to shareholders. Copies of the consolidated financial statements and the report of Arthur Andersen LLP thereon may be obtained by calling Central and South West Corporation's Investor Services Department at 1-800-527-5797.

Certain matters discussed in this summary annual report are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as CSW "believes," "anticipates" or "expects," or words of similar import. Similarly, statements that describe CSW's future plans, objectives and goals also are forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rate and other regulatory matters, liquidity and capital resources, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as electric utility industry restructuring, including ongoing state and federal legislative and regulatory activities; future economic conditions; developments in the domestic and international markets in which CSW and its subsidiaries operate; state and federal regulatory approvals or proceedings and other conditions precedent to the proposed merger with AEP, which may or may not be satisfied; and other circumstances affecting anticipated business activities, revenues and costs.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

CENTRAL AND SOUTH WEST CORPORATION

For the Years Ended December 31,	1997	1996	1995
		(millions)	
Operating Activities			
Net Income for Common Stock	$153	$429	$402
Depreciation and Amortization	529	521	425
Other Adjustments to Net Income and Changes in Assets and Liabilities	44	(75)	(28)
	726	875	799
Investing Activities			
Construction Expenditures	(507)	(521)	(474)
Acquisition Expenditures	–	(1,394)	(421)
CSW Energy/CSW International Projects	(382)	(124)	109
Cash Proceeds from Sale of Subsidiary	–	690	–
Other	(15)	63	(26)
	(904)	(1,286)	(812)
Financing Activities			
Common Stock Sold	20	477	57
Trust Preferred Securities Sold	323	–	–
Change in Debt and Preferred Stock	44	219	597
Payment of Dividends	(383)	(376)	(348)
	4	320	306
Effect of Exchange Rate Changes on Cash	(5)	(56)	–
Net Change in Cash and Cash Equivalents	(179)	(147)	293
Cash and Cash Equivalents – January 1	254	401	108
Cash and Cash Equivalents – December 31	$ 75	$254	$401

CONDENSED CONSOLIDATED BALANCE SHEETS

CENTRAL AND SOUTH WEST CORPORATION

For the Years Ended December 31,	1997	1996
	(millions)	
Assets		
Electric	$13,596	$13,337
Other Diversified	250	84
Accumulated Depreciation	(5,218)	(4,940)
Fixed Assets	8,628	8,481
Current Assets	1,390	1,509
Deferred Charges and Other Assets		
Goodwill	1,428	1,525
Other	2,005	1,817
	$13,451	$13,332
Capitalization and Liabilities		
Common Stock	$ 3,556	$ 3,802
Preferred Stock	202	325
Trust Preferred Securities	335	–
Long-Term Debt	3,898	4,024
Total Capitalization	7,991	8,151
Current Liabilities	2,499	2,425
Deferred Credits	2,961	2,756
	$13,451	$13,332

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of Central and South West Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of Central and South West Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997, appearing in the Central and South West Corporation 1997 Financial Report for the 1998 annual meeting of shareholders of the Corporation (not presented herein). Our report dated February 16, 1998, also appearing in the Central and South West Corporation 1997 Financial Report, contained an explanatory sentence calling attention to the fact that we did not audit the financial statements of CSW UK Finance Company (1997 – which includes CSW Investments) and CSW Investments (1996) which statements reflect total assets and revenues of 22 percent and 35 percent in 1997 and 23 percent and 36 percent in 1996, respectively, of the consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

In our opinion, based on our audits and the reports of other auditors, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 1997 and 1996, and in the related condensed statements of consolidated income and cash flows for each of the three years in the period ended December 31, 1997, are fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Arthur Andersen LLP

Arthur Andersen LLP
Dallas, Texas
February 16, 1998

REPORT OF MANAGEMENT

The condensed consolidated financial statements in this summary annual report were derived from the consolidated financial statements that appear in the Central and South West Corporation 1997 Financial Report for the 1998 annual meeting of shareholders. Management is responsible for preparing the consolidated financial statements, in accordance with generally accepted accounting principles appropriate in the circumstances, and for maintaining the Corporation's systems of internal accounting controls.

A description of these controls, along with management's opinion about their overall effectiveness, is contained within the Report of Management included in the Central and South West Corporation 1997 Financial Report for the 1998 annual meeting of shareholders. The consolidated financial statements were audited by the Corporation's independent public accountants, whose report on the condensed consolidated financial statements appears above.

E R Brooks

E. R. Brooks
Chairman and Chief Executive Officer

Glenn D. Rosilier

Glenn D. Rosilier
Executive Vice President and Chief Financial Officer

Lawrence B. Connors

Lawrence B. Connors
Controller

AEP+CSW: A PERFECT FIT

The proposed merger of Central and South West Corporation with American Electric Power Company will bring together two utilities ideally suited for the competitive environment ahead. Our size, our market presence, our geographic location and our international operations present us with opportunities that few other companies will have.

The combined system will operate in 11 states. We'll supply power to 4.7 million U.S. customers, making us the single largest electricity supplier in the nation. Our mix of coal, gas and nuclear facilities will give us a diversity of low-cost generation. Our global subsidiaries will operate in some of the fastest-growing markets in the world and will provide significant opportunities for growth and expansion.

Our shared commitment to excellence, customer service, customer choice, technology, and employee growth and development provides the synergies necessary for a company preparing to meet the competition head-on.

FAST FACTS	CSW	AEP*	Combined**
Headquarters	Dallas, Texas	Columbus, Ohio	Columbus, Ohio
Kilowatt-Hour Sales U.S. (millions)	63,157	145,423	208,580
Kilowatt-Hour Sales U.K. (millions)	19,203	14,756	33,959
Employees U.S.	7,254	17,844	25,098
Employees U.K.	4,161	3,977	8,138
Service Area U.S. (square miles)	152,000	45,400	197,400
Service Area U.K. (square miles)	3,000	3,900	6,900
Customers U.S. (average number)	1,712,000	2,959,000	4,671,000
Customers U.K. (average number)	2,014,000	2,071,000	4,085,000
Generating Stations U.S.	38	38	76
Generating Stations U.K.	1	10	11
Generating Capacity U.S. (megawatts)	13,739	23,759	37,498
Generating Capacity U.K. (megawatts)	675	329	1,004
Revenues (thousands)	$5,268,000	$6,161,000	$11,352,000
Net Income for Common Stock (thousands)	$153,000	$511,000	$664,000
Operating Cash Flow (thousands)	$726,000	$1,198,000	$1,924,000
Assets (thousands)	$13,451,000	$16,615,000	$30,066,000

*AEP acquired a 50 percent interest in Yorkshire Electricity Group plc, a U.K. electric distribution company, on April 1, 1997, which is accounted for on an equity basis. AEP's kilowatt-hour sales U.K. are for the nine months ended December 31, 1997.
**Revenues vary from combined totals due to reclassifications.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

CENTRAL AND SOUTH WEST CORPORATION

For the Years Ended December 31,	1997	1996	1995
		(millions, except per share amounts)	
Revenues			
U.S. Electric	$3,321	$3,248	$2,883
United Kingdom	1,870	1,848	208
Other Diversified	77	59	52
	5,268	5,155	3,143
Expenses			
U.S. Electric Fuel and Purchased Power	1,266	1,228	1,045
United Kingdom Cost of Sales	1,291	1,331	158
Operations and Maintenance	1,133	935	712
Depreciation and Amortization	497	464	353
Taxes	346	402	254
	4,533	4,360	2,522
Operating Income	735	795	621
Other Income (Expense)	32	(61)	99
Interest and Other Charges	(438)	(437)	(343)
Income from Continuing Operations	329	297	377
Income from Discontinued Operations	–	12	25
Gain on Sale of Discontinued Operations	–	120	–
Income Before Extraordinary Item	329	429	402
Extraordinary Item – U.K. Windfall Profits Tax	(176)	–	–
Net Income for Common Stock	$ 153	$ 429	$ 402
Average Common Shares	212.1	207.5	191.7
Basic and Diluted Earnings per Share	$ 0.72	$ 2.07	$ 2.10
Dividends Paid per Share	$ 1.74	$ 1.74	$ 1.72

The condensed consolidated financial statements in this summary annual report were derived from the consolidated financial statements that appear in CSW's 1997 Financial Report to shareholders. Copies of the consolidated financial statements and the report of Arthur Andersen LLP thereon may be obtained by calling Central and South West Corporation's Investor Services Department at 1-800-527-5797.

Certain matters discussed in this summary annual report are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as CSW "believes," "anticipates" or "expects," or words of similar import. Similarly, statements that describe CSW's future plans, objectives and goals also are forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rate and other regulatory matters, liquidity and capital resources, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as electric utility industry restructuring, including ongoing state and federal legislative and regulatory activities; future economic conditions; developments in the domestic and international markets in which CSW and its subsidiaries operate; state and federal regulatory approvals or proceedings and other conditions precedent to the proposed merger with AEP, which may or may not be satisfied; and other circumstances affecting anticipated business activities, revenues and costs.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

CENTRAL AND SOUTH WEST CORPORATION

For the Years Ended December 31,	1997	1996	1995
		(millions)	
Operating Activities			
Net Income for Common Stock	$153	$429	$402
Depreciation and Amortization	529	521	425
Other Adjustments to Net Income and Changes in Assets and Liabilities	44	(75)	(28)
	726	875	799
Investing Activities			
Construction Expenditures	(507)	(521)	(474)
Acquisition Expenditures	–	(1,394)	(421)
CSW Energy/CSW International Projects	(382)	(124)	109
Cash Proceeds from Sale of Subsidiary	–	690	–
Other	(15)	63	(26)
	(904)	(1,286)	(812)
Financing Activities			
Common Stock Sold	20	477	57
Trust Preferred Securities Sold	323	–	–
Change in Debt and Preferred Stock	44	219	597
Payment of Dividends	(383)	([illegible]76)	(348)
	4	320	306
Effect of Exchange Rate Changes on Cash	(5)	(56)	–
Net Change in Cash and Cash Equivalents	(179)	(147)	293
Cash and Cash Equivalents – January 1	254	401	108
Cash and Cash Equivalents – December 31	$ 75	$254	$401

CONDENSED CONSOLIDATED BALANCE SHEETS

CENTRAL AND SOUTH WEST CORPORATION

For the Years Ended December 31	1997	1996
	(millions)	
Assets		
Electric	$13,596	$13,337
Other Diversified	250	84
Accumulated Depreciation	(5,218)	(4,940)
Fixed Assets	8,628	8,481
Current Assets	1,390	1,509
Deferred Charges and Other Assets		
Goodwill	1,428	1,525
Other	2,005	1,817
	$13,451	$13,332
Capitalization and Liabilities		
Common Stock	$ 3,556	$ 3,802
Preferred Stock	202	325
Trust Preferred Securities	335	–
Long-Term Debt	3,898	4,024
Total Capitalization	7,991	8,151
Current Liabilities	2,499	2,425
Deferred Credits	2,961	2,756
	$13,451	$13,332

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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Arthur Andersen LLP

Arthur Andersen LLP
Dallas, Texas
February 16, 1998

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E R Brooks

E. R. Brooks
Chairman and Chief Executive Officer

Glenn D. Rosilier

Glenn D. Rosilier
Executive Vice President and Chief Financial Officer

Lawrence B. Connors

Lawrence B. Connors
Controller

COMPARATIVE STATISTICAL AND FINANCIAL RECORD

CENTRAL AND SOUTH WEST CORPORATION

	1997	1996	1995	1994	1993
U.S. Utilities					
Electric Revenues *(millions)*					
Residential	$1,253	$1,243	$1,138	$1,156	$1,160
Commercial	892	872	810	836	832
Industrial	813	781	702	733	736
Sales for Resale	243	255	224	204	179
Other	120	97	9	136	148
	$3,321	$3,248	$2,883	$3,065	$3,055
Sales *(kilowatt-hours in millions)*					
Residential	17,99[illegible]	17,883	16,872	16,368	15,903
Commercial	14,546	14,256	13,755	13,463	12,966
Industrial	21,087	20,266	19,321	18,869	18,205
Sales for Resale	7,824	8,428	8,468	7,133	5,852
Other	1,705	1,592	1,518	1,501	1,434
	63,157	62,425	59,934	57,334	54,360
Average Number of Customers *(thousands)*					
Residential	1,462	1,443	1,425	1,403	1,378
Commercial	214	209	207	203	198
Industrial	23	24	24	24	25
Other	13	14	13	13	12
	1,712	1,690	1,669	1,643	1,613
Number of Customers – End of Period *(thousands)*	1,724	1,704	1,683	1,661	1,633
Residential Sales Averages					
Kilowatt-Hours per Customer	12,310	12,392	11,840	11,665	11,541
Revenue per Customer	$857	$861	$799	$824	$842
Revenue per Kilowatt-Hour	6.96¢	6.95¢	6.75¢	7.06¢	7.29¢
Total Electric Revenue per Kilowatt-Hour	5.26¢	5.20¢	4.81¢	5.35¢	5.62¢
System Peak Demand *(megawatts)*	13,105	12,613	12,314	11,434	11,464
Fuel Data					
Average Btu per Net Kilowatt-Hour	10,405	10,440	10,299	10,344	10,391
Cost per Million Btu	$1.83	$1.81	$1.58	$1.82	$2.11
Cost per Kilowatt-Hour Generated *(mills)*	19.02	18.86	16.30	18.80	21.90
CSW System					
Total Plant Cost *(millions)*	$13,846	$13,421	$13,778	$11,868	$11,343
Annual Additions	675	583	1,933	616	594
Accumulated Depreciation	5,218	4,940	4,761	3,870	3,550
Capitalization *(millions)*					
Common Stock	$3,556	$3,802	$3,178	$3,052	$2,930
Preferred Stock	202	325	326	327	350
Trust Preferred Securities	335	–	–	–	–
Long-Term Debt	3,898	4,024	3,914	2,940	2,749

The condensed consolidated financial statements in this summary annual report were derived from the consolidated financial statements that appear in CSW's 1997 Financial Report to shareholders. Copies of the consolidated financial statements and the report of Arthur Andersen LLP thereon may be obtained by calling Central and South West Corporation's Investor Services Department at 1-800-527-5797.

BOARD OF DIRECTORS

Molly Shi Boren
Attorney
Norman, Oklahoma

E. R. Brooks
Chairman and Chief Executive Officer
Central and South West Corporation
Dallas, Texas

Donald M. Carlton
President and Chief Executive Officer
Radian International LLC
Austin, Texas

T. J. Ellis
Chairman and Chief Executive
SEEBOARD plc
Crawley, West Sussex, United Kingdom

Joe H. Foy
Retired Partner, Bracewell & Patterson
Kerrville, Texas

William R. Howell
Chairman Emeritus
J. C. Penney Company, Inc.
Dallas, Texas

Robert W. Lawless
President
The University of Tulsa
Tulsa, Oklahoma

James L. Powell
Ranching and Investments
Fort McKavett, Texas

Richard L. Sandor
Chairman and Chief Executive Officer
Environmental Financial Products LLC
Chicago, Illinois

Thomas V. Shockley, III
President and Chief Operating Officer
Central and South West Corporation
Dallas, Texas

COMMITTEES OF THE BOARD OF DIRECTORS

1. The Audit Committee recommends to the board of directors the independent public accountants to be appointed, subject to shareholder approval. The Audit Committee reviews with the independent public accountants and the Corporation's internal auditors the scope of audits and [illegible] and the adequacy of, and the compliance with, the Corporation's system of internal accounting controls.
2. The Executive Compensation Committee reviews benefit programs and management succession programs and determines the compensation of executive officers.
3. The Nominating Committee reviews and recommends candidates for election to the board of directors.
4. The Policy Committee reviews and makes recommendations to the board of directors [illegible] policy issues [illegible] the Corporation, [illegible] of the board of directors, and its committees, and reviews [illegible] changes [illegible]. The Policy Committee has authority to act [illegible] board of directors when the board is not in session. [illegible] membership of these committees is as follows: Molly Shi Boren (1)(2); E. R. Brooks, [illegible] Donald M. Carlton (1)(3); Joe H. Foy, Chairman of the [illegible] (2)(4); William R. Howell (2)(4); Robert W. Lawless, Chairman of the Audit Committee (1)(3)(4); James L. Powell, Chairman of the Nominating Committee (1)(3)(4); and Richard L. Sandor (1)(3).

OFFICERS

CENTRAL AND SOUTH WEST CORPORATION

E. R. Brooks
Chairman and Chief Executive Officer

Thomas V. Shockley, III
President and Chief Operating Officer

Ferd C. Meyer, Jr.
Executive Vice President
and General Counsel

Glenn D. Rosilier
Executive Vice President
and Chief Financial Officer

Glenn Files
Senior Vice President, Electric Operations

Thomas M. Hagan
Senior Vice President, External Affairs

Venita McCellon-Allen
Senior Vice President, Customer Relations and Corporate Development, and Assistant Corporate Secretary

Stephen J. McDonnell
Vice President, [illegible]

Kenneth C. Raney, Jr.
Vice President, Associate General Counsel
and Corporate Secretary

Michael D. Smith
Vice President, Business Opportunities

Lawrence B. Connors
Controller

Wendy G. Hargus
Treasurer

CENTRAL AND SOUTH WEST SERVICES, INC.

Richard H. Bremer
President, Energy Services

Richard P. Verret
President, Processes

Robert L. Zemanek
President, Energy Delivery

M. Bruce Evans
Vice President, Customer Relations

Lana L. Hillebrand
Vice President, Human Resources

Mark M. [illegible]
Vice President, Governmental Affairs

[illegible] D. [illegible]
Vice President, Regulatory Affairs

SEEBOARD PLC
T. J. Ellis
Chairman and Chief Executive

CSW TEXAS
Robert R. Jackson
President

[illegible]
T. D. Churchwell
President

CSW [illegible]
Michael H. Madison
President

CENTRAL POWER AND LIGHT COMPANY
R. Russell Davis
General Manager-President

PUBLIC SERVICE COMPANY OF OKLAHOMA
T. D. Churchwell
President

SOUTHWESTERN ELECTRIC POWER COMPANY
Michael H. Madison
President

WEST TEXAS UTILITIES COMPANY
Paul J. Brower
General Manager-President

CSW ENERGY, INC.
Terry D. Dennis
President and Chief Executive Officer

CSW INTERNATIONAL, INC.
Terry D. Dennis
President and Chief Executive Officer

C3 COMMUNICATIONS, INC.
Richard H. Bremer
President

ENERSHOP INC.
Richard H. Bremer
President

CSW ENERGY SERVICES, INC.
Richard H. Bremer
President

CSW CREDIT, INC.
Glenn D. Rosilier
President

CSW LEASING, INC.
Glenn D. Rosilier
President

SHAREHOLDER INFORMATION

COMMON STOCK LISTING

Central and South West Corporation's common stock is traded under the ticker symbol CSR and is listed on the New York and the Chicago stock exchanges. You can obtain stock quotations from the New York Stock Exchange [illegible] in most daily newspapers.

COMMON STOCK DIVIDENDS

Dividends of 43.5 cents a share were paid in each quarter of 1997. All dividends paid by the Corporation represent taxable income to shareholders for federal income tax purposes.

In January 1998 the Corporation's board of directors maintained the quarterly dividend rate of 43.5 cents a share. Traditionally, the board of directors has declared dividends to be payable on the [illegible] day of February, May, August and November. Future cash dividends will be dependent upon the decisions of the board of directors and the Corporation's earnings, financial condition and other factors.

LOST DIVIDEND CHECK OR STOCK CERTIFICATE

If you do not receive your dividend check or stock certificate, or if it is lost, destroyed or stolen, please call our Investor Services Department immediately.

STOCK TRANSFER

Central and South West Services, Inc. is the transfer agent and registrar for Central and South West Corporation's common stock and for the preferred stocks of the Corporation's subsidiaries.

To transfer your stock to another name, write the new name, address and tax identification number on the back of the certificate and sign your name exactly as it appears on the front. Then have your signature Medallion guaranteed by a commercial bank or stockbroker. Signatures cannot be Medallion guaranteed by a notary public.

Your stock certificate should be sent to our Investor Services Department by registered or certified mail. If you have questions about transferring your shares, you can write or call our Investor Services Department.

TAXPAYER ID NUMBER

Federal law requires each shareholder to provide a taxpayer identification number for all shareholder accounts. For individual shareholders, your ID number is your Social Security number.

You must provide your ID number whenever you open a new account in our stock, even if you already own stock in existing accounts in your name. If you do not provide the ID number, the Corporation is required to withhold 31 percent federal income tax from your dividends.

If your stock is registered in a joint account, it is important to list the taxpayer ID number of the primary owner you designate. If you are custodian for a minor or act as a trustee on an account, please [illegible] the [illegible] taxpayer identification number. This will [illegible] that your dividends are reported under the correct name [illegible] and taxpayer ID number.

If you have not given us your taxpayer ID number, please [illegible] our Investor Services Department to request a W-9 form [illegible] and return the form as soon as possible.

DUPLICATE ANNUAL REPORT MAILINGS

We [illegible] annual report to all of our shareholders. [illegible] two or more [illegible] your shares are registered in [illegible].

DIRECT DEPOSIT OF DIVIDENDS

[illegible] dividend payments to your [illegible] account at any financial institution [illegible]. If you would like [illegible] Investor Services Department.

PROXY AND DIVIDEND MAILINGS

Duplicate mailings of proxies and dividend checks cannot be eliminated unless your registration is the same name for all of your accounts.

If your account registrations are identical, notify our Investor Services Department that you want to combine your accounts. If your account registrations are different and you want to combine your accounts, [illegible] must be issued in the new registration. [illegible] please follow the instructions under Stock Transfer.

ANNUAL MEETING

The 1998 annual meeting of shareholders is scheduled for May 28. It will be held at the Dallas Museum of Art, 1717 North Harwood Street, Dallas, Texas. The meeting will begin at 10:30 a.m. Central time. If you will not be attending the meeting, please vote your shares by signing and returning your proxy card as soon as possible.

BOARD OF DIRECTORS

Molly Shi Boren
Attorney
Norman, Oklahoma

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Central and South West Corporation
Dallas, Texas

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President and Chief Executive Officer
Radian International LLC
Austin, Texas

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SEEBOARD plc
Crawley, West Sussex, United Kingdom

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Kerrville, Texas

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Chairman Emeritus
J. C. Penney Company, Inc.
Dallas, Texas

Robert W. Lawless
President
The University of Tulsa
Tulsa, Oklahoma

James L. Powell
Ranching and Investments
Fort McKavett, Texas

Richard L. Sandor
Chairman and Chief Executive Officer
Centre Financial Products Limited
Chicago, Illinois

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Dallas, Texas

COMMITTEES OF THE BOARD OF DIRECTORS

1. The Audit Committee recommends to the board of directors the independent public accountants to be appointed, subject to shareholder approval. The Audit Committee reviews with the independent public accountants and the Corporation's internal auditors the scope of external and internal audits and the adequacy of, and the compliance with, the Corporation's system of internal accounting controls.
2. The Executive Compensation Committee reviews benefit programs and management-succession programs and determines the compensation of executive officers.
3. The Nominating Committee reviews and recommends candidates for election to the board of directors.
4. The Policy Committee reviews and makes recommendations to the board of directors concerning major policy issues; considers on a continuing basis the composition, structure and functions of the board of directors and its committees; and reviews existing corporate policies and recommends changes when appropriate. The Policy Committee has authority to act in place of the board of directors when the board is not in session, to the extent permitted by law. Membership of these committees is as follows: Molly Shi Boren (1) (2); E. R. Brooks, chairman of the Policy Committee (4); Donald M. Carlton (1) (3); Joe H. Foy, chairman of the Executive Compensation Committee (2) (3) (4); William R. Howell (2) (3); Robert W. Lawless, chairman of the Audit Committee (1) (2) (4); James L. Powell, chairman of the Nominating Committee (1) (3) (4); and Richard L. Sandor (1) (2).

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and Chief Financial Officer

Glenn Files
Senior Vice President, Electric Operations

Thomas M. Hagan
Senior Vice President, External Affairs

Venita McCellon-Allen
Senior Vice President, Customer Relations
and Corporate Development, and Assistant
Corporate Secretary

Stephen J. McDonnell
Vice President, AEP Merger

Kenneth C. Raney, Jr.
Vice President, Associate General Counsel
and Corporate Secretary

Michael D. Smith
Vice President, Business Opportunities

Lawrence B. Connors
Controller

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Treasurer

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President, Energy Services

Richard P. Verret
President, Production

Robert L. Zemanek
President, Energy Delivery

M. Bruce Evans
Vice President, Customer Relations

Lana L. Hillebrand
Vice President, Human Resources

Mark W. Menezes
Vice President, Governmental Affairs

Mark D. Roberson
Vice President, Regulatory Affairs

SEEBOARD PLC
T. J. Ellis
Chairman and Chief Executive

CSW TEXAS
Alphonso R. Jackson
President

CSW OKLAHOMA
T. D. Churchwell
President

CSW LOUISIANA/ARKANSAS
Michael H. Madison
President

CENTRAL POWER AND LIGHT COMPANY
J. Gonzalo Sandoval
General Manager-President

PUBLIC SERVICE COMPANY OF OKLAHOMA
T. D. Churchwell
President

SOUTHWESTERN ELECTRIC POWER COMPANY
Michael H. Madison
President

WEST TEXAS UTILITIES COMPANY
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STOCK TRANSFER

Central and South West Services, Inc., is the transfer agent and registrar for Central and South West Corporation's common stock and for the preferred stocks of the Corporation's subsidiaries.

To transfer your stock to another name, write the new name, address and tax identification number on the back of the certificate and sign your name exactly as it appears on the front. Then have your signature Medallion-guaranteed by a commercial bank or stockbroker. Signatures cannot be Medallion-guaranteed by a notary public.

Your stock certificate should be sent to our Investor Services Department by registered or certified mail. If you have questions about transferring your shares, you can write or call our Investor Services Department.

TAXPAYER ID NUMBER

Federal law requires each shareholder to provide a taxpayer identification number for all shareholder accounts. For individual shareholders, your ID number is your Social Security number.

You must provide your ID number whenever you open a new account in our stock, even if you already own stock in existing accounts in your name. If you do not provide the ID number, the Corporation is required to withhold 31 percent federal income tax from your dividends.

If your stock is registered in a joint account, it is important to tell us the taxpayer ID number of the primary owner you delegate. If you are custodian for a minor or act as a trustee on an account, please provide the beneficial owner's tax identification number. This will ensure that your dividends are reported under the correct name, address and taxpayer ID number.

If you have not yet given us your taxpayer ID number, please contact our Investor Services Department to request a W-9 form. Complete, sign and return the form as soon as possible.

DUPLICATE ANNUAL REPORT MAILINGS

We are required to mail an annual report to all of our shareholders. You will receive duplicate mailings from us if there are two or more shareholders at the same address or if your shares are registered in different but similar names.

DIRECT DEPOSIT OF DIVIDENDS

We are pleased to offer direct deposit of dividend payments to your checking, savings or credit union account at any financial institution that accepts direct electronic deposits. Direct deposit eliminates the possibility of your check being lost or stolen, and the funds are credited to your account on the dividend payment date. If you would like an enrollment card, please call our Investor Services Department.

PROXY AND DIVIDEND MAILINGS

Duplicate mailings of proxies and dividend checks cannot be eliminated unless the registration is the same name for all of your accounts.

If your account registrations are identical, notify our Investor Services Department that you want to combine your accounts. If your account registrations are different and you want to combine your accounts, all certificates must be issued in the one registration you prefer. To have your certificates reissued, please follow the instructions under Stock Transfer.

1998 ANNUAL MEETING

The 1998 annual meeting of shareholders is scheduled for May 2[illegible]. It will be held at the Dallas Museum of Art, 1717 North Harwood Street, Dallas, Texas. The meeting will begin at 10:30 a.m. Central time. If you will not be attending the meeting, please vote your shares by signing and returning your proxy card as soon as possible.

ADDITIONAL INFORMATION

We will be pleased to send you additional copies of this Summary Annual Report. Also available are the 1997 Financial Report, the Joint Proxy Statement/Prospectus for the 1998 Annual Meeting of Shareholders, a preliminary quarterly financial report, a Five-Year Financial and Statistical Review of the Central and South West System and our latest Environmental Report of the Central and South West System.

The Corporation is subject to the informational requirements of the Securities Exchange Act of 1934 and files reports and other information statements with the Securities and Exchange Commission. These reports may be inspected at the SEC's offices and on its Internet site as well as at the New York and Chicago stock exchanges.

We will provide copies of these reports without charge to any Central and South West shareholder. If you would like to receive a report, please contact our Investor Services Department.

INVESTOR SERVICES

Our Investor Services staff is available Monday through Friday from 9 a.m. to 4 p.m. Central time to answer your questions. Our address and telephone number are:

Central and South West Corporation
Investor Services Department
P. O. Box 660164
Dallas, Texas 75266-0164
1-800-527-5797
E-mail: invest@csw.com

INVESTOR RELATIONS

Security analysts should contact:

Becky Hall
Director of Investor Relations
Central and South West Corporation
214-777-1277

If you would like to be added to our mailing list to receive our news releases and other information, please contact our Investor Services Department.

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POWERSHARE® DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Central and South West Corporation (Corporation) PowerShare Dividend Reinvestment and Stock Purchase Plan (Plan) provides a convenient and inexpensive way to reinvest dividends and purchase shares of the Corporation's common stock, $3.50 par value per share (Common Stock).

NONSHAREHOLDERS OF LEGAL AGE WHO ARE RESIDENTS OF THE 50 STATES OF THE UNITED STATES OR THE DISTRICT OF COLUMBIA MAY ENROLL IN THE PLAN BY MAKING AN INITIAL CASH INVESTMENT OF $250. Employees and eligible retirees of the Corporation and its subsidiaries may elect to purchase Common Stock through automatic payroll or pension deductions, with a minimum of $10 per pay period.

ABOUT POWERSHARE

- Easy Enrollment.
- $25 Minimum Additional Investments. Once an initial investment of $250 has been made, the minimum additional investment or optional cash purchases of up to $100,000 per calendar year for CSW Common Stock can be made.
- Dividend Reinvestment and Payment Options. Participants may elect to have cash dividends on all or any portion of their shares of Common Stock automatically reinvested in CSW Common Stock. Cash dividend payments not reinvested will be paid to participants by check or electronic direct deposit.
- Safekeeping Service for CSW Common Stock Certificates. PowerShare participants may deposit certificates for CSW Common Stock with CSW's Investor Services Department for safekeeping, and the shares will be credited to those participants' PowerShare accounts.
- Shares Are Purchased Weekly.

FOR MORE INFORMATION AND A PROSPECTUS

The more information you have, the better your ability to make sound investment decisions. The CSW prospectus provides more details about PowerShare and about Central and South West Corporation. We encourage you to read this information before deciding whether to enroll in the Plan or to send any money.

If you have any questions, please call CSW's Investor Services Department toll-free at 1-800-527-5797 weekdays between 9 a.m. and 4 p.m. Central time.

Central and South West Corporation
1616 Woodall Rodgers Freeway
P.O. Box 660164
Dallas, Texas 75266-0164
http://www.csw.com

Printed in U.S.A.
CSWAR97 250

Central and South West Corporation

1997 FINANCIAL REPORT

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FORWARD LOOKING INFORMATION

This report made by CSW and its subsidiaries contains forward looking statements within the meaning of Section 21E of the Exchange Act. Although CSW and each of its subsidiaries believe that, in making any such statements, their expectations are based on reasonable assumptions, any such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. Important factors that could cause actual results to differ materially from those in the forward looking statements include, but are not limited to: the impact of general economic changes in the U.S. and in countries in which CSW either currently has made or in the future may make investments; the impact of deregulation on the U.S. electric utility business; increased competition and electric utility industry restructuring in the U.S.; the impact of the AEP Merger or other merger and acquisition activity; federal and state regulatory developments and changes in law which may have a substantial adverse impact on the value of CSW System assets; timing and adequacy of rate relief; adverse changes in electric load and customer growth; climatic changes or unexpected changes in weather patterns; changing fuel prices, generating plant and distribution facility performance; decommissioning costs associated with nuclear generating facilities; uncertainties in foreign operations and foreign laws affecting CSW's investments in those countries; the effects of retail competition in the natural gas and electricity distribution and supply businesses in the United Kingdom; and the timing and success of efforts to develop domestic and international power projects. In the non-utility area, the aforementioned factors would also apply, and, in addition, would include, but are not limited to: the ability to compete effectively in new areas, including telecommunications, power marketing and brokering, and other energy related services, as well as evolving federal and state regulatory legislation and policies that may adversely affect those industries generally or the CSW System's business in areas in which it operates.

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

Reference is made to CSW's Consolidated Financial Statements and related Notes to Consolidated Financial Statements and Selected Financial Data. The information contained therein should be read in conjunction with, and is essential in understanding, the following discussion and analysis.

OVERVIEW

The electric utility industry is changing rapidly as it is becoming more competitive. In anticipation of increasing competition and fundamental changes in the industry, CSW's management is implementing a strategic plan designed to help position CSW to be competitive in this rapidly changing environment and is developing an emerging global energy business.

CSW has undertaken key initiatives in the implementation of this overall strategy and is determining new directions for the corporation's future. One of these new directions is the proposed merger between AEP and CSW that was announced in December 1997. CSW would become a subsidiary of AEP in the proposed merger. The proposed merger would join two companies which are low cost providers of electricity and would achieve greater economies of scale than either company could achieve on its own. In 1997, CSW International doubled its investment in a Brazilian electric distribution utility and made other investments in Latin America. CSW continues to pursue the acquisition of the non-nuclear generating assets of Cajun, a Louisiana member electric cooperative. C3 Communications' joint venture limited partnership, ChoiceCom, has entered the local telephone markets in the Texas cities of Austin, Corpus Christi and San Antonio and plans to enter the markets of Dallas and Houston offering a variety of telecommunications services. These events are discussed below and elsewhere in this report.

CSW believes that, compared to other electric utilities, the CSW System is well positioned to capitalize on the opportunities and challenges of an increasingly deregulated and competitive market for the generation, transmission and distribution of electricity (The foregoing statement constitutes a forward looking statement within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**). The CSW System benefits from economies of scale by virtue of its size and is a reliable and relatively low-cost provider of electric power. Specifically, CSW seeks competitive advantages through its diverse and stable customer base, competitive prices for electricity, diversified fuel mix, extensive transmission interconnections, diversity of regulation and financial flexibility. See **RECENT DEVELOPMENTS AND TRENDS** for additional information.

LIQUIDITY AND CAPITAL RESOURCES

Overview of Operating, Investing and Financing Activities

Net cash provided by operating activities decreased $149 million during 1997 compared to 1996. The decrease was primarily attributable to the December 1997 payment of $88 million on the first installment of the windfall profits tax imposed on SEEBOARD in the United Kingdom. In addition, increased factored accounts receivable purchases at CSW Credit, federal and state income tax payments for the gain on CSW's 1996 sale of Transok which totaled approximately $122 million (after being offset in part by the utilization of Alternative Minimum Tax credits that CSW had previously generated), and a $35 million payment related to the settlement of litigation between CSW and El Paso all contributed to the decrease. Offsetting part of the decrease, the U.S. Electric Operating Companies realized greater fuel recovery during 1997 compared to 1996.

Net cash used in investing activities was $904 million in 1997 compared to $1.3 billion in 1996. There were no acquisition expenditures during 1997 while $1.4 billion in SEEBOARD acquisition expenditures were made during 1996. However, during 1996, CSW received $690 million in cash on the sale of Transok and $99 million on the sale of the National Grid shares. During 1997, while CSW's total construction expenditures decreased $14 million compared to 1996, a combined total of approximately $294 million was invested by CSW Energy and CSW International in 1997 on several projects compared to $124 million in 1996. In addition, during 1997, CSW Energy made its final payment on the Ft. Lupton cogeneration project which was more than offset by the reduction of CSW Energy's equity investment in the Orange cogeneration project when permanent external financing was obtained on the project.

Net cash flows from financing activities decreased substantially during 1997 compared to 1996. During 1996, CSW incurred substantial debt to finance the acquisition of SEEBOARD. In addition, CSW sold approximately 15.5 million shares of common stock and received net proceeds of approximately $398 million in a primary public offering in 1996, the proceeds of which were subsequently used to repay a portion of the debt incurred in connection with the SEEBOARD acquisition. CSW Energy also issued $200 million in Senior Notes during 1996. During 1997, CSW made changes in its common stock plans and stopped issuing original shares through these plans. Consequently, $20 million in new common stock was issued pursuant to these plans in 1997 compared to $79 million in 1996. CPL's $200 million Series BB, 6% FMBs also matured in 1997. However, offsetting a portion of the decrease, the business trusts of CPL, PSO and SWEPCO received cash proceeds of approximately $323 million from the issuance of Trust Preferred Securities during 1997. These proceeds were used primarily to redeem preferred stock and repay short-term debt of the companies.

The non-cash impacts of exchange rate differences on the translation of foreign currency denominated assets and liabilities were recorded on a separate line on the cash flow statement in accordance with accounting guidelines.

Internally Generated Funds

Internally generated funds, which consist of cash flows from operating activities less common and preferred stock dividends, should meet most of the capital requirements of the CSW System. However, CSW's strategic initiatives, including expanding CSW's core electric utility and non-utility businesses through acquisitions or otherwise, may require additional capital from external sources. For a description of certain restrictions on CSW's ability to raise capital from external sources, see **PROPOSED AEP MERGER**. Productive investment of net funds from operations in excess of capital expenditures and dividend payments is necessary to enhance the long-term value of CSW for its investors. CSW is continually evaluating the best use of these funds. CSW's internally generated funds totaled $343 million, $499 million and $451 million for 1997, 1996 and 1995, respectively.

Capital Expenditures

The CSW System's need for capital results primarily from its construction of facilities to provide reliable electric service to its customers, and the historical capital requirements of the CSW System have been primarily for the construction of electric utility plant. However, current projected capital expenditures are expected to be primarily for existing distribution systems and for various non-utility investments. The U.S. Electric Operating Companies maintain a continuing construction program, the nature and extent of which is based upon current and estimated future demands upon the system. Planned construction expenditures for the U.S. Electric Operating Companies for the next three years are primarily to improve and expand distribution facilities and will be funded primarily through internally generated funds. These improvements will be required to meet the anticipated needs of new customers and the growth in the requirements of existing customers.

CSW regularly evaluates its capital spending policies and generally seeks to fund only those projects and investments that management believes will offer satisfactory returns in the current environment. Consistent with this strategy, the CSW System is likely to continue to make additional investments in energy-related and non-utility businesses and will continue to search for electric utility companies or other electric utility properties to acquire. Primary sources of capital for these expenditures are long-term debt, trust preferred securities and preferred stock issued by the U.S. Electric Operating Companies, long-term and short-term debt issued by CSW, as well as internally generated funds. Historically, the issuance of common stock by CSW has also been a source of capital. CSW Energy and CSW International typically use various forms of non-recourse project financing to provide a portion of the capital required for their respective projects as well as utilizing long-term debt for other investments. Although CSW and each of the U.S. Electric Operating Companies expect to fund the majority of their respective capital expenditures for their existing utility systems through internally generated funds, for any significant investment or acquisition, additional funds from the capital markets may be required. For a description of certain restrictions on CSW's ability to raise capital from external sources, including through the issuance of common stock, see **PROPOSED AEP MERGER**.

The historical and estimated capital expenditures for the CSW System are shown in the table below. The amounts include construction expenditures for the U.S. Electric Operating Companies and, for SEEBOARD and CSW's other diversified operations, construction expenditures and net equity investments. It does not include the $2.1 billion used to acquire SEEBOARD during 1995 and 1996. The majority of the capital expenditures for the U.S. Electric Operating Companies for 1995 through 1997 were spent on distribution facilities. It is anticipated that the majority of the estimated capital expenditures for 1998 through 2000 will be for distribution facilities as well. For a description of certain restrictions on CSW's ability to make capital expenditures, including through the issuance of common stock, see **PROPOSED AEP MERGER** (The table and statements below contain forward looking information within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**).

	1995	1996	1997	Estimated 1998	Estimated 1999	Estimated 2000
	(millions including AFUDC)					
Capital Expenditures	$495	$644	$760	$569	$586	$595

Estimated capital expenditures for 1998 - 2000 do not include expenditures for acquisition-type investments

Although CSW does not believe that the U.S. Electric Operating Companies will require substantial additions of generating capacity over the next several years, the U.S. Electric system's internal resource plan presently anticipates that any additional capacity needs will come from a variety of sources including power purchases. Refer to ***Integrated Resource Plan*** for additional information regarding the U.S. Electric System's capacity needs.

Inflation

Annual inflation rates, as measured by the U.S. Consumer Price Index, have averaged approximately 2.4% during the three years ended December 31, 1997. CSW believes that inflation, at this level, does not materially affect CSW's results of operations or financial position. However, under existing regulatory practice, only the historical cost of plant is recoverable from customers. As a result, cash flows designed to provide recovery of historical plant costs may not be adequate to replace plant in future years.

Financial Structure, Shelf Registrations and Credit Ratings

As of December 31, 1997, the capitalization ratios of CSW were 45% common stock equity, 2% preferred stock, 4% Trust Preferred Securities and 49% long-term debt. CSW is committed to maintaining financial flexibility through a strong capital structure and favorable securities ratings in order to access capital markets opportunistically or when required. CSW continually monitors the capital markets for opportunities to lower its cost of capital through refinancing activities. CSW's estimated embedded cost of long-term debt for 1997 was 7.2%.

CSW can issue common stock, either through the purchase and reissuance of shares from the open market or original issue shares, to fund its LTIP, stock option plan, PowerShare plan and ThriftPlus plan. Following the issuance of the CPL 1997 Original Rate Order and the decline in the market price of CSW Common, which CSW believes was attributable in part to the CPL 1997 Original Rate Order, the determination was made that it was appropriate for CSW to begin funding these plans through open market purchases, effective April 1, 1997. Prior to that time, CSW had issued $20 million in new common stock in 1997. CPL has shelf registration statements on file for the issuance of up to $60 million of FMBs and up to $75 million of preferred stock, and PSO has a shelf registration statement on file for the issuance of up to $35 million of Senior Notes. For a description of certain restrictions on CSW's ability to raise capital from external sources, see **PROPOSED AEP MERGER**.

The current securities ratings for CSW and each of the U. S. Electric Operating Companies is presented in the following table, including the securities rating on the Trust Preferred Securities issued by CPL Capital I, PSO Capital I and SWEPCO Capital I.

	Moody's	Duff & Phelps	Standard & Poor's
CPL			
First mortgage bonds	A3	A	A
Senior unsecured	Baa1	A-	A-
Preferred stock	baa1	BBB+	A-
Trust preferred (CPL Capital I)	baa1	BBB+	A-
Junior subordinated deferrable interest debentures	Baa2	--	--
PSO			
First mortgage bonds	A1	AA-	AA-
Senior unsecured	A2	A+	A
Preferred stock	a3	A+	A
Trust preferred (PSO Capital I)	a2	A+	A
Junior subordinated deferrable interest debentures	A3	--	--
SWEPCO			
First mortgage bonds	Aa3	AA	AA-
Senior unsecured	A1	AA-	A
Preferred stock	a1	AA-	A
Trust preferred (SWEPCO Capital I)	aa3	AA-	A
Junior subordinated deferrable interest debentures	A2	--	--
WTU			
First mortgage bonds	A2	A+	A
Senior unsecured	A3	--	A-
Preferred stock	a3	A	A-
CSW			
Commercial paper	P-2	D-2	A-2

These securities ratings may be revised or withdrawn at any time, and each rating should be evaluated independently of any other rating.

Long-Term Financing

On April 24, 1997, PSO's business trust, PSO Capital I, sold to underwriters in a negotiated offering $75 million, 8.00% Series A, Trust Originated Preferred Securities due April 30, 2037. The proceeds from the sale of these securities were used by PSO to repay short-term debt, to reimburse PSO's treasury for the cost of reacquiring approximately $14.5 million of 4.00% Series and 4.24% Series preferred stock, to provide working capital and for other general corporate purposes. Settlement of the transaction occurred on May 2, 1997. PSO Capital I is treated as a subsidiary of PSO whose only assets are the approximately $77.3 million principal subordinated debentures issued by PSO. In addition to PSO's obligation under the subordinated debentures, PSO has also agreed to a security obligation which represents a full and unconditional guarantee of PSO Capital I's trust obligations.

On April 30, 1997, SWEPCO's business trust, SWEPCO Capital I, sold to underwriters in a negotiated offering $110 million, 7.875% Series A, Trust Preferred Securities due April 30, 2037. The proceeds from the sale of these securities were used by SWEPCO to repay short-term debt, to reimburse SWEPCO's treasury for the cost of reacquiring approximately $15.5 million of 4.28% Series, 4.65% Series, 5.00% Series and 6.95% Series preferred stock, to provide working capital and for other general corporate purposes. Settlement of the transaction occurred on May 8, 1997. SWEPCO Capital I is treated as a subsidiary of SWEPCO whose only assets are the approximately $113.4 million principal subordinated debentures issued by SWEPCO. In addition to SWEPCO's obligation under the subordinated debentures, SWEPCO has also agreed to a security obligation which represents a full and unconditional guarantee of SWEPCO Capital I's trust obligations.

On May 8, 1997, CPL's business trust, CPL Capital I, sold to underwriters in a negotiated offering $150 million, 8.00% Series A, Cumulative Quarterly Income Preferred Securities due April 30, 2037. The proceeds from the sale of these securities were used by CPL to repay short-term debt, to reimburse CPL's treasury for the cost of reacquiring approximately $87.5 million of 4.00% Series, 4.20% Series, 7.12% Series and 8.72% Series preferred stock, to provide working capital and for other general corporate purposes. Settlement of the transaction occurred on May 14, 1997. CPL Capital I is treated as a subsidiary of CPL whose only assets are the approximately $154.6 million principal subordinated debentures issued by CPL. In addition to CPL's obligation under the subordinated debentures, CPL has also agreed to a security obligation which represents a full and unconditional guarantee of CPL Capital I's trust obligations.

In March 1997, an affiliate of Orange Cogeneration Limited Partnership, an entity that is 50% indirectly owned by CSW Energy and accounted for by the equity method of accounting, issued $110 million, 8.175% Senior Secured Bonds, due 2022. The bonds are unconditionally guaranteed by Orange Cogeneration Limited Partnership. Concurrently, $53.2 million was distributed to CSW Energy representing its equity investment in the Orange Cogeneration project.

Short-Term Financing and Accounts Receivable Factoring

The CSW System uses short-term debt, primarily commercial paper, to meet fluctuations in working capital requirements and other interim capital needs. CSW has established a system money pool to coordinate short-term borrowings for certain of its subsidiaries, primarily the U.S. Electric Operating Companies. In addition, CSW also incurs borrowings for other subsidiaries that are not included in the money pool. As of December 31, 1997, CSW had a revolving credit facility totaling $1.4 billion to back up its commercial paper program. At December 31, 1997 CSW had $721 million outstanding in short-term borrowings. The maximum amount of short-term borrowings outstanding during the year, which had a weighted average interest yield for the year of 5.8%, was $725 million during December 1997.

CSW Credit purchases, without recourse, the accounts receivable of the U.S. Electric Operating Companies and certain non-affiliated electric companies. The sale of accounts receivable provides the U.S. Electric Operating Companies with cash immediately, thereby reducing working capital needs and revenue requirements. In addition, CSW Credit's capital structure contains greater leverage than that of the U.S. Electric Operating Companies, so CSW's cost of capital is lowered. CSW Credit issues commercial paper to meet its financing needs. At December 31, 1997, CSW Credit had a $900 million revolving credit agreement, secured by the assignment of its receivables, to back up its commercial paper program, which had $637 million outstanding.

The maximum amount of such commercial paper outstanding during the year, which had a weighted average interest yield of 5.6%, was $890 million during September 1997.

CSW has recently made several finance-related filings with the SEC under the Holding Company Act which, if approved, would increase CSW's financial flexibility. In the first filing, CSW requested authority to repurchase up to ten percent of its outstanding common stock as of June 30, 1997, from its stock and employee benefit plans (pursuant to the terms and conditions of such plans) from time to time through December 31, 2002, and to utilize its short-term borrowing program, including funds borrowed through its commercial paper program, to finance its repurchase in the open market of up to twenty percent of its outstanding common stock as of June 30, 1997. No decision regarding this application has been made by the SEC. Such authority would increase CSW's flexibility to adjust its capital structure. The second filing requests authority through December 31, 2002 for CSW, the U.S. Electric Operating Companies and CSW Services to finance ongoing business, repay short-term debt and finance the potential repurchase of outstanding securities. CSW has requested authority to issue common stock, while the U.S. Electric Operating Companies and CSW Services have requested authority to issue common stock, preferred stock and debt. Such authority would give CSW the flexibility to take advantage of favorable market conditions for routine financings. The SEC issued an order on December 30, 1997 granting the requested authority. The third filing requests an increase in the authorized short-term borrowing capacity for CSW and certain of its subsidiaries. The SEC has not issued an order with respect to this application. For a description of certain restrictions on CSW's ability to repurchase common stock and to raise capital from external sources, see **PROPOSED AEP MERGER**.

CSW Energy and CSW International

In October 1996, CSW Energy issued $200 million, 6.875% Senior Notes due 2001. The proceeds from the notes were for the acquisition, development and construction of electric generation assets in the United States and to make affiliate loans to CSW International.

CSW Energy has authority from the SEC to expend up to $250 million for general development activities related to qualifying facilities and independent power facilities. CSW Energy may seek specific authority to spend additional amounts on certain projects subject to limitations contained in the AEP merger agreement. See **NOTE 3. COMMITMENTS AND CONTINGENT LIABILITIES**, for a discussion of CSW's investments and commitments in CSW Energy projects at December 31, 1997.

In January 1997, CSW received authority from the SEC under the Holding Company Act to spend an amount up to 100% of consolidated retained earnings on EWG or FUCO investments. This represents an increase in authority previously granted under the Holding Company Act. However, the amount of any such expenditures is subject to the terms of the AEP merger agreement. As of December 31, 1997, CSW had invested an amount equal to 49% of consolidated retained earnings, as defined by rule 53 of the Holding Company Act, on EWG and FUCO investments. For a description of certain restrictions on the ability of CSW and its subsidiaries to make capital expenditures in respect of qualifying facilities and independent power facilities and to make EWG and FUCO investments, see **PROPOSED AEP MERGER**.

RECENT DEVELOPMENTS AND TRENDS

CSW Strategic Responses

CSW has, from time to time considered, and expects to consider in the future, various strategies designed to enhance CSW's competitive position and to increase its ability to anticipate and adapt to changes in the electric utility industry. These strategies may include business combinations with other companies, internal restructurings involving the complete or partial separation of CSW's generation, transmission and distribution businesses, acquisitions or dispositions of assets or lines of business, and additions to or reductions of franchised service territories. CSW may from time to time engage in discussions, either internally or with third parties, regarding one or more of these potential strategies. Those discussions may be subject to confidentiality agreements and CSW's policy is generally not to comment on such activities. No assurances can be given that any potential transaction of the type described above may actually occur, or, if one does occur, the ultimate effect thereof on CSW's results or operations, financial condition or competitive position (The foregoing statement constitutes a forward looking statement within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**).

AEP Merger

In December 1997, AEP and CSW announced that their boards of directors approved a definitive merger agreement. If the merger is completed, the combined company will be a diversified electric utility serving more than 4.6 million customers in 11 states and approximately 4 million customers outside the United States. On January 19, 1998, CSW announced a corporate realignment to more effectively position itself for competition and to better align itself with AEP related to the proposed merger of the two companies. The transaction must receive regulatory approval from federal and state authorities and must satisfy a number of other conditions, some of which, such as CSW and AEP shareholder approval, may not be waived by the parties. There can be no assurance that the AEP Merger will be consummated, and if it is, the timing of such consummation or the effect of any regulatory conditions that may be imposed on such consummation. See **PROPOSED AEP MERGER**.

Competition and Industry Challenges

Competitive forces at work in the electric utility industry are impacting the CSW System and electric utilities generally. Increased competition facing electric utilities is driven by complex economic, political and technological factors. These factors have resulted in legislative and regulatory initiatives that are likely to result in even greater competition at both the wholesale and retail levels in the future. As competition in the industry increases, the U.S. Electric Operating Companies will have the opportunity to seek new customers and at the same time be at risk of losing customers to other competitors. Additionally, the U.S. Electric Operating Companies will continue to compete with suppliers of alternative forms of energy, such as natural gas, fuel oil and coal, some of which may be cheaper than electricity. In the United Kingdom, the franchised electricity supply business is scheduled to open to full competition on a phased-in basis on September 1, 1998. As a result, SEEBOARD will be able to seek customers while risking the loss of existing customers to other competitors. As a whole, the CSW U.S. Electric System believes that, overall, its prices for electricity and the quality and reliability of its service currently place it in a position to compete effectively in the energy marketplace (The foregoing statement constitutes a forward looking statement within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**). See **RATES AND REGULATORY MATTERS** for a discussion of several current issues impacting the CSW System.

Electric industry restructuring and the development of competition in the generation and sale of electric power requires resolution of several important issues, including, but not limited to: (i) who will bear the costs of prudent utility investments or past commitments incurred under traditional cost-of-service regulation that will be uneconomic in a competitive environment, sometimes referred to as stranded costs; (ii) whether all customers have access to the benefits of competition; (iii) how, and by whom, the rules of competition will be established; (iv) what the impact of deregulation will be on conservation, environmental protection and other regulator-imposed programs; and (v) how transmission system reliability will be ensured. The degree of risk to CSW associated with various federal and state restructuring proposals aimed at resolving any or all of these issues will vary depending on many factors, including the proposals' competitive position and treatment of stranded utility investment resulting from such requirements. Although CSW believes it is in a position to compete effectively in a deregulated, more competitive marketplace, if stranded costs are not recovered from customers, then CSW may be required by existing accounting standards to recognize potentially significant losses from unrecovered stranded costs, especially with respect to STP (The foregoing statement constitutes a forward looking statement within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**). See ***Regulatory Accounting*** for additional information.

At the federal level, several bills were introduced in Congress during the 1997 legislative session which provided for restructuring and/or deregulating the electric utility industry. However, no such bills were enacted into law. In 1998, the United States Senate has progressed further in its consideration of comprehensive energy restructuring legislation than the United States House of Representatives. However, in the United States Senate, differences must be resolved between those who favor legislation to repeal the Holding Company Act and those who support repeal only in the context of comprehensive legislation. Prospects for repeal of the Holding Company Act in 1998 are unclear.

While a majority of the states, including the four states in which the U.S. Electric Operating Companies operate, have considered deregulation that requires some form of retail competition, several states have enacted actual legislation mandating retail competition including Oklahoma in which PSO operates. CSW cannot predict when and if it will be subject to one or more of these legislative initiatives, nor can it predict the scope or effect of such legislation on its results of operations or financial condition. For additional information related to such state initiatives, see ***Industry Restructuring Initiatives in Texas, Louisiana, Oklahoma and Arkansas***.

Wholesale Electric Competition in the United States

The Energy Policy Act, which was enacted in 1992, significantly altered the way in which electric utilities compete. The Energy Policy Act created exemptions from regulation under the Holding Company Act and permits utilities, including registered utility holding companies and non-utility companies, to own EWGs. EWGs are a relatively new category of non-utility wholesale power producers that are free from most federal and state regulation, including restrictions under the Holding Company Act. These provisions enable broader participation in wholesale power markets by reducing regulatory hurdles to such participation. The Energy Policy Act also allows the FERC, on a case-by-case basis and with certain restrictions, to order wholesale transmission access and to order electric utilities to enlarge their transmission systems. A FERC order requiring a transmitting utility to provide wholesale transmission service must include provisions generally that permit the utility to recover from the FERC applicant all of the costs incurred in connection with the transmission services and any enlargement of the transmission system and associated services. Wholesale energy markets, including the market for wholesale electric power, have been increasingly competitive since enactment of the Energy Policy Act. The U.S. Electric Operating Companies must compete in the wholesale energy markets with other public utilities, cogenerators, qualifying facilities, EWGs and others for sales of electric power. While CSW believes that the Energy Policy Act will continue to make the wholesale markets more competitive, CSW is unable to predict whether the Energy Policy Act will adversely impact the U.S. Electric Operating Companies.

FERC Orders 888 and 889

The FERC issued Order No. 888 in 1996, which is the final comparable open access transmission service rule. The provisions of FERC Order No. 888 provide for comparable transmission service between utilities and their transmission customers by requiring utilities to take transmission service under their open access tariffs for wholesale sales and purchases and by requiring utilities to rely on the same transmission information that their transmission customers rely on to make wholesale purchases and sales.

In addition, the Texas Commission adopted a rule governing transmission access and pricing for ERCOT in 1996. The pricing method adopted by the Texas Commission is a hybrid combination of an ERCOT-wide postage stamp rate covering 70% of total ERCOT transmission costs and a distance-sensitive component which recovers the remaining 30% of ERCOT's transmission costs. CPL and WTU began recording transmission revenues and expenses in accordance with the Texas Commission's rule on January 1, 1997.

FERC Order No. 888 requires holding companies to offer single system transmission rates. The transmission rates of the U. S. Electric Operating Companies are under the exclusive jurisdiction of the FERC while the transmission rates of most of the transmitting utilities in ERCOT are under the exclusive jurisdiction of the Texas Commission. Because the two commissions have different approaches to defining and implementing comparable open access transmission service, Order No. 888 granted the U. S. Electric Operating Companies an exemption permitting them an opportunity to propose a solution that provides comparability to all wholesale users. On November 1, 1996, the U. S. Electric Operating Companies filed a system-wide tariff to comply with Order No. 888 and, on December 31, 1996, the FERC accepted for filing the system-wide tariff which became effective on January 1, 1997, subject to refund and to the issuance of further orders.

On December 10, 1997 the FERC issued an order regarding the U. S. Electric Operating Companies' proposed system-wide tariff filed on November 1, 1996. The FERC's order accepted the proposed tariff subject to several modifications, including revisions to provide for system-wide transmission service under a single system rate. The U. S. Electric Operating Companies filed the required compliance tariff on February 9, 1998 and are waiting for FERC's acceptance of the revised tariff.

In 1996, the FERC issued Order No. 889 requiring transmitting utilities to establish and operate an OASIS for the dissemination of information regarding available transfer capability for their respective transmission systems. The OASIS is an on-line information system that provides the same information about the utility's transmission system to all transmission customers. The U.S. Electric Operating Companies utilize, and participate in the OASIS systems for ERCOT and SPP. Order No. 889 also created standards of conduct requiring utilities to conduct any wholesale power sales business separately from their transmission operations. The standards of conduct are designed to ensure that utilities and their affiliates, as sellers of power, do not have preferential access to information about wholesale transmission prices and availability.

Retail Electric Competition in the United States

Increased competition in the utility industry has resulted in increased pressure to stabilize or reduce rates. The retail regulatory environment is beginning to shift from traditional rate base regulation to incentive regulation. Incentive rate and performance-based plans encourage efficiencies and increased productivity while permitting utilities to share in the results. Retail wheeling, a major legislative initiative which would require utilities to "wheel" or move power from third parties to their own retail customers, is evolving gradually. Most states either have introduced legislation or are investigating the issue, and several states have already passed legislation which mandates retail choice by a certain date.

CSW believes that retail competition would not be in the best interests of CSW's security holders unless CSW receives fair recovery of the full amounts previously invested to finance power plants. These investments, which were reasonably incurred, were made by the U.S. Electric Operating Companies to meet their obligation to serve the public interest, necessity and convenience. This obligation has existed for nearly a century and remains in force under current law. CSW intends to strongly oppose attempts to impose retail competition without just compensation for the risks and investments CSW undertook to serve the public's demand for electricity. For additional information related to retail wheeling in the United States, see ***Holding Company Act and Legislative Update*** and ***Industry Restructuring Initiatives in Texas, Louisiana, Oklahoma and Arkansas***.

Industry Restructuring Initiatives in Texas, Louisiana, Oklahoma and Arkansas

Several initiatives regarding restructuring the electric utility industry have recently been undertaken in the four states in which the U.S. Electric Operating Companies operate. Legislation was enacted in Oklahoma while legislative activity in Texas, Louisiana and Arkansas stopped short of any such definitive action.

In April 1997, the Oklahoma Legislature enacted legislation dealing with industry restructuring in Oklahoma, which provides for retail competition by July 1, 2002. The legislation directs the Oklahoma Commission to study all relevant issues relating to restructuring and develop a framework for a restructured industry. The legislation divides the study of restructuring issues by the Oklahoma Commission into four parts: (i) independent system operator issues; (ii) technical issues; (iii) financial issues; and (iv) consumer issues. At the end of each of these studies, the Oklahoma Commission must provide reports along with legislative recommendations. The legislation directs the Oklahoma Tax Commission to study the impact of electric utility restructuring on state tax revenues and the existing tax structure, consider the establishment of a uniform consumption tax, and report to the Oklahoma Legislature by December 31, 1998. The legislation prohibits the establishment of retail competition until a uniform tax policy is established. The legislation also creates a Joint Electric Utility Task Force, a 14-member panel composed of an equal number of representatives from the Oklahoma United States House of Representatives and the Oklahoma Senate. The duties of this task force include the oversight and direction of the studies by the Oklahoma Commission and the Oklahoma Tax Commission. Management is unable to predict the outcome of these studies or their ultimate impact on CSW's results of operations and financial.

In March 1997, the Arkansas Legislature passed a resolution directing interim legislative committees to study competition in the electric power industry in Arkansas. The study began in October 1997, and the committees will continue to hold hearings throughout 1998. Also, the Arkansas Commission has initiated a series of generic restructuring dockets. The Arkansas Commission will provide a report to the Arkansas Legislature by October 1998. In Louisiana, a special legislative committee created by the Louisiana Senate is studying the impact of retail competition on the state of Louisiana. The committee is scheduled to issue a report before the next regular session of the Louisiana Legislature. The Louisiana Commission has also opened a proceeding to study restructuring and retail competition. In Texas, the Texas Lieutenant Governor appointed a Senate interim committee to study retail competition and restructuring. The committee is holding a series of hearings and is scheduled to issue a report by September 1998. Management cannot predict the outcome of the studies in Arkansas, Louisiana and Texas or their ultimate impact on CSW's results of operations and financial condition.

Industry Restructuring in Texas

Amendments to PURA, the legal foundation of electric regulation in Texas, became effective on September 1, 1995. Among other things, the amendments deregulate the wholesale bulk power market in ERCOT, permit pricing flexibility for utilities facing competitive challenges, provide for a market-driven integrated resource planning process and mandate comparable open access transmission service.

PURA also required that the Texas Commission adopt a rule on comparable open transmission access by March 1, 1996. In conjunction with this rulemaking proceeding (Project No. 14045), the chairman of the Texas Commission issued a proposal on September 6, 1995, for the purpose of maximizing competition in the ERCOT wholesale bulk power market. The proposal calls for the functional unbundling of integrated utilities where distribution entities could purchase their power requirements from any generator or set of generators in ERCOT. Those generators which are currently regulated would be deregulated after provisions are in place to recover stranded costs. The proposal was assigned a separate proceeding (Project No. 15000), and after a series of workshops and technical conferences conducted during 1996, the Texas Commission submitted a final Scope of Competition report to the Texas Legislature in January 1997. The final report contains numerous recommendations to the Texas Legislature including requests for additional regulatory authority or clarification of existing authority including to certificate electric service resellers, the authority to adopt consumer protection and universal service standards, the authority to determine and allocate stranded costs to all customers, the authority to promote unbundling, the authority to allow alternative forms of regulation, increased authority to address mergers, authority to correct market power abuses, authority over the ERCOT ISO and authority to permit alternative methods for fuel cost recovery. In addition, the final report offers the Texas Legislature four restructuring options. Option 1 maintains the regulatory status quo; Option 2 would permit utilities to voluntarily offer retail access; Option 3 would provide for full wholesale competition; and Option 4 would provide for full retail competition. The report's final recommendation is for the Texas Legislature to direct the Texas Commission to prepare for full retail competition using a careful and deliberate approach on a timetable to be established by the Texas Legislature, but with no retail access before the year 2000. The Texas legislature considered but did not pass any of these proposals in the 1997 legislative session.

On February 7, 1996, the Texas Commission adopted a rule governing transmission access and pricing (Project No. 14045). The pricing method adopted by the Texas Commission is a hybrid combination of an ERCOT-wide postage stamp rate covering 70% of total ERCOT transmission costs and a distance-sensitive component referred to as a vector-absolute megawatt mile which recovers the remaining 30% of ERCOT transmission costs. The open access tariffs filed with the FERC on February 9, 1996 did not reflect Project No. 14045 pricing. However, on November 1, 1996, CSW filed tariffs with the FERC in accordance with FERC Order 888 that conform to the Texas Commission's rule. See ***FERC Orders 888 and 889*** for additional information regarding the transmission pricing rules prescribed by FERC.

By statute the Texas Commission was required to submit a report to the 1997 Texas Legislature on "methods or procedures for quantifying the magnitude of stranded investment, procedures for allocating costs, and the acceptable methods of recovering stranded costs." The Texas Commission initiated Project No. 15001 to collect information to prepare the required report. In response to the Texas Commission's order in Project 15001, CPL, SWEPCO, and WTU each filed information on estimates of potential stranded costs. While the filings for CPL included estimates of significant potential stranded costs, no significant potential stranded costs were identified in the filings for SWEPCO or WTU. In January 1998, the Texas Commission requested updated information on CPL's stranded costs for a report that the Texas Commission is preparing for the Senate interim committee on restructuring. See **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS** for a discussion of the potential impact of potential stranded costs relating to CPL.

The Texas Commission's Project 15002, "Scope of Competition Report," is a report that the Texas Commission is required to present to the Texas Legislature in each odd-numbered year detailing the scope of competition in the electric markets and the impact of competition and industry restructuring on customers. In addition, the report is required to include the Texas Commission's recommendations to the Texas Legislature for further legislation. In June 1996, CPL, SWEPCO and WTU each filed information for the Texas Commission's report.

Texas Independent System Operator Plan

In June 1996, CSW, including CPL and WTU, and more than 20 other parties, including other investor-owned utilities, municipal power companies, electric cooperatives, independent power producers and power marketers, filed plans to create an ISO to manage the ERCOT power grid. The filing marks a major step towards implementing the Texas Commission's overall strategy to create the competitive wholesale electric market that was mandated by the Texas Legislature in 1995. The Texas Commission approved the ISO in August 1996. Such approval made Texas the first state in the nation to adopt a plan for a regional ISO and a regional competitive wholesale bulk power market.

Integrated Resource Plan

In January 1997, CPL, WTU, and SWEPCO filed with the Texas Commission a joint integrated resource plan outlining the companies' future electric needs over a 10-year forecast horizon and the manner in which the companies propose to meet those needs. In July 1997 the Texas Commission issued an Interim Order on the Preliminary Plan which adopted a settlement agreement that had been reached with all the parties in the case. The Interim Order approved the load forecast and individual resource needs for each of the companies, as well as the request for proposal documents to be used to procure future resource needs. The Interim Order also approved the targeted purchase goal amounts for renewable and energy efficiency programs, which will result in renewable and energy efficiency programs being included in the companies' resource mix. The targeted purchase goals were developed in response to customer input obtained through the deliberative polling process conducted at each operating company in the summer of 1996. A separate phase of the Integrated Resource Plan was created to address the value of interruptible resources at CPL. That phase is expected to be completed in March 1998. The Interim Order also required that a green pricing tariff be filed which would allow customers who are interested in acquiring a greater portion of their personal consumption from environmentally beneficial generation to exercise that choice. A green pricing tariff was approved for use in San Angelo, Texas in October 1996. A system-wide filing is expected in mid-1998.

Holding Company Act and Legislative Update

The Holding Company Act generally has been construed to limit the operations of a registered holding company to a single integrated public utility system, plus such additional businesses as are functionally related to such system. Among other things, the Holding Company Act requires CSW and its subsidiaries to seek prior SEC approval before effecting mergers and acquisitions or pursuing other types of non-utility initiatives. Such pervasive regulation may impede or delay CSW's efforts to achieve its strategic and operating objectives. Consequently, CSW continues to support efforts to repeal or modify this legislation.

In 1995, the SEC issued a report to the United States Congress advocating repeal of the Holding Company Act, either on a conditional and transitional basis or immediate and outright repeal. The basis for the SEC's recommendation for repeal is that the Holding Company Act is anachronistic and duplicative of other federal and state regulatory regimes that have developed over the past sixty years. Following the SEC's report, there were several bills introduced in both the United States Senate and House of Representatives in 1996 which would have repealed the Holding Company Act on a conditional and transitional basis and transferred its oversight functions to the FERC and the states. Another bill was introduced into the United States House of Representatives that, in addition to repealing the Holding Company Act, would have repealed PURPA, which among other things, requires investor owned utilities to purchase power at their avoided cost from qualifying facilities. Although none of these bills were enacted into law, they may suggest the form of future legislation.

In January 1997, a bill was introduced in the United States Senate providing for comprehensive electric utility industry restructuring and for retail choice by December 2003, repeal of the Holding Company Act one year after the bill is enacted, as well as repeal of the requirement that electric utilities purchase power at their avoided cost from qualifying facilities under PURPA. Under this bill, many of the oversight functions performed by the SEC under the Holding Company Act would be shifted to the FERC and the states. In addition, a bill was reintroduced in the United States House of Representatives providing for choice of electricity suppliers at the retail level by the year 2000. Under this bill, which is substantially similar to the United States Senate bill, the application of the Holding Company Act to a particular holding company system would be eliminated after each state served by the electric utility companies in that system made a determination that retail competition existed in that state. No legislation was enacted in 1997.

In February 1997, the SEC adopted Rule 58 allowing a holding company registered under the Holding Company Act or any of its subsidiaries, to acquire, without prior SEC approval, the securities of any energy-related company subject to certain limits. Under the new rule, investment in energy-related company securities without prior SEC approval is limited to the greater of (i) $50 million and (ii) 15% of the consolidated capitalization of the registered holding company as reported on its most recent Form 10-Q or Form 10-K as filed with the SEC. Rule 58 does not exempt the acquisition by a registered holding company of the securities of an electric utility company or a gas utility company, which remains subject to the SEC's prior approval as does the issuance of securities for the purpose of making such exempt investments.

In 1998, the United States Senate has progressed further in its consideration of comprehensive energy restructuring legislation than the United States House of Representatives. However, in the United States Senate, differences must be resolved between those who favor legislation to repeal the Holding Company Act and those who support repeal only in the context of comprehensive legislation. Prospects for repeal of the Holding Company Act in 1998 are unclear.

Regulatory Accounting

Consistent with industry practice and the provisions of SFAS No. 71, which allows for the recognition and recovery of regulatory assets, the U.S. Electric Operating Companies have recognized significant regulatory assets and liabilities. Management believes that the U.S. Electric Operating Companies currently meet the criteria for following SFAS No. 71. However, in the event the U.S. Electric Operating Companies or some portion of their business no longer meets the criteria for following SFAS No. 71 due to deregulation or for other reasons, a write-off of regulatory assets and liabilities would be required, absent a means of recovering such assets or settling such liabilities in a continuing regulated segment of the business. For additional information regarding regulatory accounting, reference is made to **NEW ACCOUNTING STANDARDS** and **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**.

PSO Union Negotiations

As previously reported, PSO and its Local Union 1002 of the IBEW have been engaged in contract renewal negotiations. The underlying agreement expired in September 1996 and, to date, the parties have been unable to reach an agreement. In December 1996, PSO implemented portions of its final proposal after declaring an impasse. The principal issue of disagreement involves PSO's need for flexibility in a deregulated environment.

In April 1997, Oklahoma's governor signed into law an electric industry restructuring bill. The new law mandates the implementation of retail competition to begin on July 1, 2002. PSO believes that the new law also broke the impasse in the contract negotiations and has resumed negotiations with the union. At this time, PSO cannot predict the outcome of this matter. However, PSO believes that, even in the event of a strike, its operations would continue without a significant disruption and that a strike would not have a material adverse effect on CSW's results of operations or financial condition (The foregoing statement constitutes a forward looking statement within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**).

Impact of Competition and Industry Restructuring Initiatives

CSW is unable to predict the ultimate outcome or impact of competitive forces on the electric utility industry in the United States, and in the United Kingdom or on the CSW System. As the electricity markets become more competitive, however, the principal factor determining success is likely to be price, and to a lesser extent reliability, availability of capacity, and customer service. CSW cannot predict the form or effect of any federal or state electric utility restructuring initiatives at this time. Federal and/or state electric utility restructuring may cause impairment of significant recorded assets, material reductions of profit margins, and/or increased costs of capital. No assurance can be made that such events would not have a material adverse effect on CSW's results of operations, financial condition or competitive position (The foregoing statement constitutes a forward looking statement within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**).

RATES AND REGULATORY MATTERS

CPL Rate Review - Docket No. 14965

In November 1995, CPL filed with the Texas Commission a request to increase its retail base rates by $71 million, and in May 1996, CPL placed a $70 million base rate increase into effect under bond, subject to refund based on the receipt of the CPL 1997 Original Rate Order of the Texas Commission. On March 31, 1997, the Texas Commission issued a rate order in CPL's rate review, Docket No. 14965. Thereafter, CPL filed a motion for rehearing which requested the reconsideration of numerous provisions of the order. Motions for rehearing were also filed by other parties to the rate proceeding. In response to the motions for rehearing, in June 1997, the Texas Commission made several modifications to the CPL 1997 Original Rate Order and also agreed to rehear on remand several other issues. CPL restored its rates in July 1997, with two exceptions, to levels existing prior to the May 1996 implementation of bonded rates. On August 21, 1997, after reconsidering the issues on remand, the Texas Commission voted to issue a revised final order and on September 10, 1997, CPL received a revised final order. CPL filed its second motion for rehearing on September 30, 1997. The second motion for rehearing again requested reconsideration of numerous issues in the rate case. On October 16, 1997, the Texas Commission issued the CPL 1997 Final Order. The CPL 1997 Final Order lowers the annual retail base rates of CPL by approximately $19 million, or 2.5%, from CPL's rate level existing prior to May 1996. The Texas Commission also included a "Glide Path" rate methodology in the CPL 1997 Final Order pursuant to which CPL's annual rates will be reduced by an additional $13 million in mid-1998 and another $13 million in mid-1999.

There are numerous contributing factors to the difference between the $71 million retail base rate increase originally requested by CPL and the $19 million retail base rate reduction included in the CPL 1997 Final Order. The CPL 1997 Final Order decreased CPL's requested return on equity of 12.25% on its retail rate base to a 10.9% return on equity for all non-ECOM invested capital, which results in a $30 million decrease in CPL's rate request. The CPL 1997 Final Order provides for the disallowance of approximately $18 million of affiliate transactions. In addition, the CPL 1997 Final Order denied CPL's request to use straight line amortization for CPL's deferred accounting costs. Instead, the CPL 1997 Final Order requires CPL to continue to use the mortgage amortization method to amortize its deferred accounting costs, resulting in a reduction of $14 million from CPL's rate request. The CPL 1997 Final Order also decreased depreciation by $17.4 million from CPL's rate request.

Another major provision of the CPL 1997 Final Order was the Texas Commission's categorization of $800 million of CPL's investment in STP as ECOM. The term ECOM has been used to refer to the amount of costs that potentially would become "stranded" if retail competition were mandated and prices were set in the market, rather than the price being determined by current regulatory standards of reasonable and necessary cost of providing service. The CPL 1997 Final Order reduced CPL's equity return on the ECOM portion of CPL's investment in STP to 7.96%, compared to the 10.9% return on common equity approved for all other invested capital, resulting in a $15.9 million decrease in CPL's rate request. At the same time, the CPL 1997 Final Order accelerated the recovery of the $800 million designated as ECOM to [illegible] years from the remaining 32-year life of STP.

The following table contains details of the estimate of the financial impact of the CPL 1997 Final Order.

	1997	1998	1999
		(millions)	
Decrease in revenue	$(24.2)	$(28.7)	$(41.9)
Items included in decrease in revenue with an offsetting effect on expense:			
Recovery of STP (ECOM)	20.0	20.0	20.0
Change in depreciation	(11.3)	(11.3)	(11.3)
Decommissioning	4.3	4.3	4.3
Other	6.8	2.1	2.1
	19.8	15.1	15.1
Change in current year income before tax	(44.0)	(43.8)	(57.0)
Federal income taxes	14.8	14.8	19.3
Current year impact on net income	(29.2)	(29.0)	(37.7)
1996 effect	(18.9)	--	--
Estimated impact on net income	$(48.1)	$(29.0)	$(37.7)

CPL appealed the CPL 1997 Final Order to the State District Court of Travis County to challenge the resolution of several issues in the rate case. The primary issues include: (i) the classification of $800 million of invested capital in STP as ECOM which was also assigned a lower return on equity than non-ECOM property, (ii) the Texas Commission's use of the "Glide Path" rate reduction methodology to be applied to rates in mid-1998 and mid-1999, and (iii) the $18 million of disallowed affiliate transactions from CSW Services. As part of the appeal, CPL seeks a temporary injunction to prohibit the Texas Commission from implementing the "Glide Path" rate reduction methodology, currently scheduled to begin in May 1998. A hearing has been set for the temporary injunction on April 3, 1998. Management is unable to predict how the final resolution of these issues will ultimately affect CSW's results of operations and financial condition.

CPL currently accounts for the economic effects of regulation in accordance with SFAS No. 71. Pursuant to the provisions of SFAS No. 71, CPL had recorded approximately $1.3 billion of regulatory-related assets at December 31, 1997. The application of SFAS No. 71 is conditioned upon CPL's rates being set based on the cost of providing service. In the event management concludes that as a result of changes in regulation, legislation, the competitive environment, or other factors, including the CPL 1997 Final Order, CPL no longer meets the criteria for following SFAS No. 71, a write-off of regulatory assets would be required. In addition, CSW could experience, depending on the timing and amount of any write-off, a material adverse effect on its results of operations and financial condition.

The foregoing discussion of ***CPL Rate Review - Docket No. 14965*** constitutes forward looking information within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information. See **FORWARD LOOKING INFORMATION.** See **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS** for additional information on the CPL 1997 Final Order.

PSO 1997 Rate Settlement Agreement

In July 1996, the Oklahoma Commission staff filed an application seeking a review of PSO's earnings. In accordance with the established schedule, PSO subsequently filed financial data, cost of service and rate design testimony supporting both its current rates and an increase in annual depreciation expense of $26 million. In July 1997, the Oklahoma Commission staff and other intervenors to the proceeding filed their revenue requirements testimony. In its filing, the Oklahoma Commission staff recommended a rate reduction of $76.8 million for PSO.

On October 15, 1997, PSO reached a stipulated agreement with parties to settle the rate inquiry that was pending before the Oklahoma Commission. On October 23, 1997, the Oklahoma Commission issued a final order approving the agreement. The following table represents the financial impact of the PSO 1997 Rate Settlement Agreement on PSO's 1997 results of operations and also an estimate of its ongoing annual impact on net income in successive years.

	1997 Impact	Ongoing Annual Impact
	(millions)	
Decrease in revenue		
Refund to customers	$(29.0)	$--
Change in rates	(2.5)	(35.9)
	(31.5)	(35.9)
Changes in expenses (offsetting impact included in revenues)		
Depreciation	(6.3)	(10.9)
Rate case deferred costs	2.2	--
Income tax	(10.2)	(8.8)
	(14.3)	(19.7)
	(17.2)	(16.2)
Write-off of deferred assets, net of tax	(10.2)	--
	$(27.4)	$(16.2)

The PSO 1997 Rate Settlement Agreement resulted in a material adverse effect on PSO's results of operations for 1997 that will have a continuing material adverse effect on its results of operations because of the rate decrease. However, it also reduced significant risks for PSO related to this regulatory proceeding and will enable PSO's rates to remain competitive for the foreseeable future.

The foregoing discussion of ***PSO 1997 Rate Settlement Agreement*** constitutes forward looking information within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information. See **FORWARD LOOKING INFORMATION**. See **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS** for additional information on the PSO 1997 Rate Settlement Agreement.

SWEPCO Louisiana Rate Review

In December 1997, the Louisiana Commission announced it would review SWEPCO's rates and service. In 1993, the Louisiana Commission issued an order initiating a review of the rates of all investor-owned utilities in the state. Since that time, each of the other investor-owned utilities in Louisiana have been reviewed. SWEPCO's last rate activity was an $8.2 million rate decrease, initiated by SWEPCO and approved for its small and large industrial customers in January 1988. Prior to that, SWEPCO's last rate increase was in 1985.

The Louisiana Commission has requested bids from consultants to perform a review of SWEPCO's rates and charges and to review SWEPCO's quality of service. The Louisiana Commission plans to select consultants during the second quarter of 1998 and a timeline for the review will be determined shortly thereafter. Management cannot predict the outcome of this review.

SEEBOARD Recent Regulatory Actions

Following the phased-in opening of the United Kingdom domestic and small business electricity market to competition in September 1998, customers will be able to choose their electricity supplier. SEEBOARD will compete for customers in its own area as well as throughout the rest of the United Kingdom. The DGES has allowed some of the system development costs associated with the introduction of competition to be recovered by the regional electricity companies through a charge to all customers over the next five years. The DGES has also announced price restraints which set a maximum amount that existing electricity supply companies can charge their domestic and small business customers over the first two years following the introduction of competition, taking into account its view of future electricity purchase costs. For SEEBOARD, this proposal reduces prices in real terms by 6% for the regulatory year ending March 31, 1999 and a further 3% for the following regulatory year ending March 31, 2000.

Other

Reference is made to **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS** for information regarding fuel proceedings at CPL, SWEPCO and WTU.

PROPOSED AEP MERGER

On December 22, 1997, CSW and AEP announced that their boards of directors had approved a definitive merger agreement for a tax-free, stock-for-stock transaction creating a company with a total market capitalization of approximately $28.1 billion ($16.5 billion in equity; $11.6 billion in debt and preferred stock). CSW expects the combination to be accounted for as a pooling of interests. The transaction must satisfy many conditions, some of which may not be waived by the parties. There can be no assurance that the AEP Merger will be consummated.

This combination is expected to create one of the nation's preeminent diversified electric utilities serving more than 4.6 million customers in 11 states and approximately 4 million customers outside the United States. Both companies have low-cost generation and offer their customers in every state prices below the national average. Over the last two years, both CSW and AEP have ranked among the top five electric utilities in customer satisfaction in the ACSI.

Under the merger agreement, each common share of CSW will be converted into 0.6 shares of AEP common stock. Based upon AEP's closing price immediately prior to the merger announcement, this represented a premium of 20% over the CSW closing price. AEP will issue approximately $6.6 billion in stock to CSW stockholders to complete the transaction. CSW stockholders will own approximately 40% of the combined company. Both companies anticipate continuing their current dividend policies until the close of the transaction.

Under the merger agreement, there will be no changes required with respect to the public debt issues, the outstanding preferred stock or the Trust Preferred Securities of CSW or its subsidiaries.

The companies anticipate net savings related to the merger of approximately $2 billion over a 10-year period from the elimination of duplication in corporate and administrative programs, greater efficiencies in operations and business processes, increased purchasing efficiencies, and the combination of the two workforces. At the same time, the companies will continue their commitment to high quality, reliable service. Job reductions related to the merger are expected to be approximately 1,050 out of a total domestic workforce of approximately 25,000. The combined company will use a combination of growth, reduced hiring and attrition to minimize the need for employee separations. Organizational and staffing recommendations will be made by transition teams of employees from both companies.

The electric systems of AEP and CSW will operate on an integrated and coordinated basis as required by the Holding Company Act. Any fuel savings resulting from the coordinated operation of the combined company will be passed on to customers.

The merger agreement contains covenants and agreements that restrict the manner in which the parties may operate their respective businesses until the time of closing of the merger. In particular, without the prior written consent of AEP, CSW may not engage in a number of activities that could affect its sources and uses of funds. Pending closing of the merger, CSW's and its subsidiaries' strategic investment activity, capital expenditures and non-fuel operating and maintenance expenditures are restricted to specific agreed upon projects or agreed upon amounts. In addition, prior to consummation of the merger CSW and its subsidiaries are restricted from (i) issuing shares of common stock other than pursuant to employee benefit plans, (ii) issuing shares of preferred stock or similar securities other than to refinance existing obligations or to fund permitted investment or capital expenditures and (iii) incurring indebtedness other than pursuant to existing credit facilities, in the ordinary course of business or to fund permitted projects or capital expenditures. These restrictions are not expected to limit the ability of CSW and its subsidiaries to make investments and expenditures in amounts previously budgeted.

The merger is conditioned, among other things, upon the approval of CSW stockholders and several state and federal regulatory agencies. AEP shareholders must authorize additional common stock and approve a new common stock issuance to be used in the exchange for CSW common stock. The companies anticipate that regulatory approvals can be obtained in 12 to 18 months from the date of announcement. See **NOTE 16. PROPOSED AEP MERGER**.

OTHER MERGER AND ACQUISITION ACTIVITIES

Settlement of Litigation Related to Termination of El Paso Merger

In July 1997, CSW and El Paso reached a settlement agreement that resolved all of the pending litigation resulting from the termination of the proposed merger. Under the terms of the settlement agreement, CSW and El Paso agreed to dismiss all pending claims in the litigation and give a mutual release from any potential claims related to the El Paso Merger Agreement or the pending litigation, and CSW paid $35 million to El Paso, various of its creditor groups under its plan of reorganization, and its attorneys. CSW recorded a charge of $25 million in the first quarter of 1997 following the court's interim order and recorded an additional charge of $10 million in the second quarter of 1997 to fully recognize the $35 million settlement amount. The bankruptcy court vacated the interim order and approved the settlement agreement. See **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS**.

SWEPCO Cajun Asset Purchase Proposal

On March 18, 1998, SWEPCO, together with the Cajun Members Committee, which currently represents 7 of the 12 Louisiana member distribution cooperatives that are served by Cajun, filed the SWEPCO Plan in the bankruptcy court. Under the SWEPCO Plan, a SWEPCO affiliate or subsidiary would acquire all of the non-nuclear assets of Cajun, comprised of the two-unit Big Cajun I natural gas-fired plant, the three-unit Big Cajun II coal-fired plant, and related non-nuclear assets, for $940.5 million in cash, subject to adjustment pursuant to terms of the asset purchase agreement proposed as part of the SWEPCO Plan. The SWEPCO Plan incorporates the terms of a settlement between the RUS, the Cajun Members Committee, Claiborne Electric Cooperative, Inc. and SWEPCO.

The SWEPCO Plan filed March 18, 1998 replaces plans filed previously by SWEPCO on January 15, 1998, October 26, 1996, September 30, 1996 and April 19, 1996. Two competing plans of reorganization for the non-nuclear assets of Cajun have been filed with the bankruptcy court, each with different purchase prices, rate paths and other provisions. Confirmation hearings in Cajun's bankruptcy case are now scheduled through April 1998. Consummation of the SWEPCO Plan is conditioned upon confirmation by the bankruptcy court, and the receipt by SWEPCO and CSW of all requisite state and federal regulatory approvals in addition to their board approvals. If the SWEPCO Plan is confirmed, the $940.5 million required to consummate the acquisition of Cajun's non-nuclear assets is expected to be financed through a combination of external borrowings and internally generated funds with approximately 70% of the external borrowings funded with non-recourse debt. There can be no assurance that the SWEPCO Plan will be confirmed by the bankruptcy court or, if it is confirmed, that it will be approved by federal and state regulators. For additional information regarding the SWEPCO Cajun asset purchase proposal see **NOTE 3. COMMITMENTS AND CONTINGENT LIABILITIES**.

OTHER INITIATIVES

As described in **OVERVIEW**, a vital part of CSW's future strategy involves initiatives that are outside of the traditional United States electric utility industry due to increasing competition and fundamental changes in this industry. In addition, lower anticipated growth rates in CSW's core United States electric utility business combined with the aforementioned industry factors have resulted in CSW pursuing other initiatives. These initiatives have taken a variety of forms; however, they are all consistent with the overall plan for CSW to develop a global energy business. CSW has restrictions on the amounts it may spend under the AEP merger agreement. While CSW believes that such initiatives are necessary to maintain its competitiveness and to supplement its growth in the future, the Holding Company Act may impede or delay its ability to successfully pursue such initiatives (The foregoing statement constitutes a forward looking statement within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**). See **RECENT DEVELOPMENTS AND TRENDS**.

CSW Energy and CSW International

CSW Energy presently owns interests in six operating power projects totaling 978 MW which are located in Colorado, Florida and Texas. In addition to these projects, CSW Energy has other projects in various stages of development. In August 1997, an affiliate of CSW Energy sold 50% of its 100% interest in the Sweeny Cogeneration project. CSW Energy provided the $56.5 million non-recourse financing for the sale which is expected to be repaid from project distributions or proceeds from sale, as defined in the sales agreements. Construction of the 330 MW electricity generating facility was completed in early 1998 with a commercial operation date of February 1, 1998. CSW Energy did not recognize a gain or loss on this transaction.

CSW International was organized to pursue investment opportunities in EWGs and FUCOs. CSW International currently holds investments in the United Kingdom, Mexico and Latin America. CSW International acquired a minority interest in Vale, a Brazilian electric utility company, for an initial investment of approximately $40 million in December 1996. In 1997, CSW International made additional equity investments of approximately $150 million in Latin America. The $190 million used to make the equity investments was funded through loans to CSW International by CSW Energy. CSW Energy obtained the funds from its $200 million Senior Note issuance in October 1996. CSW International continues to seek to expand into other countries in Latin America, Europe, and Asia that meet its investment criteria and the investment criteria contained in the AEP merger agreement.

C3 Communications

C3 Communications has two active business units; its Utility Automation Division and a telecommunications partnership, ChoiceCom.

C3 Communications' Utility Automation Division performs consulting, implementation and integration of utility meter automation products and services for traditional utility companies and, as competition markets open, in states like California, for energy service providers. C3 Communications offers clients innovative meter-based competitive data services including automated meter reading; hourly, daily and monthly delivery of consumption data; advanced load profiling data; aggregation reports for customers with multiple accounts and operational services like outage and tamper detection and real-time-pricing and time-of use data.

ChoiceCom offers telecommunications services including local telephone service, long distance and long-haul data transmission services. ChoiceCom began offering local telephone service in August, 1997, in Austin, Corpus Christi and San Antonio, Texas with an emphasis on the business customer. ChoiceCom also installed state-of-the-art Lucent 5ESS® switches in those three cities. In January 1998, ChoiceCom began offering telephone service in Dallas and Houston with plans to install Lucent 5ESS® switches in both cities by the end of the year. With the addition of Dallas and Houston, ChoiceCom's expected 5-year capital budget has increased to $210 million from $104 million. The partnership has grown to about 150 employees during its first year of operation.

In November 1997, the parties amended the ChoiceCom Limited Partnership Agreement to provide that CSW hold 100% of the economic interest in ChoiceCom and 60% of the voting interest. ICG Communications, Inc. holds the remaining 40% voting interest in ChoiceCom, and has an option to acquire a 50% economic interest in ChoiceCom. In the event that its option terminates without being exercised, ICG Communications, Inc. will be bound by a non-compete agreement in CSW's service territory.

EnerShop

EnerShop currently provides energy services to customers in Texas which help reduce customers' operating costs through increased energy efficiencies and improved equipment operations. EnerShop utilizes the skills of local trade allies in offering services that include energy and facility analysis; project management; engineering design, equipment procurement and construction; and performance monitoring.

Other Ventures

CSW Energy Services will spearhead CSW's competitive efforts in the retail electricity markets of states outside of CSW's historical service territories. CSW Energy Services will seek to secure electricity supply business in the markets which soon will have retail competition, and will enable CSW to extend its business reach and name recognition beyond CSW's traditional customer base. In March 1998, CSW Energy Services signed its first major supply contract in California. The CSW Services Business Ventures group pursues energy projects related to the business activities of the U.S. Electric Operating Companies. Projects for these groups include staffing services for electric utility nuclear power plants, energy management systems, electric substation automation software and electric vehicles. In June 1997, the FERC approved the request of CSW Power Marketing to sell power and energy at market-based rates in the wholesale market. CSW has temporarily suspended this initiative in light of the AEP Merger since AEP is already pursuing this initiative.

SOUTH TEXAS PROJECT

CPL owns 25.2% of STP, a two-unit nuclear power plant which is located near Bay City, Texas. HL&P owns 30.8%, San Antonio owns 28.0%, and Austin owns 16.0% of STP. STP Unit 1 was placed in service in August 1988, and STP Unit 2 was placed in service in June 1989.

STP Unit 1 and Unit 2 were removed from service during 1997 for scheduled refueling outages which lasted 24 days and 18 days, respectively. For the year 1997, Unit 1 and Unit 2 operated at net capacity factors of 90.1% and 91.0%, respectively.

In September 1997, STPNOC was formed to replace HL&P as the STP Project Manager. Each of the four STP co-owners are represented on the STPNOC board of directors. The CPL representative has been elected as the initial chairman of the board of directors. On October 1, 1997, all HL&P employees assigned to STP were transferred from HL&P to STPNOC. On November 17, 1997, HL&P was removed as STP Project Manager, and STPNOC became the operator of the plant. CSW believes the formation of STPNOC is in its best interest.

The establishment of STPNOC provides the following advantages: (i) allows the management and work force to focus exclusively on the safe, reliable and efficient operation of the STP units; (ii) removes most of the possibility of disputes between the four owners over the operation of the facility; (iii) removes dissension concerning the potential liability of HL&P who was acting as the project manager; and (iv) allows the management of the facility to tailor a total compensation package for the STP work force which best suits that work force and its needs. In addition, the formation and operation of STPNOC is expected to result in a decrease in costs allocable to CPL related to its investment in STP (The foregoing statement constitutes a forward looking statement within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**).

For additional information regarding STP and the accounting for the decommissioning of STP, see **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** and **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS.**

ENVIRONMENTAL MATTERS

The operations of the CSW System, like those of other utility systems, generally involve the use and disposal of substances subject to environmental laws. CERCLA, the federal "Superfund" law, addresses the cleanup of sites contaminated by hazardous substances. Superfund requires that PRPs fund remedial actions regardless of fault or the legality of past disposal activities. PRPs include owners and operators of contaminated sites and transporters and/or generators of hazardous substances. Many states have similar laws. Legally, any one PRP can be held responsible for the entire cost of a cleanup. Usually, however, cleanup costs are allocated among PRPs.

The U.S. Electric Operating Companies are subject to various pending claims alleging that they are PRPs under federal or state remedial laws for investigating and cleaning up contaminated property. CSW believes that resolution of these claims, individually or in the aggregate, will not have a material adverse effect on CSW's results of operations or financial condition. Although the reasons for this expectation differ from site to site, factors that are the basis for the expectation for specific sites include the volume and/or type of waste allegedly contributed by the U.S. Electric Operating Company, the estimated amount of costs allocated to the U.S. Electric Operating Company and the participation of other parties (The foregoing statements constitute forward looking statements within the meaning of Section 21E of the Exchange Act. Actual results may differ materially from such projected information due to changes in the underlying assumptions. See **FORWARD LOOKING INFORMATION**). See **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS** and **NOTE 3. COMMITMENTS AND CONTINGENT LIABILITIES** for additional discussion regarding environmental matters.

The EPA recently promulgated revised, more stringent ambient air quality standards for ozone and particulates. While these standards do not mandate emission levels for facilities such as electricity generating power plants, they may result in more areas being designated as non-attainment for these two pollutants. States will be required to develop strategies to achieve compliance in these areas, strategies that may include lower emission levels for electricity generating power plants, possibly including facilities within the CSW System. The impact, if any, on CSW or the U.S. Electric Operating Companies cannot yet be determined, but the impact could be significant.

At the Kyoto Conference on Global Warming held in December 1997, U.S. representatives agreed to a treaty which could require new limitations on "greenhouse gases" from power plants. CSW and the U.S. Electric Operating companies could be affected if this treaty is approved by the United States Congress in its present form. The impact, if any, on CSW or the U.S. Electric Operating Companies cannot yet be determined, but the impact could be significant.

RISK MANAGEMENT

In October 1997, CSW's board of directors adopted a risk management resolution authorizing CSW to engage in currency, interest rate and energy spot and forward transactions and related derivative transactions on behalf of CSW with foreign and domestic parties as deemed appropriate by executive officers of CSW. The risk management program is necessary to meet the growing demands of CSW's customers for competitive prices and price stability, to enable CSW to compete in a deregulated power industry, to manage the risks associated with domestic and foreign investments and to take advantage of strategic investment opportunities.

The U.S. Electric Operating Companies experience commodity price exposures related to the purchase of fuel supplies for the generation of electricity and for the purchase of power and energy from other generation sources. Contracts that provide for the future delivery of these commodities can be considered forward contracts which contain pricing and/or volume terms designed to stabilize the cost of the commodity. Consequently, the U.S. Electric Operating Companies manage their price exposure for the benefit of customers by balancing their commodity purchases through a combination of long-term and short-term (spot-market) agreements. In addition, SEEBOARD has entered into contracts for differences to reduce exposure to fluctuations in the price of electricity purchased from the United Kingdom's electricity power pool. This pool was established at privatization of the United Kingdom's electric industry for the bulk trading of electricity between generators and suppliers. At December 31, 1997, the gross value of such contracts for differences amounted to not more than 80% of any year's expected power purchases.

CSW has, at times, been exposed to currency and interest rate risks which reflect the floating exchange rate that exists between the U.S. dollar and the British pound since its purchase of SEEBOARD in 1995. CSW has utilized certain risk management tools to manage adverse changes in exchange rates and to facilitate financing transactions resulting from CSW's acquisition of SEEBOARD. At the end of 1997, CSW had positions in two cross currency swap contracts. The following table presents information relating to these contracts. The market value represents the foreign exchange/interest rate terms inherent in the cross currency swaps at current market pricing. CSW expects to hold these contracts to maturity. At current exchange rates, this liability is included in long-term debt on the balance sheet at a carrying value of approximately $425 million.

Contract	Maturity Date	Expected Cash Inflows (Maturity Value)	Expected Cash Outflows (Market Value)
Cross currency swap	August 1, 2001	$200 million	$216.5 million
Cross currency swap	August 1, 2006	$200 million	$226.8 million

OTHER MATTERS

Year 2000

In 1996, a system-wide program to prepare CSW's computer systems and applications for the year 2000 was initiated. CSW expects to incur internal staff costs as well as consulting and other expenses related to infrastructure and facilities enhancements necessary to prepare the systems for the year 2000. Testing and conversion is expected to cost between $20 million and $21 million over the next two years including both domestic and foreign operations. A significant portion of these costs is likely to be covered through the redeployment of existing resources. The major applications which pose the greatest risk for CSW if implementation is not successful are the transmission and distribution automation system; the time in use, demand and recorder metering system for commercial and industrial customers; and the power billing system. The potential problems related to these systems are electric service interruptions to customers, interrupted revenue data gathering and poor customer relations resulting from delayed billing, respectively. Costs related to the year 2000 program will be expensed as incurred.

Adoption of Rights Plan

In September 1997, CSW's board of directors adopted a Rights Plan, subject to SEC approval under the Holding Company Act. SEC approval was received in December 1997, and on December 22, 1997, CSW executed the Rights Plan which had been modified to permit the AEP Merger. The Rights Plan was initially adopted and ultimately executed as part of the fiduciary responsibility of CSW's board of directors and was not adopted because of any takeover offer or threat. The intent of the Rights Plan is to assure fair and equal treatment for all of CSW's stockholders in the event of a hostile takeover attempt and to encourage a potential acquirer to negotiate with CSW's board of directors before attempting a takeover to assure a fair price for all stockholders.

On January 6, 1998, CSW made a dividend distribution of one right for each outstanding share of its common stock. Each right initially entitles the holder to buy one-tenth of one share of CSW Common for $50. Prior to the date upon which the rights become exercisable under the Rights Plan, CSW's outstanding stock certificates will represent both the shares of common stock and the rights, and the rights will trade only together with the shares.

Under the Rights Plan, a "triggering event" would occur ten days after a person or group acquires or announces a tender or exchange offer to acquire fifteen percent or more of CSW's outstanding common stock. Upon such a "triggering event," the rights would become exercisable and trade independently of CSW's common stock. After a person or group acquires fifteen percent or more of CSW's outstanding common stock, each right (except those held by such acquiring person or group, whose rights would become void), entitles the holder to purchase, at the exercise price, CSW common shares having a current market value of two times the exercise price. If CSW was acquired in a merger or other business combination, each right would entitle the holder to purchase, at the exercise price, common stock of the acquirer having a current market value of two times the exercise price. In either case, after a triggering event occurs but before an acquiring person becomes the owner of at least fifty percent of CSW's outstanding common stock, CSW's board of directors may direct the exchange of one share of CSW's common stock for each right then outstanding and not exercised. The Rights Plan exempts the AEP Merger transaction. Therefore, neither the execution of the AEP merger agreement nor consummation of the AEP Merger caused, or will cause a "triggering event" or the rights to become exercisable. See **PROPOSED AEP MERGER** for additional information on the proposed merger.

CSW's board of directors may redeem the rights for a price of one cent per right prior to the earlier of the rights becoming exercisable or the expiration of the Rights Plan. The rights will expire ten years from the effective date unless they are earlier redeemed or exchanged by CSW.

NEW ACCOUNTING STANDARDS

SFAS No. 125

SFAS No. 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities using a financial-components approach that focuses on control. An entity recognizes assets it controls and derecognizes assets when control has been surrendered and liabilities when they have been extinguished. A transfer of assets in which control of the asset is surrendered is recorded as a sale. Control of an asset is surrendered only when and if certain conditions are met. Likewise, a liability is only extinguished under certain distinct conditions. CSW adopted SFAS No. 125 effective January 1, 1997. Adoption of this standard has not had a material adverse effect on CSW's results of operations or financial condition.

SFAS No. 128

On March 3, 1997, the FASB issued SFAS No. 128, effective for financial statements for periods ending after December 15, 1997. SFAS No. 128 will simplify the computation of earnings per share for many companies by eliminating calculation provisions which were required by the prior earnings per share standard, Accounting Principles Board Opinion No. 15. CSW adopted SFAS No. 128 effective December 31, 1997. Adoption of SFAS No. 128 did not have a material effect on its calculation of earnings per share.

SFAS No. 130

This statement is effective for fiscal years beginning after December 15, 1997. The statement adds the requirement to present comprehensive income and all of its components (revenues, expenses, gains and losses) in a full set of financial statements, and this new statement must be displayed with the same prominence given other financial statements. Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Though effective at the beginning of 1998, comprehensive income is not required to be disclosed in interim statements in the year adopted. CSW will adopt this statement beginning with 1998 year-end financial statements.

SFAS No. 131

This statement is effective for fiscal years beginning after December 15, 1997, and requires that certain information about operating segments be presented in complete sets of financial statements. It also requires the presentation of information regarding products and services, geographic areas in which the entity operates, and concentrations of major customers.

The objective of this statement is to provide information about the different types of business activities in which an entity engages and the different economic environments in which it operates to help users of financial statements better understand an entity's performance and prospects for future cash flows and make more informed judgments about the enterprise as a whole.

An operating segment is a component of an enterprise that earns revenues and incurs expenses, whose results are regularly reviewed by the chief decision maker, and for which discrete financial information is available. Separate information is required to be presented for any segment that is 10 percent or more of reported income, profit or loss, or assets of the combined entity. CSW will adopt this statement beginning with 1998 year-end financial statements.

RESULTS OF OPERATIONS

COMPARISON OF THE YEARS ENDED DECEMBER 31, 1997 AND 1996

CSW's earnings decreased to $153 million in 1997 from $429 million in 1996. CSW's return on average common stock equity was 4.2% in 1997 compared to 12.1% in 1996. The primary reason for the lower earnings and return on average common stock equity was the accrual of the one-time United Kingdom windfall profits tax. The impact of CSW's final settlement of litigation with El Paso contributed to the decline in earnings as well. Also contributing to the decrease in earnings was the effect of both the PSO 1997 Rate Settlement Agreement and the CPL 1997 Final Order. See **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS** for additional information on CSW's final settlement of litigation with El Paso, the CPL 1997 Final Order and the PSO 1997 Rate Settlement Agreement. See **NOTE 17. EXTRAORDINARY ITEM** for additional information on the windfall profits tax. Further reducing earnings for 1997 were certain asset write-offs predominately at the U.S. Electric Operating Companies. Partially offsetting the lower earnings was the gain on the reacquisition of a portion of the U.S. Electric Operating Companies' preferred stock and an adjustment to deferred tax balances of $15 million resulting from a 2% reduction in the United Kingdom corporation tax rate. Further offsetting the decline in earnings was an increase in non-fuel electric revenues. Significant items impacting 1997 earnings are listed below (in millions).

	Earnings Impact
United Kingdom Windfall Profits Tax	$(176)
CPL 1997 Final Order	(48)
Asset Write-offs and Reserves	(48)
PSO 1997 Rate Settlement Agreement	(27)
Settlement of Litigation with El Paso	(23)
Gain on the Reacquisition of Preferred Stock	10
United Kingdom Deferred Tax Adjustment	15

In addition, several items that occurred in 1996 were not present in 1997. Prior to the sale of Transok in 1996, CSW realized $12 million of earnings from Transok's operations. As a result of the sale, CSW also recorded an after-tax gain of approximately $120 million in 1996. However, the U.S. Electric Operating Companies and CSW Energy recorded charges totaling $102 million, after-tax, for certain investments in the second quarter of 1996 which decreased earnings. See **NOTE 14. DISCONTINUED OPERATIONS** for additional information concerning the effects of the sale of Transok.

Operating revenues increased $113 million in 1997 compared to 1996. The revenue variances are shown in the following table.

1997 REVENUE VARIANCES

Increase (decrease) from prior year, millions

U.S. Electric	
CPL and WTU Transmission Revenues	$56
KWH Sales, Growth and Usage	41
Fuel Revenue	23
CPL 1996 Fuel Agreement	18
Sales for Resale	12
CPL 1997 Final Order	(45)
KWH Sales, Weather-Related	(37)
PSO 1997 Rate Settlement Agreement	(32)
Other Electric	37
	73
United Kingdom	22
Other Diversified	18
	$113

U.S. Electric revenues increased $73 million, or 2%, in 1997 compared to 1996. Retail MWH sales increased 2.5% with increases in all customer classes. U.S. Electric revenues increased primarily due to higher MWH sales resulting from increased customer usage and new transmission access revenues at CPL and WTU in accordance with FERC Order No. 888 and the Texas Commission's rule regarding transmission access and pricing. The new transmission revenues had no material effect on earnings because they were almost completely offset by a corresponding amount of transmission expense. Revenues increased due in part to the absence in 1997 of the revenue decrease in 1996 from the CPL 1996 Fuel Agreement. An increase in fuel revenues, as discussed in fuel expense below, also contributed to the higher revenues. Partially offsetting the revenue increase was a decrease in weather-related demand due to milder weather in the first nine months of 1997. Further offsetting the increase in U.S. Electric revenues was the revenue decrease from both the CPL 1997 Final Order and the PSO 1997 Rate Settlement Agreement. See **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS** for additional information on the CPL 1997 Final Order and the PSO 1997 Rate Settlement Agreement. United Kingdom revenues increased $22 million, or 1%, in 1997 compared to 1996 due primarily to the effect of the exchange rate movement between the British pound and the U.S. dollar, partially offset by a reduction in the fossil fuel levy collected on behalf of the United Kingdom. Other diversified revenues increased $18 million, or 31%, in 1997 compared to 1996 due primarily to increased revenues from CSW International, C3 Communications, CSW Credit and EnerShop.

During 1997 and 1996 the U.S. Electric Operating Companies generated 93% of their electric energy requirements. U.S. Electric fuel expense increased $26 million to $1.3 billion in 1997 compared to 1996 due primarily to an increase in natural gas fuel costs to $2.67 per MMbtu from $2.50 per MMbtu. Also contributing to the increase was the absence in 1997 of a one-time reduction to fuel expense of approximately $9 million recorded in the first quarter of 1996 related to the CPL 1996 Fuel Agreement. Partially offsetting these increases in fuel expense was the effect of lower-cost coal. United Kingdom cost of sales decreased approximately $40 million to $1.3 billion in 1997 compared to 1996 due primarily to a reduction in the fossil fuel levy collected on behalf of the United Kingdom government, which was partially offset by the effect of the exchange rate movement between the British pound and the U.S. dollar.

Other operating expense increased $196 million to $981 million in 1997 compared to 1996 due in part to the absence in 1997 of a $27 million pension adjustment recorded in the second quarter of 1996 at SEEBOARD which decreased pension expense. The effect of the exchange rate movement between the British pound and U.S. dollar also contributed to the increase in other operating expense of SEEBOARD U.S.A. In addition, approximately $56 million in new transmission access expense was recorded at CPL and WTU in 1997 related to FERC Order No. 888 and the Texas Commission rules regarding transmission access and pricing. Also increasing other operating expense were asset write-offs of approximately $57 million including certain regulatory assets, capitalized demand side management assets and obsolete inventories. In addition, the settlement of litigation with El Paso increased other operating expense $35 million. Further contributing to the increase in other operating expense was the $12 million impact of the CPL 1997 Final Order and the $4 million impact of the PSO 1997 Rate Settlement Agreement. See **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS** for additional information on the CPL 1997 Final Order and the PSO 1997 Rate Settlement Agreement. Partially offsetting these increases were the absence in 1997 of expenses recorded in 1996 related to inventory write-offs of $10 million and CPL rate case adjustments of $15 million. Further offsetting the increases were charges in 1996 associated with restructuring costs. Also partially offsetting the increase in other operating expense was reduced pension expense in 1997 resulting from changes made to the pension plan for CSW's domestic employees. See **NOTE 5. BENEFIT PLANS** for additional information related to the changes in the pension plan.

Depreciation and amortization expense increased $33 million, or 7%, in 1997 due primarily to the implementation of depreciation and amortization in accordance with the CPL 1997 Final Order. As a result of that order, the increase in depreciation due to the accelerated recovery of ECOM property was offset in part by the implementation of lower depreciation rates. Taxes other than income increased $17 million, or 10%, in 1997 compared to 1996 due primarily to higher property taxes at CPL and the absence in 1997 of a CPL Texas franchise tax refund and true-up in 1996. Income tax expense decreased $73 million to $151 million in 1997 due primarily to lower pre-tax income and a $15 million adjustment to deferred income tax balances resulting from a 2% reduction in the United Kingdom corporation tax rate.

Other income and deductions increased to a gain of $32 million in 1997 from a loss of $61 million in 1996 due primarily to the absence in 1997 of charges for certain investments recorded in the second quarter of 1996 of approximately $84 million, after tax, at the U.S. Electric Operating Companies and $18 million at CSW Energy. Long-term interest expense increased $8 million, or 2%, in 1997 due primarily to interest expense resulting from a fourth quarter 1996 debt issuance by CSW Energy. Short-term and other interest expense decreased $8 million to $86 million in 1997 when compared to 1996 due primarily to lower levels of short-term borrowings. Distributions on newly-issued Trust Preferred Securities increased interest and other charges by $17 million in 1997, which was partially offset by lower dividend requirements resulting from the related preferred stock reacquisitions at the U.S. Electric Operating Companies. See **NOTE 10. TRUST PREFERRED SECURITIES** for additional information on the new securities.

COMPARISON OF THE YEARS ENDED DECEMBER 31, 1996 AND 1995

CSW's earnings increased to $429 million in 1996 compared to $402 million in 1995. Although earnings increased, earnings per share decreased from $2.10 in 1995 to $2.07 in 1996 due to the issuance of additional shares of common stock during 1996. The return on average common stock equity was 12.1% in 1996 compared to 13.1% in 1995. U.S. Electric operations contributed approximately 57% of total earnings in 1996 and approximately 105% of total earnings in 1995. The lower percent for U.S. Electric operations is mostly attributed to the gain on the sale of Transok, higher earnings from SEEBOARD U.S.A. and the recording of charges at each of the U.S. Electric Operating Companies for certain investments. SEEBOARD U.S.A. contributed 24% of total earnings in 1996 as compared to 2% in 1995, reflecting a full year of earnings in 1996 compared to only a partial quarter in 1995.

Earnings increased in 1996 compared to 1995 due primarily to the gain from the sale of Transok, the additional earnings from SEEBOARD U.S.A., the absence of charges in 1996 related to the termination of the proposed El Paso Merger in June 1995 and the effect of the CPL 1995 Agreement. Also contributing to the increase were higher non-fuel electric revenues resulting from increased usage, customer growth and weather-related demand. Partially offsetting these increases in earnings were the recording of charges by the U.S. Electric Operating Companies in June 1996 associated with certain investments, write-offs of certain equity investments and other project development costs for CSW Energy, restructuring charges, the effect of the CPL 1996 Fuel Agreement, the asset reserves for the pending CPL rate case and the absence in 1996 of favorable tax adjustments made in 1995. Additional information related to the reserves recorded in June 1996 is discussed below. For further discussion of CPL's regulatory activities, see **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS**. Increased depreciation and amortization, increased other operating expense, increased interest expense and the loss of Mirror CWIP earnings also reduced the increase in earnings. Significant items impacting 1996 earnings are listed below (in millions).

	Earnings Impact
Gain on the Sale of Transok	$120
Charges for Certain Investments	(104)
CPL Pending Rate Case Write-offs	(8)
CPL 1996 Fuel Agreement	(7)

Revenues increased approximately $2.0 billion or 64% in 1996 when compared to 1995. The revenue variances are shown in the following table.

1996 REVENUE VARIANCES
Increase (decrease) from prior year, millions

U.S. Electric	
Fuel Revenues	$181
CPL 1995 Agreement	112
KWH Sales, Growth and Usage	83
KWH Sales, Weather-Related	21
WTU 1995 Stipulation and Agreement	21
Other Electric	(35)
CPL 1996 Fuel Agreement	(18)
	365
United Kingdom	1,640
Other Diversified	7
	$2,012

U.S. Electric revenues increased $365 million or 13% in 1996 compared to 1995. Total U.S. Electric KWH sales increased 4.2%, with increases in sales among all retail customer classes. Customer growth, increased usage and weather-related demand contributed to the increased revenues along with higher fuel revenues as discussed below. Also contributing to the increase was the absence in 1996 of reserves for refunds recorded in 1995 in accordance with the CPL 1995 Agreement and the WTU 1995 Stipulation and Agreement. KWH sales to retail customers increased in 1996 as a result of customer growth, increased customer usage and weather-related demand.

CSW's operating revenues also include approximately $1.8 billion from a full year of revenues from SEEBOARD U.S.A. for 1996 compared to $208 million of revenues for a partial quarter of operations in 1995. Other diversified revenues increased 13% to $59 million in 1996 as compared to $52 million in 1995 due primarily to increased revenues from CSW Energy projects, increased factoring revenues at CSW Credit and new revenues from C3 Communications and EnerShop.

During 1996 and 1995 the U.S. Electric Operating Companies generated 93% and 95%, respectively, of their electric energy requirements. U.S. Electric fuel expense increased 15% to approximately $1.1 billion in 1996 at the U.S. Electric Operating Companies due primarily to an increase in the average unit cost of fuel to $1.81 per MMbtu in 1996 from $1.58 per MMbtu in 1995, reflecting higher natural gas prices. Partially offsetting this increase was a reduction in the delivered cost of coal at the U.S. Electric Operating Companies resulting from lower coal transportation costs and lower spot market coal prices. U.S. Electric purchased power increased $36 million to $77 million in 1996 due primarily to increased economy energy purchases at a higher cost per MWH. CSW's operating expenses include $1.3 billion for cost of sales from a full year of United

Kingdom operations in 1996 compared to $158 million recorded in United Kingdom cost of sales for a partial quarter of operations in 1995.

Other operating expenses in 1996 increased $228 million, or 41%, from 1995 due primarily to the addition in 1996 of a full year of operating expenses from SEEBOARD U.S.A. as well as the absence in 1996 of reduced expenses in 1995 related to $28 million of regulatory assets established for previously expensed restructuring charges and the reversal of rate case costs pursuant to the CPL 1995 Agreement. Also contributing to the increase was the recognition in 1995 of a $13 million regulatory asset for previously recorded restructuring charges in accordance with the WTU 1995 Stipulation and Agreement. Another factor contributing to increased other operating expense was a CSW restructuring charge recorded in 1996. A $42 million reserve for deferred merger and acquisition costs was recorded in 1995 from the terminated El Paso merger. Maintenance expense decreased $5 million to $150 million in 1996 from $155 million in 1995 due primarily to a $10 million decrease in maintenance expense at CPL resulting from lower production and distribution maintenance costs. Partially offsetting this decrease was a $7 million increase in maintenance expense due to a write-down of production and distribution inventories at the U.S. Electric Operating Companies in 1996.

Depreciation and amortization increased 31% to $464 million in 1996 from $353 million in 1995 due primarily to the addition of depreciable fixed assets and the goodwill amortization related to the purchase of SEEBOARD, as well as increases in depreciable fixed assets at the U.S. Electric Operating Companies. Also contributing to the increase were the amortization of the regulatory assets established in 1995 associated with the CPL 1995 Agreement and the WTU 1995 Stipulation and Agreement along with accelerated amortization of deferred Oklaunion plant costs in accordance with the WTU 1995 Stipulation and Agreement.

Taxes, other than income increased 10% to $178 million in 1996 from $162 million in 1995. The increase was due primarily to lower 1995 ad valorem taxes resulting from revisions of prior year estimates recorded in 1995. Also contributing to the increase were higher ad valorem and state franchise taxes at SWEPCO in 1996. The higher ad valorem taxes resulted primarily from a higher state assessed value in Louisiana and the addition of the HVdc tie in Texas. The state franchise taxes increased due mainly to higher federal taxable income associated with Texas franchise tax. Income taxes increased $132 million to $224 million during 1996 compared to 1995. During 1995, income taxes were lower primarily due to adjustments relating to prior year taxes, as well as the tax effect from both the CPL 1995 Agreement and the WTU 1995 Stipulation and Agreement. Income taxes of $46 million were recorded for SEEBOARD U.S.A. from a full year of operations in 1996 compared to $6 million for a partial quarter of operations in 1995.

Other income and deductions decreased $160 million in 1996 when compared to 1995 due primarily to charges recorded in June 1996 associated with certain investments for plant sites, engineering studies and lignite reserves for the U.S. Electric Operating Companies. See the table below for additional detail on these charges. Other income and deductions was also lower as a result of certain write-offs recorded by CSW Energy. In addition, CPL's Mirror CWIP liability, which has now been fully amortized, contributed $41 million to income in 1995.

	Pre-tax effect on income	Income tax benefit	Net income effect
		(thousands)	
CPL	$(21,509)	$5,940	$(15,569)
PSO	(51,109)	15,401	(35,708)
SWEPCO	(29,700)	7,885	(21,815)
WTU	(14,949)	4,003	(10,946)
	$(117,267)	$33,229	$(84,038)

Interest on long-term debt increased $102 million or 46% during 1996 compared to 1995 due to higher levels of long-term debt outstanding related to the SEEBOARD acquisition. CSW's 1996 embedded cost of long-term debt was unchanged from 1995 at 7.2%. Interest on short-term debt decreased $7 million or 7% in 1996 compared to 1995 due to lower interest rates and lower levels of short-term debt outstanding. CSW used a portion of the proceeds from the sale of Transok to reduce short-term debt.

The $120 million gain on the sale of Transok as well as Transok's 1996 operations are shown separately in discontinued operations. Transok's earnings for the first five months of 1996 were $12 million compared to $25 million from a full year of operations for 1995. See **NOTE 15. TRANSOK DISCONTINUED OPERATIONS** for information, including comparative statements of income, related to the sale of Transok.

Consolidated Statements of Income

Central and South West Corporation

	1997	1996	1995
	For the Years Ended December 31, ($ in millions, except share amounts)		
Operating Revenues			
U.S. Electric	$ 3,321	$ 3,248	$ 2,883
United Kingdom	1,870	1,848	208
Other diversified	77	59	52
	5,268	5,155	3,143
Operating Expenses and Taxes			
U.S. Electric fuel	1,177	1,151	1,004
U.S. Electric purchased power	89	77	41
United Kingdom cost of sales	1,291	1,331	158
Other operating	981	785	557
Maintenance	152	150	155
Depreciation and amortization	497	464	353
Taxes, other than income	195	178	162
Income taxes	151	224	92
	4,533	4,360	2,522
Operating Income	735	795	621
Other Income and Deductions			
Mirror CWIP liability amortization	--	--	41
U.S. Electric charges for investments and plant development costs	(3)	(117)	--
Other	29	16	56
Non-operating income taxes	6	40	2
	32	(61)	99
Income Before Interest and Other Charges	767	734	720
Interest and Other Charges			
Interest on long-term debt	333	325	223
Distributions on Trust Preferred Securities	17	--	--
Interest on short-term debt and other	86	94	101
Preferred dividend requirements of subsidiaries	12	18	19
Gain on reacquired preferred stock	(10)	--	--
	438	437	343
Income from Continuing Operations	329	297	377
Discontinued Operations			
Income from discontinued operations, net of tax of $6 for 1996 and $13 for 1995	--	12	25
Gain on the sale of discontinued operations, net of tax of $72	--	120	--
	--	132	25
Income Before Extraordinary Item	329	429	402
Extraordinary Item - United Kingdom windfall profits tax	(176)	--	--
Net Income for Common Stock	$ 153	$ 429	$ 402
Average Common Shares Outstanding	212.1	207.5	191.7
Basic and Diluted EPS from Continuing Operations	$1.55	$1.43	$1.97
Basic and Diluted EPS from Discontinued Operations	--	0.64	0.13
Basic and Diluted EPS before Extraordinary Item	1.55	2.07	2.10
Basic and Diluted EPS from Extraordinary Item	(0.83)	--	--
Basic and Diluted EPS	$0.72	$2.07	$2.10
Dividends Paid per Share of Common Stock	$1.74	$1.74	$1.72

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

Consolidated Statements of Stockholders' Equity
Central and South West Corporation

	For the Years Ended December 31,		
	1997	1996	1995
		(millions)	
Common Stock at Beginning of Year	$ 740	$ 675	$ 667
Sale of Common Stock	3	65	8
Common Stock at End of Year	743	740	675
Paid-in Capital at Beginning of Year	1,022	610	561
Sale of Common Stock	17	412	49
Paid-in Capital at End of Year	1,039	1,022	610
Retained Earnings at Beginning of Year	1,963	1,893	1,824
Net income for common stock	153	429	402
Deduct: Common stock dividends	369	358	329
Deduct: Other	1	1	4
Retained Earnings at End of Year	1,746	1,963	1,893
Foreign Currency Translation and Other at Beginning of Year	77	--	--
Net Change	(49)	77	--
Foreign Currency Translation and Other at End of Year	28	77	--
Total Stockholders' Equity	$ 3,556	$ 3,802	$ 3,178

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

Consolidated Balance Sheets
Central and South West Corporation

	As of December 31,	
	1997	1996
	(millions)	
ASSETS		
Fixed Assets		
Electric		
Production	$ 5,824	$ 5,830
Transmission	1,558	1,538
Distribution	4,453	4,237
General	1,381	1,318
Construction work in progress	184	230
Nuclear fuel	196	184
	13,596	13,337
Other diversified	250	84
	13,846	13,421
Less - Accumulated depreciation and amortization	5,218	4,940
	8,628	8,481
Current Assets		
Cash and temporary cash investments	75	254
Accounts receivable	916	837
Materials and supplies, at average cost	172	185
Electric utility fuel inventory	65	102
Under-recovered fuel costs	84	46
Prepayments and other	78	85
	1,390	1,509
Deferred Charges and Other Assets		
Deferred plant costs	503	509
Mirror CWIP asset	285	299
Other non-utility investments	448	371
Securities available for sale	103	--
Income tax related regulatory assets, net	329	236
Goodwill	1,428	1,525
Other	337	402
	3,433	3,342
	$ 13,451	$ 13,332

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

Consolidated Balance Sheets
Central and South West Corporation

	As of December 31,			
	1997		1996	
CAPITALIZATION AND LIABILITIES	(millions)			
Capitalization				
Common stock: $3.50 par value				
Authorized shares: 350.0 million shares				
Issued and outstanding: 212.2 million shares in 1997 and 211.5 million shares in 1996	$ 743		$ 740	
Paid-in capital	1,039		1,022	
Retained earnings	1,746		1,963	
Foreign currency translation and other	28		77	
	3,556	45%	3,802	47%
Preferred Stock				
Not subject to mandatory redemption	176		292	
Subject to mandatory redemption	26		33	
	202	2%	325	4%
Certain Subsidiary-obligated, mandatorily redeemable preferred securities of subsidiary trusts holding solely Junior Subordinated Debentures of such Subsidiaries	335	4%	--	--%
Long-term debt	3,898	49%	4,024	49%
Total Capitalization	7,991	100%	8,151	100%
Current Liabilities				
Long-term debt and preferred stock due within twelve months	32		204	
Short-term debt	721		364	
Short-term debt - CSW Credit, Inc.	636		579	
Loan notes	56		76	
Accounts payable	558		630	
Accrued taxes	171		324	
Accrued interest	87		82	
Other	238		166	
	2,499		2,425	
Deferred Credits				
Accumulated deferred income taxes	2,432		2,272	
Investment tax credits	278		291	
Other	251		193	
	2,961		2,756	
	$ 13,451		$ 13,332	

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

Consolidated Statements of Cash Flows

Central and South West Corporation

	For the Years Ended December 31,		
	1997	1996	1995
		(millions)	
OPERATING ACTIVITIES			
Net income for common stock	$ 153	$ 429	$ 402
Non-cash Items and Adjustments			
Depreciation and amortization	529	521	425
Deferred income taxes and investment tax credits	110	62	(11)
Preferred stock dividends	12	18	19
Gain on reacquired preferred stock	(10)	--	--
Mirror CWIP liability amortization	--	--	(41)
Charges for investments and assets	53	147	--
Gain on sale of subsidiary	--	(192)	--
Changes in Assets and Liabilities			
Accounts receivable	(140)	(86)	(36)
Accounts payable	45	23	(32)
Accrued taxes	(153)	(14)	25
Fuel recovery	(37)	(89)	76
Other	164	56	(28)
	726	875	799
INVESTING ACTIVITIES			
Construction expenditures	(507)	(521)	(474)
Acquisitions expenditures	--	(1,394)	(421)
CSW Energy/CSW International projects	(382)	(124)	109
Sale of National Grid assets	--	99	--
Cash proceeds from sale of subsidiary	--	690	--
Other	(15)	(36)	(26)
	(904)	(1,286)	(812)
FINANCING ACTIVITIES			
Common stock sold	20	477	57
Proceeds from issuance of long-term debt	--	437	456
SEEBOARD acquisition financing	--	350	731
Reacquisition/Maturity of long-term debt	(253)	(239)	(363)
Redemption of preferred stock	(114)	(1)	(1)
Trust Preferred Securites Sold	323	--	--
Other financing activities	(3)	67	--
Change in short-term debt	414	(395)	(226)
Payment of dividends	(383)	(376)	(348)
	4	320	306
Effect of exchange rate changes on cash and cash equivalents	(5)	(56)	--
Net Change in Cash and Cash Equivalents	(179)	(147)	293
Cash and Cash Equivalents at Beginning of Year	254	401	108
Cash and Cash Equivalents at End of Year	$ 75	$ 254	$ 401
SUPPLEMENTARY INFORMATION			
Interest paid less amounts capitalized	$ 396	$ 356	$ 301
Income taxes paid	$ 301	$ 196	$ 77

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

CSW is a registered holding company under the Holding Company Act subject to regulation by the SEC. CSW's U.S. Electric Operating Companies are also regulated by the SEC under the Holding Company Act.

The principal business of CSW's U.S. Electric Operating Companies is the generation, transmission, and distribution of electric power and energy. These companies are subject to regulation by the FERC under the Federal Power Act and follow the Uniform System of Accounts prescribed by the FERC. They are subject to further regulation with regard to rates and other matters by state regulatory commissions as follows: CPL and WTU are subject to the Texas Commission; PSO is subject to the Oklahoma Commission; and SWEPCO is subject to the Arkansas Commission, Louisiana Commission, Oklahoma Commission and Texas Commission.

The principal business of CSW's United Kingdom electric operating subsidiary, SEEBOARD, is the distribution and supply of electric power and energy in Southeast England. SEEBOARD is subject to rate regulation by the DGES.

In addition to electric utility operations, CSW has subsidiaries involved in a variety of business activities. CSW Energy and CSW International pursue cogeneration and other energy-related ventures; CSW Credit factors the accounts receivable of affiliated and non-affiliated companies; C3 Communications pursues telecommunications projects; CSW Leasing has investments in leveraged leases; EnerShop offers energy-management services and CSW Energy Services will pursue retail energy markets outside of CSW's traditional service territory.

The more significant accounting policies of the CSW System are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of CSW and its subsidiary companies.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities along with disclosure of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fixed Assets and Depreciation

U.S. Electric fixed assets are stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials, overhead items and allowances for borrowed and equity funds used during construction. SEEBOARD's fixed assets are stated at their original fair market value which existed on the date of acquisition plus the original cost of property acquired or constructed since the acquisition, less disposals.

Provisions for depreciation of plant are computed using the straight-line method, generally at individual rates applied to the various classes of depreciable property. CSW's annual average consolidated composite rates were 3.4% for the years 1995-1997.

CPL Nuclear Decommissioning of STP

At the end of STP's service life, decommissioning is expected to be accomplished using the decontamination method, which is one of the techniques acceptable to the NRC. Using this method, the decontamination activities occur as soon as possible after the end of plant operations. Contaminated equipment is cleaned and removed to a permanent disposal location, and the site is generally returned to its pre-plant state.

CPL's decommissioning costs are accrued and funded to an external trust over the expected service life of the STP units. The existing NRC operating licenses will allow the operation of STP Unit 1 until 2027 and Unit 2 until 2028. The accrual for decommissioning costs is an annual level cost based on the estimated future cost to decommission STP, including escalations for expected inflation to the expected time of decommissioning, and is net of expected earnings on the trust fund.

CPL's portion of the costs of decommissioning STP were estimated to be $258 million in 1995 dollars based on a site specific study completed in 1995. CPL is recovering these decommissioning costs through rates based on the service life of STP at a rate of $8.2 million per year. The $8.2 million annual cost of decommissioning is reflected on the income statement in other operating expense. Due to the fact that the funds are deposited with a trustee under the terms of an irrevocable trust and because of the ongoing nature of the FASB project, as described below, management believes it inappropriate to reflect the trust assets on CSW's financial statements. At December 31, 1997, the trust balance was $45.7 million.

The FASB is currently reviewing the utility industry's accounting treatment of nuclear and certain other plant decommissioning costs. An exposure draft regarding this matter was issued in February 1996. In November 1997 the FASB abandoned all previous decisions on the scope of this project and began a new project related to decommissioning and other environmental remediation costs. It is not known at this time when any new pronouncement would result from this project.

Electric Revenues and Fuel

The U.S. Electric Operating Companies record revenues based upon cycle-billings. Electric service provided subsequent to billing dates through the end of each calendar month are accrued for by estimating unbilled revenues in accordance with industry standards.

CPL, SWEPCO and WTU recover retail fuel costs in Texas as a fixed component of base rates whereby over-recoveries of fuel are payable to customers and under-recoveries may be billed to customers after Texas Commission approval. The cost of fuel is charged to expense as incurred, with resulting fuel over-recoveries and under-recoveries recorded as regulatory assets and liabilities. PSO recovers fuel costs in Oklahoma and SWEPCO recovers fuel costs in Arkansas and Louisiana through automatic fuel recovery mechanisms. The application of these mechanisms varies by jurisdiction. See **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS**, for further information about fuel recovery.

CPL, PSO and WTU recover fuel costs applicable to wholesale customers, which are regulated by the FERC, through an automatic fuel adjustment clause. SWEPCO recovers fuel costs applicable to wholesale customers through formula rates.

CPL amortizes direct nuclear fuel costs to fuel expense on the basis of a ratio of the estimated energy used in the core to the energy expected to be derived from such fuel assembly over its life in the core. In addition to fuel amortization, CPL also records nuclear fuel expense as a result of other items, including spent fuel disposal fees assessed on the basis of net MWHs sold from STP and DOE special assessment fees for decontamination and decommissioning of the enrichment facilities on the basis of prior usage of enrichment services.

Accounts Receivable

CSW Credit, as a wholly owned subsidiary of CSW, purchases, without recourse, the billed and unbilled accounts receivable of the U.S. Electric Operating Companies, certain non-affiliated public utility companies and, prior to its sale by CSW in June 1996, Transok.

Regulatory Assets and Liabilities

For their regulated activities, the U.S. Electric Operating Companies follow SFAS No. 71, which defines the criteria for establishing regulatory assets and regulatory liabilities. Regulatory assets represent probable future revenue to the company associated with certain costs which will be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future refunds to customers. The regulatory assets are currently being recovered in rates or are probable of being recovered in rates. The unamortized asset balances are included in the table below.

As of December 31,	1997	1996
	(millions)	
Regulatory Assets		
Deferred plant costs (1)	$503	$509
Mirror CWIP asset	285	299
Income tax related regulatory assets, net	329	236
Deferred restructuring and rate case costs (2)	36	46
Deferred storm costs (3)	--	2
OPEBs	3	3
Demand side management costs	10	15
Under-recovered fuel costs (4)	84	47
Loss on reacquired debt	166	180
Fuel settlement (5)	16	17
Other	8	13
	$1,440	$1,367
Regulatory Liabilities		
Refunds due customers	$64	$43
Other	1	2
	$65	$45

(1) $19 in 1997 and $22 in 1996 earning no return, amortized through 2002
(2) $24 in 1997 and $31 in 1996 earning no return, amortized by the end of 2000; $12 in 1997 and $15 in 1996 earning no return, amortized through 2002
(3) Item earning no return, amortized by the end of 1997
(4) $15 in 1997 and $3 in 1996 earning no return, amortized over 12 month period, recalculated semiannually
(5) Item earning no return, amortized by the end of 2006

In accordance with orders of the Texas Commission, CPL and WTU deferred carrying costs, as well as operating costs, depreciation and tax costs incurred for STP and Oklaunion, respectively. These deferrals were for the period beginning on the date when the plants began commercial operation until the date the plants were included in rate base. CPL is amortizing and recovering these deferred costs through rates over the life of the plant. WTU began amortizing and recovering such costs over a seven year period beginning January 1, 1996. In accordance with Texas Commission orders, CPL previously recorded a Mirror CWIP asset, which is being amortized over the life of STP. For further information regarding the deferred plant costs at CPL and WTU, reference is made to **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS**. For additional information regarding regulatory accounting, reference is made to **NEW ACCOUNTING STANDARDS** and **MD&A-RECENT DEVELOPMENTS AND TRENDS**, ***Regulatory Accounting***.

SEEBOARD Acquisition

The acquisition of SEEBOARD was accounted for as a purchase combination. An allocation of the purchase price has been performed and is reflected in the consolidated financial statements. The goodwill is being amortized on a straight-line basis over 40 years. The unamortized balance of the SEEBOARD goodwill at December 31, 1997 was $1.4 billion. CSW continually evaluates whether circumstances have occurred that indicate the remaining useful life of goodwill may warrant revision or that the remaining balance of goodwill may not be recoverable.

National Grid Assets

Pursuant to a December 11, 1995 distribution by SEEBOARD, CSW (UK) plc, as a shareholder of SEEBOARD, received approximately 32.5 million shares of National Grid common stock. On February 2, 1996, all of these shares were sold for approximately $99 million.

Foreign Currency Translation

The financial statements of SEEBOARD U.S.A., which are included in CSW's consolidated financial statements, have been translated from British pounds to U.S. dollars in accordance with SFAS No. 52. All balance sheet accounts are translated at the exchange rate at the end of the period and all income statement items are translated at the average exchange rate for the applicable period. At December 31, 1997 the current exchange rate was approximately £1.00=$1.65, and the average exchange rate for the twelve month period ended December 31, 1997 was approximately £1.00=$1.58. At December 31, 1996 the current exchange rate was approximately £1.00=$1.71, and the average exchange rate for the twelve month period ended December 31, 1996 was approximately £1.00=$1.56. The average exchange rate for the twelve month period ended December 31, 1995 was approximately £1.00=$1.58. All resulting translation adjustments are recorded directly to Foreign currency translation and other on CSW's Consolidated Balance Sheets. Cash flow statement items are translated at a combination of average, historical and current exchange rates. The non-cash impact of the changes in exchange rates on cash and cash equivalents, resulting from the translation of items at the different exchange rates, is shown on CSW's Consolidated Statements of Cash Flows in Effect of exchange rate changes on cash and cash equivalents.

Statements of Cash Flows

Cash equivalents are considered to be highly liquid instruments with a maturity of three months or less. Accordingly, temporary cash investments are considered cash equivalents.

Risk Management

CSW has been exposed to currency and interest rate risks which reflect the floating exchange rate that exists between the U.S. dollar and the British pound since its purchase of SEEBOARD in 1995. CSW has utilized certain risk management tools, including cross currency swaps, foreign currency futures and foreign currency options, to manage adverse changes in exchange rates and to facilitate financing transactions resulting from CSW's acquisition of SEEBOARD.

SEEBOARD has entered into contracts for differences to reduce exposure to fluctuations in the price of electricity purchased from the United Kingdom's electricity power pool. This pool was established at privatization of the United Kingdom's electric industry for the bulk trading of electricity between generators and suppliers.

CSW accounts for these transactions as hedge transactions and any gains or losses associated with the risk management tools are recognized in the financial statements at the time the hedge transactions are settled. CSW believes its credit risk in these contracts is negligible. See **MD&A, RISK MANAGEMENT** and **NOTE 7. FINANCIAL INSTRUMENTS** for additional information.

Securities Available for Sale

CSW accounts for its investments in equity securities in accordance with SFAS No. 115. The investments have been designated as available for sale, and as a result are stated at fair value. Unrealized holding gains and losses, net of related taxes, are included within Foreign currency translation and other on CSW's Consolidated Balance Sheets. Information related to these Securities available for sale as of December 31, 1997 is presented in the following table.

	Original Cost	Unrealized Holding Gains/ (Losses)		Fair Value
		(millions)		
Securities available for sale	$110	$5	$(12)	$103

Accounting Change

Effective January 1, 1997, CPL and WTU began utilizing the LIFO method for the valuation of all fossil fuel inventories. Previously, CPL had used the weighted average cost method and WTU had used the LIFO method for coal and the weighted average cost method for other fuel inventories. PSO utilizes the LIFO method. SWEPCO continues to utilize the weighted average cost method pending approval of the Arkansas Commission to utilize the LIFO method. The change in accounting did not affect the results of operations due to the regulatory treatment of such costs.

Reclassification

Certain financial statement items for prior years have been reclassified to conform to the 1997 presentation. See **NOTE 15. TRANSOK DISCONTINUED OPERATIONS** for information related to the classification of Transok activities.

2. LITIGATION AND REGULATORY PROCEEDINGS

Settlement of Litigation Related to Termination of El Paso Merger

In May 1993, CSW entered into a merger agreement pursuant to which El Paso would have emerged from bankruptcy as a wholly owned subsidiary of CSW. In June 1995, following its notification that CSW was terminating the El Paso Merger Agreement, El Paso filed suit against CSW seeking a $25 million termination fee from CSW, as well as, unspecified damages for various contract and tort claims. Subsequently, CSW filed suit against El Paso seeking a $25 million termination fee from El Paso and recovery of certain rate case expenses incurred by CSW on behalf of El Paso.

The United States Bankruptcy Court for the Western District of Texas, Austin Division, consolidated the El Paso suit and the CSW suit into one adversary proceeding. On April 11, 1997, the court issued an interim order in which it ruled that CSW owed El Paso a $25 million termination fee and reserved judgment on certain disputed interest.

In July 1997, CSW and El Paso reached a settlement agreement that resolved all of the pending litigation. Under the terms of the settlement agreement, CSW and El Paso dismissed all pending claims in the litigation and CSW paid $35 million to El Paso, various of its creditor groups under its plan of reorganization, and its attorneys. CSW recorded a charge of $25 million in the first quarter of 1997 following the court's interim order and recorded an additional charge of $10 million in the second quarter of 1997 to fully recognize the $35 million settlement amount. The bankruptcy court vacated the interim order and approved the settlement agreement.

Litigation Related to the Rights Plan and AEP Merger

Two lawsuits have been filed in Delaware state court seeking to enjoin the AEP Merger. CSW and each of its directors have been named as defendants in both cases. The first suit alleges that the Rights Plan, approved by the CSW Board of Directors on September 27, 1997 and which became effective after SEC approval under the Holding Company Act on December 19, 1997, constitutes a "poison pill" precluding acquisition offers and resulting in a heightened fiduciary duty on the part of the CSW Board of Directors to pursue an auction-type sales process to obtain the best value for CSW stockholders. The second suit alleges that the AEP Merger is unfair to CSW stockholders in that it does not recognize the underlying intrinsic value of CSW's assets and its future profitability. The second suit also seeks an auction-type sale process. CSW believes that both suits are without merit and intends to defend them vigorously.

CPL Rate Review - Docket No. 14965

In November 1995, CPL filed with the Texas Commission a request to increase its retail base rates by $71 million, and in May 1996, CPL placed a $70 million base rate increase into effect under bond, subject to refund based on the receipt of a final order of the Texas Commission. On March 31, 1997, the Texas Commission issued the CPL 1997 Original Rate Order in CPL's rate review, Docket No. 14965. Thereafter, CPL filed a motion for rehearing which requested the reconsideration of numerous provisions of the order. Motions for rehearing were also filed by other parties to the rate proceeding. In response to the motions for rehearing, in June 1997, the Texas Commission made several modifications to the CPL 1997 Original Rate Order and also agreed to rehear on remand several other issues. CPL restored its rates in July 1997, with two exceptions, to levels existing prior to the May 1996 implementation of bonded rates. On August 21, 1997, after reconsidering the issues on remand, the Texas Commission voted to issue a revised final order and on September 10, 1997, CPL received a revised final order. CPL filed its second motion for rehearing on September 30, 1997. The second motion for rehearing again requested reconsideration of numerous issues in the rate case. On October 16, 1997 the Texas Commission issued the CPL 1997 Final Order. The CPL 1997 Final Order lowers the annual retail base rates of CPL by approximately $19 million, or 2.5%, from CPL's rate level existing prior to May 1996. The Texas Commission also included a "Glide Path" rate methodology in the CPL 1997 Final Order pursuant to which CPL's annual rates will be reduced by an additional $13 million in mid-1998 and another $13 million in mid-1999.

The CPL 1997 Original Rate Order established a separate docket, Docket No. 17280, to consider the recoverability of $20 million of rate case expenses incurred in the current rate case and in two prior dockets. CPL reached a settlement with all parties to resolve Docket No. 17280 which provides for CPL to recover $14 million out of the total $20 million of rate case expenses originally requested. Approximately $8 million of the rate case expenses will be recovered as an offset to the refund in the rate case, and the remaining $6 million of expenses will be surcharged to customers over three years. CPL expensed the $6 million in foregone rate case expenses during the first quarter of 1997.

CPL implemented bonded rates subject to refund in May 1996. On July 17, 1997, CPL restored its rates, with two exceptions, to levels existing prior to the implementation of the bonded rates. The two exceptions are for industrial interruptible rates and customer service charges for which the Texas Commission approved the increases requested by CPL. On October 31, 1997, CPL filed with the Texas Commission a proposed methodology for issuing an interim refund to customers in December 1997. A second refund was made in March 1998. The different components that were all incorporated into the December 1997 refund made to customers, a breakdown of the December 1997 refund, as well as the March 1998 refund, including interest, is shown below (millions).

December 1997	
Amount collected from customers under bond	$81.7
Surcharge for rate case expenses	(13.3)
Surcharge for fuel cost under-recovery	(23.6)
Net refund to customers	$44.8
March 1998 (estimated)	
Remaining refund available	$59.0
Anticipated surcharge for fuel cost under-recovery	(34.3)
Net refund to customers	$24.7

The following table details the financial impact of the CPL 1997 Final Order as compared to the rates existing prior to CPL placing bonded rates into effect. Although the entire impact has been recorded in CSW's 1997 results of operations, the financial impact on its results of operations for 1996 and for the year 1997 is shown below.

	1996 Retroactive Impact	1997 Only Impact
	(millions)	
Decrease in revenue	$(20.7)	$(24.2)
Items included in decrease in revenue with offsetting effect on expense:		
Accelerated recovery of STP (ECOM)	13.3	20.0
Change in depreciation	(7.5)	(11.3)
Decommissioning	1.9	4.3
Other	--	6.8
	7.7	19.8
Change in current year income before tax	(28.4)	(44.0)
Federal income taxes	9.5	14.8
Impact on net income - all recorded in 1997	$(18.9)	$(29.2)

CPL appealed the CPL 1997 Final Order to the State District Court of Travis County to challenge the resolution of several issues in the rate case. The primary issues include: (i) the classification of $800 million of invested capital in STP as ECOM which was also assigned a lower return on equity than non-ECOM property, (ii) the Texas Commission's use of the "Glide Path" rate reduction methodology to be applied to rates in mid-1998 and mid-1999, and (iii) the $18 million of disallowed affiliate transactions from CSW Services. As part of the appeal, CPL seeks a temporary injunction to prohibit the Texas Commission from implementing the "Glide Path" rate reduction methodology, currently scheduled to begin in May 1998. A hearing has been set for the temporary injunction on April 3, 1998. Management is unable to predict how the final resolution of these issues will ultimately affect CSW's results of operations and financial condition.

See **MD&A - RATES AND REGULATORY MATTERS,** ***CPL Rate Review - Docket No. 14965*** for additional discussion of the CPL 1997 Final Order, including the estimated ongoing financial impact of the final order and information regarding the difference between the rates originally requested by CPL and those ordered by the Texas Commission.

CPL 1995 Agreement

On April 5, 1995, CPL reached an agreement in principle with other parties to pending regulatory proceedings involving base rate, fuel and prudence issues relating to an outage experienced at STP during 1993 and 1994. Under the CPL 1995 Agreement, CPL provided customers a one-time base rate refund of $50 million. In addition, CPL refunded approximately $30 million in over-recovered fuel costs through April 1995. Furthermore, CPL did not charge customers for $62.25 million in replacement power costs and related interest primarily associated with the 1993-1994 STP outage. The CPL 1995 Agreement did not result in any ongoing change in base rate levels and provided that there would be no new rate review requests filed prior to September 28, 1995. CPL also reduced its fuel factors, effective in July 1995, by approximately $55 million on an annual basis due to projections of lower fuel costs. The Texas Commission approved the CPL 1995 Agreement on October 4, 1995. Details of the items in the CPL 1995 Agreement and the total 1995 earnings impact, including certain accounting provisions, are set forth in the following table.

	Pre-tax	After-tax
	(millions)	
Base rate refund	$(50.0)	$(32.5)
Fuel disallowance	(62.3)	(40.5)
Wholesale fuel refund	(3.2)	(2.1)
Current flowback of excess deferred federal income taxes	34.3	34.3
Capitalization of previously expensed restructuring and rate case costs	27.6	17.9
Recognition of factoring income	16.1	10.5
Amortization, interest and other	(6.6)	(4.4)

CPL Deferred Accounting

By orders issued in 1989 and 1990, the Texas Commission authorized CPL to defer certain STP Unit 1 and Unit 2 costs incurred between the commercial operation dates of those units and the effective date of rates reflecting the operation of those units. Upon appeal of the 1989 CPL order, and a related order involving another utility, the Supreme Court of Texas in 1994 sustained deferred accounting as an appropriate mechanism for the Texas Commission to use in preserving the financial integrity of CPL, but remanded CPL's case to the Court of Appeals to consider certain substantial evidence points of error not previously decided by the Court of Appeals. On August 16, 1995, the Court of Appeals rendered its opinion in the remand proceeding and affirmed the Texas Commission's order in all respects.

By orders issued in October 1990 and December 1990, the Texas Commission quantified the STP Unit 1 and Unit 2 deferred accounting costs and authorized the inclusion of the amortization of the costs and associated return in CPL's retail rates. These Texas Commission orders were appealed to the Travis County District Court where the appeals are still pending. Language in the Supreme Court of Texas' opinion in the appeal of the deferred accounting authorization case suggests that the appropriateness of including deferred accounting costs in rates charged to customers is dependent on a finding in the first case in which the deferred STP costs are recovered through rates that the deferral was actually necessary to preserve the utility's financial integrity. If in the appeals of the October 1990 and December 1990 rate orders, the courts decide that subsequent review under the financial integrity standard is required and was not made in those orders, such rate orders would be remanded to the Texas Commission for the purpose of entering findings applying the financial integrity standard. Pending the ultimate resolution of CPL's deferred accounting issues, CPL is unable to predict how its deferred accounting orders will ultimately be resolved by the Texas Commission.

If CPL's deferred accounting matters are not favorably resolved, CSW could experience a material adverse effect on its results of operations and financial condition. While CPL's management is unable to predict the ultimate outcome of these matters, management believes either that CPL will receive approval of its deferred accounting amounts or that CPL will be successful in renegotiation of its rate orders, so that there will be no material adverse effect on CSW's results of operation or financial condition.

CPL Fuel Proceeding

In January 1998, CPL filed a request with the Texas Commission to recover approximately $41.4 million in uncollected fuel and purchased power costs and related interest from its retail customers and to increase the fuel factors used to recover fuel costs incurred to provide service in the future. The fuel surcharge will be subtracted from the remaining base rate refund totaling approximately $59.0 million that was ordered by the Texas Commission in CPL's recent general rate case, Docket No. 14965. This net refund is being issued as a one-time adjustment to customers' March 1998 bills. In the same filing with the Texas Commission, CPL also requested permission to increase its fixed fuel factors by approximately $23.4 million effective with March 1998 bills. The primary cause of CPL's current fuel cost under-recovery and the need to increase its current fuel factors is the unanticipated increase in the price of natural gas.

In February 1998, stipulations were reached on both the fuel factor and surcharge. The fuel factor increase is being reduced to $15.4 million, and the fuel surcharge including interest is being reduced to $34.3 million. The reductions are not a disallowance and will be considered as part of CPL's fuel reconciliation filing to be made in December 1998.

CPL Nuclear Insurance Claims

In 1994, CPL filed a claim under its NEIL I policy relating to the 1993-1994 outage at STP Units 1 and 2. NEIL denied CPL's claim in 1995. CPL filed an action in April 1996 against both NEIL and Johnson & Higgins of Texas, Inc., the former insurance broker for STP, seeking recovery under the policy and other relief. Subsequently, CPL and NEIL agreed to dismiss all litigation between them concerning CPL's claim for NEIL coverage, and they agreed to submit their disputes over coverage to a non-binding, neutral evaluation process. Hearings were held by the neutral evaluator in February 1997 and April 1997. On April 22, 1997, the neutral evaluator made the recommendation that CPL's claim was not covered by its NEIL I policy. CPL abided by this recommendation.

CPL Industrial Road and Industrial Metals Site

Three suits naming CPL and others as defendants relating to a third-party owned and operated site in Corpus Christi, Texas formerly used for commercial reclamation of used electrical transformers, lead acid batteries and other scrap metals, were pending in federal and state court in Corpus Christi, Texas. The plaintiffs' complaints sought damages for alleged property damage and health impairment as a result of operations on the site and cleanup activities. During 1997, these suits were settled with no material adverse effect on CSW's results of operation or financial condition.

CPL Municipal Franchise Fee Litigation

In May 1996, the city of San Juan, Texas filed a purported class action in Hidalgo County, Texas District Court on behalf of all cities served by CPL based upon CPL's alleged underpayment of municipal franchise fees. The plaintiff's petition asserts various contract and tort claims against CPL as well as certain audit rights. The suit seeks unspecified damages and attorneys' fees. CPL filed a counterclaim for any overpayment of franchise fees it may have made as well as its attorneys' fees. CPL also filed a motion to transfer venue to Nueces County, Texas, and a plea to the jurisdiction and pleas in abatement asserting that the Texas Commission has primary jurisdiction over the claims. In May 1996 and December 1996, respectively, the cities of Pharr, Texas and San Benito, Texas filed individual suits making claims virtually identical to those claimed by the city of San Juan. In January, 1997, CPL filed an original petition at the Texas Commission requesting the Texas Commission to declare its jurisdiction over CPL's collection and payment of municipal franchise fees.

In April 1997, the Texas Commission issued a declaratory order in which it declined to assert jurisdiction over the claims of the City of San Juan. CPL appealed the Texas Commission's decision to the Travis County, Texas District Court. After the Texas Commission's order, the Hidalgo County court overruled CPL's plea to the jurisdiction and plea in abatement. In July 1997, the Hidalgo County court entered an order certifying the case as a class action. CPL appealed this order to the Corpus Christi Court of Appeals. In February 1998, the court of appeals' affirmed the trial court's order certifying the class. CPL appealed the court of appeals ruling to the Texas Supreme Court.

Although CPL believes that it has substantial defenses to the cities' claims and intends to defend itself against the cities' claims and pursue its counterclaims vigorously, management cannot predict the outcome of these lawsuits.

CPL and WTU Texas Utilities Complaint (Docket No. 17285)

A Proposal for Decision was received in February 1998 in a joint CPL/WTU complaint at the Texas Commission that since January 1, 1997, Texas Utilities was effectively double charging for transmission service within the Electric Reliability Council of Texas. The Proposal recommends approval of a CPL/WTU proposed offset of $15.5 million annually of payments to Texas Utilities under FERC-approved transmission service agreements against amounts that CPL and WTU would otherwise owe Texas Utilities pursuant to Texas Commission rules for transmission service in ERCOT. The Texas Commission will consider the Proposal in April 1998.

PSO Rate Review

In July 1996, the Oklahoma Commission staff filed an application seeking a review of PSO's earnings. In accordance with the established schedule, PSO subsequently filed financial data, cost of service and rate design testimony supporting both its current rates and an increase in annual depreciation expense of $26 million. In July 1997, the Oklahoma Commission staff and other intervenors to the proceeding filed their revenue requirements testimony. In its filing, the Oklahoma Commission staff recommended a rate reduction of $76.8 million for PSO.

On October 15, 1997, PSO reached a stipulated agreement with parties to settle the rate inquiry that was pending before the Oklahoma Commission. On October 23, 1997, the Oklahoma Commission issued a final order approving the agreement. The PSO 1997 Rate Settlement Agreement calls for PSO to lower its retail base rates beginning with the December 1997 billing cycle by approximately $35.9 million annually, or a 5.3 percent decrease below the current level of retail rates. Part of the rate reduction includes a reduction in annual depreciation expense of approximately $10.9 million. In addition, the PSO 1997 Rate Settlement Agreement resulted in PSO making a one-time $29 million refund to customers in December 1997.

The PSO 1997 Rate Settlement Agreement also calls for PSO to eliminate or amortize before its next rate filing approximately $41 million in certain deferred assets, approximately $26 million of which had been expensed in 1996. The remaining $15 million of deferred assets, which included approximately $9 million of costs incurred for customer energy management incentive programs, were written off in 1997. The following table represents the financial impact of the PSO 1997 Rate Settlement Agreement on CSW's 1997 results of operations.

	1997 Impact (millions)
Decrease in revenues	
Refund to customers	$(29.0)
Change in rates	(2.5)
	(31.5)
Changes in expenses (offsetting impact included in revenues)	
Depreciation	(6.3)
Rate case deferred costs	2.2
Income tax	(10.2)
	(14.3)
	(17.2)
Write-off of deferred assets, net of tax	(10.2)
	$(27.4)

The PSO 1997 Rate Settlement Agreement resulted in an adverse effect on CSW's results of operations for 1997 that will have a continuing impact because of the rate decrease. However, it reduced significant risks for PSO related to this regulatory proceeding and should allow PSO's rates to remain competitive for the foreseeable future.

See **MD&A - RATES AND REGULATORY MATTERS**, *PSO 1997 Rate Settlement Agreement* for additional discussion of the PSO 1997 Rate Settlement Agreement, including the estimated ongoing financial impact of the agreement.

PSO PCB Cases

PSO has been named a defendant in petitions filed in state court in Oklahoma in February and August, 1996. The petitions allege that the plaintiffs suffered personal injury and fear future injury as a result of contamination by PCBs from a transformer malfunction that occurred in April, 1982 at the Page Belcher Federal Building in Tulsa. Each of the plaintiffs seeks actual and punitive damages in excess of $10,000. As previously reported, other claims arising from this incident have been settled and the suits dismissed. Management believes that PSO has defenses to the remaining complaints and intends to defend the suits vigorously. Management believes that the remaining claims are covered by insurance. Management also believes that the ultimate resolution of the remaining lawsuits will not have a material adverse effect on CSW's results of operations or financial condition.

PSO Sand Springs/Grandfield, Oklahoma Sites

In 1989, PSO found PCB contamination in a Sand Springs, Oklahoma PCB storage facility. The EPA-approved cleanup began in 1994. In 1996, the EPA filed a complaint against PSO alleging that PSO failed to comply with provisions of the Toxic Substances Control Act. The EPA alleged improper disposal of PCBs at the Sand Springs site due to the length of time between discovery of the contamination and the actual cleanup at the site. The complaint also alleged failure to date PCB articles at a Grandfield, Oklahoma site. The total proposed penalty, which was accrued by PSO in 1996, was $479,000. PSO settled all claims in the suit by March 1998. The settlement did not have a material adverse effect on CSW's results of operations or financial condition.

SWEPCO Fuel Proceeding

In April 1997, SWEPCO filed with the Texas Commission an application concerning fuel cost under-recoveries and a possible fuel surcharge. The application included a motion to either abate the requested interim surcharge and consolidate the surcharge with a filed fuel reconciliation as discussed below, or alternatively, implement an interim surcharge in the months of July 1997 through June 1998. The Texas Commission's Office of Policy Development, on behalf of the Texas Commission, approved the consolidation. In addition, the Texas Commission has waived the requirement for SWEPCO to file biannual surcharge requests while this proceeding is pending, and has deferred the implementation of any surcharge and interest until after final disposition.

In May 1997, SWEPCO filed with the Texas Commission an application to reconcile fuel costs and implement a 12 month surcharge of fuel cost under-recoveries. Because of the uncertainty as to when a surcharge may commence, SWEPCO did not establish in its filing a proposed surcharge period or a total surcharge amount which would reflect interest through the entire surcharge period. However, SWEPCO indicated that it had an under-recovered Texas jurisdictional fuel cost balance of approximately $16.8 million, including interest through December 1996. Included in the $16.8 million balance are fuel related litigation expenses of $5.0 million and an interest return of $2.0 million on the unamortized balance of a fuel contract termination payment.

On December 8, 1997, SWEPCO and the other parties to the above consolidated proceedings before the Texas Commission filed a settlement on all issues except for one issue which will be decided by the Texas Commission. The outstanding issue concerns transmission equalization payments and whether they should be included in fuel or base revenues. The settlement is subject to approval by the Texas Commission. Of the $16.8 million in under-recovered fuel costs as of December 31, 1996, the settlement would result in a decrease of the under-recovered fuel costs, and the resulting surcharge recovery, by approximately $6.0 million. This disallowance will not result in an increase to fuel expense since the $5.0 million of litigation expense and the interest return of $2.0 million included in the requested surcharge amount were previously expensed. However, should SWEPCO not prevail on the outstanding issue, SWEPCO would be required to reduce earnings by approximately $1.8 million. The settlement also provides that SWEPCO's fuel and fuel-related expenses during the reconciliation period were reasonable and necessary and would allow them to be reconciled as eligible fuel. Also, the settlement provides that SWEPCO's actions in litigating and renegotiating certain fuel contracts, together with the prices, terms and conditions of the renegotiated contracts were prudent. The $6.0 million reduction is not associated with any particular activity or issue within the fuel proceedings. Management cannot predict whether approval of the settlement will be granted by the Texas Commission.

SWEPCO Burlington Northern Transportation Contract

In January 1995, a state district court in Bowie County, Texas entered judgment in favor of SWEPCO against Burlington Northern in a lawsuit regarding rates charged under two rail transportation contracts for delivery of coal to SWEPCO's Welsh and Flint Creek power stations. The court awarded SWEPCO approximately $72 million that would benefit customers, if collected, representing damages for the period from April 27, 1989 through September 26, 1994, as well as post-judgment interest and attorneys' fees and granted certain declaratory relief requested by SWEPCO. Burlington Northern appealed the state district court's judgment to the Texarkana, Texas Court of Appeals and, in April 1996, that court reversed the judgment of the state district court. In October 1996, SWEPCO filed an application with the Supreme Court of Texas to grant a writ of error to review and reverse the judgment of the Texarkana, Texas Court of Appeals. In June 1997, the Supreme Court of Texas granted SWEPCO's application for writ of error. Oral argument was held before the Supreme Court of Texas in October 1997. On March 13, 1998, the Supreme Court of Texas affirmed the judgment of the court of appeals.

SWEPCO Lignite Mining Agreement Litigation

SWEPCO and CLECO are each a 50% owner of Dolet Hills Power Station Unit 1 and jointly own lignite reserves in the Dolet Hills area of northwestern Louisiana. In 1982, SWEPCO and CLECO entered into a lignite mining agreement with the DHMV, a partnership for the mining and delivery of lignite from a portion of these reserves.

On April 15, 1997, SWEPCO and CLECO filed suit against DHMV and its partners in the United States District Court for the Western District of Louisiana seeking to enforce various obligations of DHMV to SWEPCO and CLECO under the lignite mining agreement, including provisions relating to the quality of the delivered lignite, pricing, and mine reclamation practices. On June 15, 1997, DHMV filed an answer denying the allegations in the suit and filed a counterclaim asserting various contract-related claims against SWEPCO and CLECO. SWEPCO and CLECO have denied the allegations in the counterclaims.

SWEPCO intends to vigorously prosecute the claims against DHMV and defend against the counterclaims which DHMV has asserted. Although management cannot predict the ultimate outcome of this matter, management believes that the resolution of this matter will not have a material adverse effect on CSW's results of operations or financial condition.

WTU Fuel Proceedings

In March 1997, WTU filed with the Texas Commission an Application for Authority to Implement an increase in fuel factors of $4.2 million, or 4.2%, on an annual basis. Additionally, WTU proposed to implement a fuel surcharge of $13.3 million, including accumulated interest, over a twelve month period to collect its under-recovered fuel costs. WTU requested authority to implement the revised fuel factors with its May 1997 billings and to commence the surcharge with its June 1997 billings. On April 14, 1997, an agreement in principle was reached among the parties to settle this docket. Under the proposed settlement, WTU agreed not to increase the fuel factors and to implement the $13.3 million surcharge over the period from June 1997 through February 1999. The Texas Commission approved the settlement in May 1997.

On December 31, 1997, WTU filed with the Texas Commission an application to reconcile fuel costs and to request authorization to carry the reconciled balance forward into the next reconciliation period. WTU did not seek a surcharge of the reconciled balance in the December 31, 1997 filing.

During the reconciliation period of July 1, 1994 through June 30, 1997 WTU incurred approximately $418 million in eligible fuel and fuel-related expenses to generate and purchase electricity. The Texas jurisdictional allocation of such fuel and fuel-related expenses is approximately $292 million.

In March 1998, WTU filed with the Texas Commission an Application for Authority to Implement an increase in fuel factors of $7.4 million, or 7.3%, on an annual basis. Additionally, WTU proposed to implement a fuel surcharge of $6.8 million, including accumulated interest, over a six month period to collect its under-recovered fuel costs. WTU requested authority to implement the revised fuel factors and to commence the surcharge with its June 1998 billings.

WTU 1995 Stipulation and Agreement

The WTU 1995 Stipulation and Agreement which was approved by the Texas Commission in October 1996 has affected WTU's results of operations for 1996 and 1997. Details of the items with significant earnings impact for 1995, including certain accounting treatments, are set forth in the following table.

	Pre-tax	After-tax
	(millions)	
Refund to retail customers	$(21.0)	$(13.7)
Effect of retail rate reduction	(2.4)	(1.6)
Current flowback of property related excess deferred federal income taxes	6.9	6.9
Five year flowback of non-property related excess deferred federal income taxes	0.1	0.1
Capitalization and amortization of previously expensed restructuring costs	12.7	8.2
Other amortization	(0.2)	(0.1)
Other one-time items	1.0	0.7

The WTU 1995 Stipulation and Agreement also eliminated several significant risks that have been the subject of regulatory proceedings relating to deferred accounting and rates and will enable WTU's rates to remain at competitive levels for the foreseeable future.

Other

CSW is party to various other legal claims, actions and complaints arising in the normal course of business. Management does not expect disposition of these matters to have a material adverse effect on CSW's results of operations or financial condition.

3. COMMITMENTS AND CONTINGENT LIABILITIES

Construction and Capital Expenditures

It is estimated that CSW, including the U.S. Electric Operating Companies, SEEBOARD and other diversified operations, will spend approximately $569 million in capital expenditures (but excluding capital that may be required for acquisitions) during 1998. Substantial commitments have been made in connection with these programs.

Fuel and Related Commitments

To supply a portion of their fuel requirements, the U.S. Electric Operating Companies have entered into various commitments for the procurement of fuel.

SWEPCO Henry W. Pirkey Power Plant

In connection with the South Hallsville lignite mining contract for its Henry W. Pirkey Power Plant, SWEPCO has agreed, under certain conditions, to assume the obligations of the mining contractor. As of December 31, 1997, the maximum amount SWEPCO believes it could potentially assume is $67 million. However, the maximum amount may vary as the mining contractor's need for funds fluctuates. The contractor's actual obligation outstanding at December 31, 1997 was $59 million.

SWEPCO South Hallsville Lignite Mine

As part of the process to receive a renewal of a Texas Railroad Commission permit for lignite mining at the South Hallsville lignite mine and expansion into the Marshall South Lignite Project area, SWEPCO has agreed to provide guarantees of mine reclamation in the amount of $85 million. Since SWEPCO uses self-bonding, the guarantee provides for SWEPCO to commit to use its resources to complete the reclamation in the event the work is not completed by the third party miner. The current cost to reclaim the mine is estimated to be approximately $36 million.

<u>Other Commitments and Contingencies</u>

CPL Nuclear Insurance

In connection with the licensing and operation of STP, the owners have purchased nuclear property and liability insurance coverage as required by law, and have executed indemnification agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act.

The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities, is in effect until August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $8.92 billion per incident, effective as of December 1997. The owners of STP are insured for their share of this liability through a combination of private insurance amounting to $200 million and a mandatory industry-wide program for self-insurance totaling $8.72 billion. The maximum amount that each licensee may be assessed under the industry-wide program of self-insurance following a nuclear incident at an insured facility is $75.5 million per reactor, which may be adjusted for inflation, plus a five percent charge for legal expenses, but not more than $10 million per reactor for each nuclear incident in any one year. CPL and each of the other STP owners are subject to such assessments, which CPL and other owners have agreed will be allocated on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors.

The owners of STP currently maintain on-site decontamination liability and property damage insurance in the amount of $2.75 billion provided by ANI and NEIL. Policies of insurance issued by ANI and NEIL stipulate that policy proceeds must be used first to pay decontamination and cleanup costs before being used to cover direct losses to property. Under project agreements, CPL and the other owners of STP will share the total cost of decontamination liability and property insurance for STP, including premiums and assessments, on a pro rata basis, according to each owner's respective ownership interest in STP.

CPL purchased, for its own account, a NEIL I Business Interruption and/or Extra Expense policy. This insurance will reimburse CPL for extra expenses incurred for replacement generation or purchased power as the result of a covered accident that shuts down production at one or both of the STP Units for more than 23 consecutive weeks. In the event of an outage of STP Units 1 and 2 and the outage is the result of the same accident, such insurance will reimburse CPL up to 80% of the recovery. The maximum amount recoverable for a single unit outage is $118.6 million for both Unit 1 and 2. CPL is subject to an additional assessment up to $1.8 million for the current policy year in the event that insured losses at a nuclear facility covered under the NEIL I policy exceeds the accumulated funds available under the policy. CPL renewed its current NEIL I Business Interruption and/or Extra Expense policy September 15, 1997.

For further information relating to litigation associated with CPL nuclear insurance claims, reference is made to **NOTE 2. LITIGATION AND REGULATORY PROCEEDINGS**.

SWEPCO Cajun Asset Purchase Proposal

Cajun filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code on December 21, 1994 and is currently operating under the supervision of the United States Bankruptcy Court for the Middle District of Louisiana.

On March 18, 1998, SWEPCO, together with the Cajun Members Committee, which currently represents 7 of the 12 Louisiana member distribution cooperatives that are served by Cajun, filed the SWEPCO Plan in the bankruptcy court. Under the SWEPCO Plan, a SWEPCO affiliate or subsidiary would acquire all of the non-nuclear assets of Cajun, comprised of the two-unit Big Cajun I natural gas-fired plant, the three-unit Big Cajun II coal-fired plant, and related non-nuclear assets, for $940.5 million in cash, subject to adjustment pursuant to terms of the asset purchase agreement proposed as part of the SWEPCO plan. The SWEPCO Plan incorporates the terms of a settlement between the RUS, Cajun Members Committee, Claiborne Electric Cooperative, Inc. and SWEPCO. In addition, the SWEPCO Plan provides for SWEPCO and the Cajun member cooperatives to enter into long-term power supply agreements which will provide the Cajun member cooperatives with rate plan options and market access provisions designed to ensure the long-term competitiveness of the cooperatives. Eight cooperatives and CLECO, successor to Teche Electric Cooperative, already have agreed to purchase power from SWEPCO if SWEPCO's plan is confirmed by the bankruptcy court.

Entergy Texas is no longer a co-plan proponent with SWEPCO and the Cajun Members Committee, as it had been under SWEPCO plans filed prior to the January 15, 1998 plan. SWEPCO continues to work with Entergy Texas to resolve its objection to the plan. The SWEPCO Plan filed March 18, 1998 replaces plans filed previously by SWEPCO on January 15, 1998, October 26, 1996, September 30, 1996 and April 19, 1996. Two competing plans of reorganization for the non-nuclear assets of Cajun have been filed with the bankruptcy court, each with different purchase prices, rate paths and other provisions. Confirmation hearings in Cajun's bankruptcy case are now scheduled through April 1998. Consummation of the SWEPCO Plan is conditioned upon confirmation by the bankruptcy court, and the receipt by SWEPCO and CSW of all requisite state and federal regulatory approvals in addition to their board approvals. If the SWEPCO Plan is confirmed, the $940.5 million required to consummate the acquisition of Cajun's non-nuclear assets is expected to be financed through a combination of external borrowings and internally generated funds with approximately 70% of the external borrowings funded with non-recourse debt. There can be no assurance that the SWEPCO Plan will be confirmed by the bankruptcy court or, if it is confirmed, that it will be approved by federal and state regulators.

SWEPCO Rental and Lease Commitments

SWEPCO has entered into various financing arrangements primarily with respect to coal transportation and related equipment, which are treated as operating leases for rate-making purposes. At December 31, 1997, leased assets of $45.7 million, less accumulated amortization of $39.0 million, were included in Electric Utility Plant on the Consolidated Balance Sheets and at December 31, 1996, leased assets were $46.0 million, less accumulated amortization of $36.9 million.

SWEPCO Biloxi, Mississippi MGP Site

SWEPCO was notified by Mississippi Power in 1994 that it may be a PRP at a MGP site in Biloxi, Mississippi, which was formerly owned and operated by a predecessor of SWEPCO. Since then, SWEPCO has worked with Mississippi Power on both the investigation of the extent of contamination on the site as well as on the subsequent sampling of the site. The sampling results indicated contamination at the property as well as the possibility of contamination of an adjacent property. A risk assessment was submitted to the MDEQ, and the MDEQ requested that a future residential exposure scenario be evaluated for comparison with commercial and industrial exposure scenarios. However, Mississippi Power and SWEPCO do not believe that cleanup to a residential scenario is appropriate since this site has been industrial/commercial for more than 100 years, and

Mississippi Power plans to continue this type of usage. Mississippi Power and SWEPCO also presented a report to the MDEQ demonstrating that the ground water on the site was not potable, further demonstrating that cleanup to residential standards is not necessary.

The MDEQ has not agreed to a non-residential future land use scenario and has requested further testing. Following the additional testing and resolution of whether cleanup must meet a residential usage scenario or a commercial/industrial scenario, a feasibility study will be conducted to more definitively evaluate remedial strategies for the property. The feasibility study process will require public input prior to a final decision being made.

At the present time, SWEPCO has not had any further substantive discussions with MDEQ regarding the ultimate resolution of this issue. Therefore, a final range of cleanup costs is not yet determinable. SWEPCO has incurred approximately $200,000 to date for its portion of the cleanup of this site, and based on its preliminary estimates, anticipates that an additional $2 million may be incurred. Accordingly, SWEPCO has accrued $2 million for the cleanup of the site.

SWEPCO Voda Petroleum Superfund Site

In April 1996, SWEPCO received correspondence from the EPA notifying SWEPCO that it is a PRP to a cleanup action planned for the Voda Petroleum Superfund Site located in Clarksville, Texas. SWEPCO is conducting a records review to compile documentation relating to SWEPCO's past use of the Voda Petroleum site. The proposed cleanup of the site is estimated by the EPA to cost approximately $2 million and to take approximately twelve months to complete. An option for over 30 PRPs to conduct the cleanup in lieu of EPA conducting the cleanup is under consideration. Any liability associated with this project is not expected to have a material adverse effect on CSW's results of operations or financial condition.

CSW Energy Loans and Commitments

CSW Energy has agreed to provide construction financing and other credit support up to $235 million for the 330 MW Phillips Sweeny project. CSW Energy obtained the funds for this project through CSW's short-term borrowing program. Construction of this plant began in September 1996 and commenced commercial operations in February 1998. At December 31, 1997, CSW Energy had provided $163 million, including development, construction and financing, of the total estimated $189 million in project costs. CSW Energy expects to obtain permanent project financing in the second quarter of 1998 at which time the project will return a significant portion of the investment and the short-term borrowings will be repaid. In addition, CSW has provided letters of credit and guarantees on behalf of other independent power projects totaling approximately $27 million.

CSW International Enertek Project

In July 1996, CSW International announced a joint venture with Alpek, through a subsidiary, to build, own and operate a 109 MW, gas-fired cogeneration project at Alpek's Petrocel industrial complex in Altamira, Tamaulipas, Mexico. CSW International and Alpek each will have 50% ownership in the project, Enertek, which will cost approximately $75 million. CSW International has agreed to provide construction financing for the project of which $62 million had been funded at December 31, 1997. The Enertek project began operations in the first quarter of 1998.

4. INCOME TAXES

CSW files a consolidated United States federal income tax return and participates in a tax sharing agreement with its subsidiaries. Income tax includes United States federal income taxes, applicable state income taxes and SEEBOARD's United Kingdom corporation taxes. Total income taxes differ from the amounts computed by applying the United States federal statutory income tax rate to income before taxes for a number of reasons which are presented in the ***INCOME TAX RATE RECONCILIATION*** table below. Information concerning income taxes, including total income tax expense, the reconciliation between the United States federal statutory tax rate and the effective tax rate and significant components of deferred income taxes follow.

INCOME TAX EXPENSE	1997	1996	1995
		(millions)	
Included in Operating Expenses and Taxes			
Current (1)	$47	$118	$105
Deferred (1)	117	120	1
Deferred ITC (2)	(13)	(14)	(14)
	151	224	92
Included in Other Income and Deductions			
Current	--	(1)	2
Deferred	(6)	(39)	(4)
	(6)	(40)	(2)
Income Taxes for Discontinued Operations (includes $72 resulting from the gain on the sale of Transok for 1996)	--	78	13
	$145	$262	$103

(1) Approximately $30 million, $49 million and $7 million of CSW's Current Income Tax Expense was attributable to SEEBOARD U.S.A. and was recognized as United Kingdom corporation tax expense for 1997, 1996 and 1995, respectively. In addition, approximately $7 million and $19 million of CSW's Deferred Income Tax Expense in 1997 and 1996, respectively, was attributed to SEEBOARD U.S.A.

(2) ITC deferred in prior years are included in income over the lives of the related properties.

INCOME TAX RATE RECONCILIATION	1997	1996	1995
		($ in millions)	
Income before taxes attributable to:			
Domestic operations	$327	$562	$506
Foreign operations	147	146	13
Income before taxes	$474	$708	$519
Tax at U.S. statutory rate	$166	$248	$182
Differences			
Amortization of ITC	(13)	(14)	(14)
Mirror CWIP	5	5	(11)
Non-deductible goodwill amortization	12	13	--
Tax credit on foreign operations dividend	(3)	(18)	--
United Kingdom deferred income tax adjustment	(16)	--	--
CPL 1995 Agreement	--	--	(34)
WTU 1995 Stipulation and Agreement	--	--	(7)
Adjustments	(4)	10	(22)
Other	(2)	18	9
	$145	$262	$103
Effective tax rate	31%	37%	20%

DEFERRED INCOME TAXES (1)	1997	1996
	(millions)	
Deferred Income Tax Liabilities		
Depreciable utility plant	$1,920	$1,867
Deferred plant costs	176	178
Mirror CWIP asset	100	105
Income tax related regulatory assets	211	207
Other	371	307
	2,778	2,664
Deferred Income Tax Assets		
Income tax related regulatory liability	(123)	(126)
Unamortized ITC	(100)	(105)
Alternative minimum tax carryforward	(27)	(83)
Other	(76)	(99)
	(326)	(413)
Net Accumulated Deferred Income Taxes	$2,452	$2,251
Net Accumulated Deferred Income Taxes		
Noncurrent	$2,432	$2,272
Current	20	(21)
	$2,452	$2,251

(1) In 1996, CSW generated $33 million of excess foreign tax credits against which a full valuation allowance was established as of December 31, 1996. In 1997, the valuation reserve was reduced to $17 million due to lower levels of excess foreign tax credits. Other than excess foreign tax credits, CSW did not have other valuation allowances recorded against other deferred tax assets at December 31, 1997 and 1996 due to a favorable earnings history.

5. BENEFIT PLANS

Pension Plans

Prior to June 30, 1997, CSW maintained a tax qualified, non-contributory defined benefit pension plan covering substantially all CSW employees in the United States. Benefits were based on employees' years of credited service, age at retirement, and final average annual earnings with an offset for the participant's primary Social Security benefit. The CSW board of directors approved an amendment, effective July 1, 1997, which converted the present value of accrued benefits under the existing pension plan into a cash balance pension plan. Under the cash balance formula, each participant has an account, for recordkeeping purposes only, to which credits are allocated annually based on a percentage of the participant's pay. The applicable percentage is determined by age and years of vested service the participant has with CSW as of December 31 of each year.

The purpose of the plan change is to continue to provide retirement income benefits which are competitive both within the utility industry as well as with other companies within the United States.

As the plan sponsor, CSW will continue to reflect the costs of the pension plan according to the provisions of SFAS No. 87 and allocate such costs to each of the participating employers. As a result of the July 1, 1997 amendment, CSW realized a savings in 1997 of approximately $20 million in pension expense and will also realize significant ongoing reductions in operating and maintenance expense because of the change. The change to the pension plan was applied retroactively to the beginning of 1997, so these savings were recognized evenly throughout 1997 with a portion being capitalized.

Pension plan assets consist primarily of common stocks and short-term and intermediate-term fixed income investments.

The majority of SEEBOARD's employees joined a pension plan that is administered for the United Kingdom's electricity industry. The assets of this plan are held in a separate trustee-administered fund that is actuarially valued every three years. SEEBOARD and its participating employees both contribute to the plan. Subsequent to July 1, 1995, new employees were no longer able to participate in that plan. Instead, two new pension plans were made available to new employees, both of which are also separate trustee-administered plans.

Information about the two separate pension plans (the U.S. plan and the non-U.S. plan), including: (i) pension plan net periodic costs and contributions; (ii) pension plan participation; (iii) a reconciliation of the funded status of the pension plan to the amounts recognized on the balance sheets; and (iv) assumptions used in accounting for the pension plan follow.

NET PERIODIC PENSION PLAN COSTS AND CONTRIBUTIONS	1997 CSW PLANS	1997 U.S. PLAN	1997 NON-U.S. PLAN	1996 CSW PLANS	1996 U.S. PLAN	1996 NON-U.S. PLAN	1995 U.S. PLAN ONLY
				(millions)			
Net Periodic Pension Costs							
Service cost	$34	$20	$14	$37	$23	$14	$20
Interest cost on projected benefit obligation	137	65	72	136	69	67	64
Actual return on plan assets	(245)	(163)	(82)	(184)	(110)	(74)	(117)
Net amortization and deferral	68	66	2	27	27	--	44
	$(6)	$(12)	$6	$16	$9	$7	$11
Pension Plan Contributions	$6	$--	$6	$35	$28	$7	$29

APPROXIMATE NUMBER OF PARTICIPANTS IN PLANS DURING 1997	CSW PLANS	U.S. PLAN	NON-U.S. PLAN
Active employees	10,100	7,200	2,900
Retirees	10,200	4,200	6,000
Terminated employees	6,800	2,000	4,800

RECONCILIATION OF FUNDED STATUS OF PLAN TO AMOUNTS RECOGNIZED ON THE CSW CONSOLIDATED BALANCE SHEETS	1997 CSW PLANS	1997 U.S. PLAN	1997 NON-U.S. PLAN	1996 CSW PLANS	1996 U.S. PLAN	1996 NON-U.S. PLAN
				(millions)		
Actuarial present value of						
Accumulated benefit obligation for service rendered to date	$1,860	$896	$964	$1,748	$781	$967
Additional benefit for future salary levels	94	35	59	200	141	59
Projected benefit obligation	1,954	931	1,023	1,948	922	1,026
Plan assets, at fair value	2,290	1,109	1,181	2,077	991	1,086
Plan assets in excess of the projected benefit obligation	336	178	158	129	69	60
Unrecognized net loss	(86)	12	(98)	30	27	3
Unrecognized prior service cost	(93)	(88)	(5)	(12)	(7)	(5)
Unrecognized net obligation	15	11	4	16	12	4
Prepaid pension cost	$172	$113	$59	$163	$101	$62

The vested portion of the accumulated benefit obligations for the combined plans was $1.8 billion at December 31, 1997 and $1.7 billion for the combined plans at December 31, 1996. The unrecognized net obligation for the U.S. plan is being amortized over the average remaining service life of employees or 15 years. Prepaid pension cost is included in Deferred Charges and Other Assets on the balance sheets.

In addition to the amounts shown in the above table, CSW has a non-qualified excess benefit plan. This plan is available to all pension plan participants who are entitled to receive a pension benefit from CSW which is in excess of the limitations imposed on benefits by the Internal Revenue Code through the qualified plan. CSW's net periodic cost for this non-qualified plan for the years ended December 31, 1997, 1996 and 1995 was $3.7 million, $4.8 million and $2.4 million, respectively.

ASSUMPTIONS USED IN ACCOUNTING FOR THE PENSION PLAN	Discount Rate	Long-Term Compensation Increase	Return on Plan Assets
1997 U.S. Plan	7.50%	5.46%	9.00%
Non-U.S. Plan	6.75%	4.75%	7.25%
1996 U.S. Plan	8.00%	5.46%	9.50%
Non-U.S. Plan	7.75%	5.75%	8.25%
1995 U.S. Plan	8.00%	5.46%	9.50%

Postretirement Benefits Other Than Pensions (U.S. Companies Only)

CSW, including each of the U.S. Electric Operating Companies, adopted SFAS No. 106 effective January 1, 1993. The transition obligation established at adoption is being amortized over twenty years, with fifteen years remaining. Prior to 1993, these benefits were accounted for on a pay-as-you-go basis. Pursuant to an order by the Oklahoma Commission, PSO established a regulatory asset of approximately $5 million in 1993 for the difference between the pay-as-you-go basis and the costs determined under SFAS No. 106. PSO is recovering the amortization of this regulatory asset over a ten year period.

Information about the non-pension postretirement benefit plan, including: (i) net periodic postretirement benefit costs; (ii) a reconciliation of the funded status of the postretirement benefit plan to the amounts recognized on the balance sheets; and (iii) assumptions used in accounting for the postretirement benefit plan follow.

NET PERIODIC POSTRETIREMENT BENEFIT COSTS	1997	1996	1995
		(millions)	
Service cost	$ 8	$8	$8
Interest cost on APBO	18	19	18
Actual return on plan assets	(22)	(7)	(8)
Amortization of transition obligation	9	9	9
Net amortization and deferral	11	(2)	2
	$24	$27	$29

RECONCILIATION OF FUNDED STATUS OF PLAN TO AMOUNTS RECOGNIZED ON THE BALANCE SHEETS	1997	1996
	(millions)	
APBO		
Retirees	$158	$163
Other fully eligible participants	24	18
Other active participants	59	55
Total	241	236
Plan assets at fair value	(159)	(123)
APBO in excess of plan assets	82	113
Unrecognized transition obligation	(135)	(144)
Unrecognized gain	53	32
Accrued Cost	$--	$1

ASSUMPTIONS USED IN THE ACCOUNTING FOR SFAS NO. 106	Discount Rate	Return on Plan Assets	Tax Rate for Taxable Trusts
1997	7.50%	9.00%	39.6%
1996	8.00%	9.50%	39.6%
1995	8.00%	9.50%	39.6%

Health care cost trend rates

1997 Average Rate of 7.0% grading down .50% per year to an ultimate average rate of 5.00% in 2001.
1996 Average Rate of 9.0% grading down .75% per year to an ultimate average rate of 5.25% in 2001.
1995 Average Rate of 10.25% grading down .75% per year to an ultimate average rate of 5.75% in 2001.

Increasing the assumed health care cost trend rates by one percentage point in each year would increase the APBO by approximately $25.2 million and the aggregate of the service and interest costs components on net postretirement benefits by approximately $3.6 million.

Health and Welfare Plans

CSW provides medical, dental, group life insurance, dependent life insurance, and accidental death and dismemberment insurance plans for substantially all active CSW System employees in the United States. The total contributions, recorded on a pay-as-you-go basis, for the years ended December 31, 1997, 1996, and 1995 were $35.6 million, $28.4 million and $27.0 million, respectively. Employer provided health care benefits are not common in the United Kingdom due to the country's national health care system. Accordingly, SEEBOARD does not provide health care benefits to the majority of its employees.

6. JOINTLY OWNED ELECTRIC UTILITY PLANT

The U.S. Electric Operating Companies are parties to various joint ownership agreements with other non-affiliated entities. Such agreements provide for the joint ownership and operation of generating stations and related facilities, whereby each participant bears its share of the project costs. At December 31, 1997, the U.S. Electric Operating Companies had undivided interests in five such generating stations and related facilities as shown in the following table.

	STP Nuclear Plant	*Flint Creek Coal Plant*	*Pirkey Lignite Plant*	*Dolet Hills Lignite Plant*	*Oklaunion Coal Plant*
			($ in millions)		
Plant in service	$2,336	$80	$437	$230	$398
Accumulated depreciation	$517	$47	$176	$84	$122
Plant capacity-MW	2,501	528	675	650	676
Participation	25.2%	50.0%	85.9%	40.2%	78.1%
Share of capacity-MW	630	264	580	262	528

7. FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the following fair values of each class of financial instruments for which it is practicable to estimate fair value. The fair value does not affect any of the liabilities unless the issues are redeemed prior to their maturity dates.

Cash, temporary cash investments, accounts receivable, other financial instruments and short-term debt

The fair value equals the carrying amount as stated on the balance sheets due to the short maturity of those instruments.

Securities held for sale

The fair values, which are based on quoted market prices, equal the carrying amounts as stated on the balance sheet because the accounting treatment prescribed under SFAS No. 115.

Long-term debt

The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to CSW for debt of the same remaining maturities.

Trust Preferred Securities

The fair value of the Trust Preferred Securities are based on quoted market prices on the New York Stock Exchange.

Preferred stock subject to mandatory redemption

The fair value of preferred stock subject to mandatory redemption is estimated based on quoted market prices for the same or similar issues or on the current rates offered to CSW for preferred stock with the same or similar remaining redemption provisions.

Long-term debt and preferred stock due within 12 months

The fair value of current maturities of long-term debt and preferred stock due within 12 months are estimated based on quoted market prices for the same or similar issues or on the current rates offered for long-term debt or preferred stock with the same or similar remaining redemption provisions.

CARRYING VALUE AND ESTIMATED FAIR VALUE	1997	1996
	(millions)	
Long-term debt		
Carrying amount	$3,898	$4,024
Fair value	4,052	4,065
Trust Preferred Securities		
Carrying amount	335	--
Fair value	344	--
Preferred stock subject to mandatory redemption		
Carrying amount	26	33
Fair value	27	34
Long-term debt and preferred stock due within 12 months		
Carrying amount	32	204
Fair value	32	204

Cross-currency swaps and SEEBOARD's electricity contracts for differences

The fair value of cross currency swaps reflect third-party valuations calculated using proprietary pricing models. Based on these valuations, CSW's position in these cross currency swaps represented an unrealized loss of $43 million at December 31, 1997. This unrealized loss is offset by unrealized gains related to the underlying transactions being hedged. CSW expects to hold these contracts to maturity. The fair value of SEEBOARD's contracts for differences is not determinable due to the absence of a trading market.

DERIVATIVE CONTRACTS NOTIONAL AMOUNTS AND ESTIMATED FAIR VALUES	Notional Amount	Fair Value
	(millions)	
Cross currency swaps		
Maturities: 2001 and 2006	$400	$443

8. LONG-TERM DEBT

The CSW System's long-term debt outstanding as of the end of the last two years is presented in the following table.

	Maturities From	Maturities To	Interest Rates From	Interest Rates To	December 31, 1997	December 31, 1996
					(millions)	
Secured bonds	1998	2025	5.25%	7.75%	$2,080	$2,108
Unsecured bonds	2001	2030	3.9% (1)	8.88%	1,353	1,384
Notes and Lease Obligations	1999	2003	5.54%	9.75%	641	724
Unamortized discount					(10)	(12)
Unamortized cost of reacquired debt					(166)	(180)
					$3,898	$4,024

(1) Variable rate

The mortgage indentures, as amended and supplemented, securing FMBs issued by the U.S. Electric Operating Companies, constitute a direct first mortgage lien on substantially all electric utility plant. The U.S. Electric Operating Companies may offer additional FMBs, medium-term notes and other securities subject to market conditions and other factors.

CSW's year end weighted average cost of long-term debt was 7.2% for 1995-1997.

Annual Requirements

Certain series of outstanding FMBs have annual sinking fund requirements, which are generally 1% of the amount of each such series issued. These requirements may be, and generally have been, satisfied by the application of net expenditures for bondable property in an amount equal to 166-2/3% of the annual requirements. Certain series of pollution control revenue bonds also have sinking fund requirements. At December 31, 1997, the annual sinking fund requirements and annual maturities (including sinking fund requirements) for all long-term debt for the next five years are presented in the following table.

	Sinking Fund Requirements	Annual Maturities
	(millions)	
1998	$1	$31
1999	1	195
2000	1	208
2001	1	517
2002	1	181

Dividends

At December 31, 1997, approximately $1.4 billion of CSW's subsidiary companies' retained earnings were available for payment of cash dividends by such subsidiaries to CSW. The mortgage indentures, as amended and supplemented, at CPL and PSO contain certain restrictions on the use of their retained earnings for cash dividends on their common stock. These restrictions do not currently limit the ability of CSW to pay dividends to its shareholders.

Reacquired Long-term Debt

During 1996 and 1995, the U.S. Electric Operating Companies reacquired $205 million and $355 million of long-term debt, respectively, including reacquisition premiums, prior to maturity. The premiums and related reacquisition costs and discounts are included in long-term debt on the balance sheets and are being amortized over periods consistent with their expected ratemaking treatment. The remaining amortization periods for such items range from 2 to 33 years. No long-term debt was reacquired prior to maturity during 1997.

Reference is made to **MD&A, LIQUIDITY AND CAPITAL RESOURCES** for further information related to long-term debt, including new issues and reacquisitions of long-term debt during 1997 as well as information related to the financing of the SEEBOARD acquisition.

9. PREFERRED STOCK

The outstanding preferred stock of the U.S. Electric Operating Companies as of the end of the last two years is presented in the following table.

	Dividend Rate From - To	December 31, 1997	1996	Current Redemption Price From - To
		(millions)		
Not subject to mandatory redemption				
1,352,900 shares	4.00% - 8.72%	$19	$135	$102.75 - $109.00
1,600,000 shares	auction	160	160	$100.00
Issuance expenses/premiums		(3)	(3)	
		$176	$292	
Subject to mandatory redemption				
340,000 shares	6.95%	$27	$34	$102.32
To be redeemed within one year		(1)	(1)	
		$26	$33	
Total authorized shares				
6,405,000				

All of the outstanding preferred stock is redeemable at the option of the U.S. Electric Operating Companies upon 30 days notice at the current redemption price per share. During 1997, 1996 and 1995, SWEPCO redeemed $1.2 million annually pursuant to its annual sinking fund requirement. In addition during 1997, each of the U.S. Electric Operating Companies reacquired a significant portion of its outstanding preferred stock. As a result of differences between the dividend rates on the reacquired securities and prevailing market rates, CSW realized an overall gain of approximately $10 million on the transactions. This gain is shown separately, as Gain on reacquired preferred stock, on the Consolidated Statements of Income. The following table shows the results of the tender offers of the U.S. Electric Operating Companies' preferred stock.

	Shares Reacquired	Shares Remaining
CPL		
Series 4.00%	57,952	42,048
Series 4.20%	57,524	17,476
Series 7.12%	260,000	--
Series 8.72%	500,000	--
PSO		
Series 4.00%	53,260	44,640
Series 4.24%	91,931	8,069
SWEPCO		
Series 4.28%	52,614	7,386
Series 4.65%	23,092	1,908
Series 5.00%	37,261	37,739
Series 6.95%	65,990	274,010
WTU		
Series 4.40%	36,325	23,675

The dividends on CPL's $160 million auction and money market preferred stocks are adjusted every 49 days, based on current market rates. The dividend rates averaged 4.3%, 4.1% and 4.5% during 1997, 1996 and 1995, respectively. The minimum annual sinking fund requirement for SWEPCO's preferred stock subject to mandatory redemption is $1.2 million for the years 1997 through 2001. This sinking fund retires 12,000 shares annually.

10. TRUST PREFERRED SECURITIES

The following Trust Preferred Securities issued by the wholly-owned statutory business trusts of CPL, PSO and SWEPCO were outstanding at December 31, 1997. They are classified on the balance sheet as Certain Subsidiary-obligated, mandatorily redeemable preferred securities of subsidiary trusts holding solely Junior Subordinated Debentures of such Subsidiaries.

Business Trust	Security	Units	Amount (millions)	Description of Underlying Debentures
CPL Capital I	8.00%, Series A	6,000,000	$150	CPL, $154.6 million, 8.00%, Series A
PSO Capital I	8.00%, Series A	3,000,000	75	PSO, $77.3 million, 8.00%, Series A
SWEPCO Capital I	7.875%, Series A	4,400,000	110	SWEPCO, $113.4 million, 7.875%, Series A
		13,400,000	$335	

Each of the business trusts will be treated as a subsidiary of its parent company. The only assets of the business trusts are the subordinated debentures issued by their parent company as specified above. In addition to the obligations under their subordinated debentures, each of the parent companies has also agreed to a security obligation which represents a full and unconditional guarantee of its capital trust's obligation.

11. SHORT-TERM FINANCING

The CSW System uses short-term debt, primarily commercial paper, to meet fluctuations in working capital requirements and other interim capital needs. CSW has established a money pool to coordinate short-term borrowings for certain subsidiaries and also incurs borrowings outside the money pool for other subsidiaries. As of December 31, 1997, CSW had revolving credit facilities totaling $1.4 billion to back up its commercial paper program. At December 31, 1997, CSW had $721 million outstanding in short-term borrowings. The maximum amount of such short-term borrowings outstanding during the year, which had a weighted average interest yield for the year of 5.8%, was $725 million during December 1997.

CSW Credit, which does not participate in the money pool, issues commercial paper on a stand-alone basis. At December 31, 1997, CSW Credit had a $900 million revolving credit agreement that is secured by the assignment of its receivables to back up its commercial paper program which had $637 million outstanding. The maximum amount of such commercial paper outstanding during the year, which had a weighted average interest yield for the year of 5.6%, was $890 million during September 1997.

12. COMMON STOCK

CSW adopted SFAS No. 128 during 1997. SFAS No. 128 requires the computation of earnings per share on both a basic as well as a diluted basis. CSW's basic earnings per share of common stock are computed by dividing net income for common stock by the average number of common shares outstanding for the respective periods. Diluted earnings per share reflect the potential dilution that could occur if all options outstanding under CSW's stock incentive plan were converted to common stock and then shared in the income for common stock. CSW's basic and diluted earnings per share were the same for the years 1995 - 1997. CSW's dividends per common share reflect per share amounts paid for each of the periods.

CSW can issue common stock, either through the purchase and reissuance of shares from the open market or original issue shares, through the LTIP, a stock option plan, PowerShare and ThriftPlus. Following the issuance of the CPL 1997 Original Rate Order and the decline in the market price of CSW's common stock, which CSW believes is attributable in part to the CPL 1997 Original Rate Order, the determination was made that it was appropriate for CSW to begin funding these plans through open market purchases, effective April 1, 1997. Prior to that time, CSW had issued $20 million in new common stock in 1997. Information concerning common stock activity issued through the LTIP, the stock option plan, PowerShare and ThriftPlus is presented in the following table.

	1997	1996	1995
Number of new shares issued (millions)	0.8	2.9	2.3
Range of stock price for new shares	$21 1/4 - $25 5/8	$24 3/8 - $28 7/8	$22 5/8 - $28 3/8
New common stock equity (millions)	$20	$79	$57

During February 1996, CSW sold 15,525,000 shares of CSW Common in a primary stock offering and received net proceeds of approximately $398 million. These proceeds were used to repay a portion of indebtedness incurred during the acquisition of SEEBOARD.

13. STOCK-BASED COMPENSATION PLANS

CSW has a key employee incentive plan. This plan is accounted for under Accounting Principles Board Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for this plan been determined consistent with SFAS No. 123, pro forma calculations of CSW's net income for common stock and earnings per share as required by SFAS No. 123 would not have changed significantly from amounts reported.

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

CSW may grant options for up to 4.0 million shares of CSW Common under the stock option plan. Under the stock option plan, the option exercise price equals the stock's market price on the date of grant. The grant vests over three years, one-third on each of the three anniversary dates of the grant, and expires 10 years after the original grant date. CSW has granted 2.8 million shares through December 31, 1997.

A summary of the status of CSW's stock option plan at December 31, 1997, 1996 and 1995 and the changes during the years then ended is presented in the following table.

	1997		1996		1995	
	Shares (thousands)	Weighted Average Exercise Price	Shares (thousands)	Weighted Average Exercise Price	Shares (thousands)	Weighted Average Exercise Price
Outstanding at beginning of year	1,412	$26	1,564	$26	1,616	$26
Granted	694	21	70	27	--	--
Exercised	--	22	(147)	24	(23)	22
Canceled	(204)	28	(75)	27	(29)	27
Outstanding at end of year	1,902	24	1,412	26	1,564	26
Exercisable at end of year	1,162	n/a	1,004	n/a	828	n/a
Weighted average fair value of options	$2.24 - $2.39					

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1997: (i) risk-free interest rate of 5.9%; (ii) expected dividend rate of 6.5%; (iii) and expected volatility of 19%. The expected life of the options granted did not materially impact the values produced.

14. BUSINESS SEGMENTS

CSW's business segments at December 31, 1997 included the U.S. Electric operations (CPL, PSO, SWEPCO, WTU) and the United Kingdom Electric operations (SEEBOARD U.S.A.). See **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** for a discussion of the accounting for the SEEBOARD acquisition. Eight additional non-utility companies are included with CSW in Corporate items and Other (CSW Energy, CSW International, C3 Communications, CSW Credit, CSW Leasing, CSW Services, EnerShop and CSW Energy Services). Gas Operations (Transok) were sold on June 6, 1996. See **NOTE 15. TRANSOK DISCONTINUED OPERATIONS** for additional information. CSW's business segment information is presented in the following tables.

	1997	1996	1995
		(millions)	
Operating Revenues			
Electric Operations			
United States	$3,321	$3,248	$2,883
United Kingdom (1)	1,870	1,848	208
Corporate items and Other	77	59	52
	$5,268	$5,155	$3,143
Operating Income			
Electric Operations			
United States	$661	$768	$719
United Kingdom (1)	255	236	21
Corporate items and Other	(30)	15	(27)
Operating income before taxes	886	1,019	713
Income taxes	(151)	(224)	(92)
	$735	$795	$621
Depreciation and Amortization			
Electric Operations			
United States	$389	$362	$335
United Kingdom (1)	92	88	7
Corporate items and Other	16	14	11
	$497	$464	$353
Identifiable Assets			
Electric Operations			
United States	$9,172	$9,142	$9,278
United Kingdom (1)	2,931	3,061	2,821
Corporate items and Other	1,348	1,129	1,004
	13,451	13,332	13,103
Gas Operations (Discontinued)	--	--	766
	$13,451	$13,332	$13,869
Capital expenditures and acquisitions			
Electric Operations			
United States	$346	$356	$398
United Kingdom (1), (2)	126	1,543	731
Corporate items and Other (3)	276	109	19
	748	2,008	1,148
Gas Operations (Discontinued)	--	23	66
	$748	$2,031	$1,214

(1) Represents equity method of accounting for November 1995 (27.6%) and full consolidation accounting for December 1995 (76.45%).
(2) Includes $1,394 million and $731 million in 1996 and 1995, respectively, used to purchase SEEBOARD.
(3) Includes CSW Energy and CSW International equity investments.

15. TRANSOK DISCONTINUED OPERATIONS

On June 6, 1996, CSW sold Transok to Tejas. Accordingly, the results of operations for Transok have been reported as discontinued operations and prior periods have been restated for consistency.

As a wholly owned subsidiary of CSW, Transok operated as an intrastate natural gas gathering, transmission, marketing and processing company that provided natural gas services to the U.S. Electric Operating Companies, predominantly PSO, and to other gas customers throughout the United States.

CSW sold Transok to Tejas for approximately $890 million, consisting of $690 million in cash and $200 million in existing long-term debt that remained with Transok after the sale. A portion of the cash proceeds was used to repay borrowings incurred related to the SEEBOARD acquisition and the remaining proceeds were used to repay commercial paper borrowings. CSW recorded an after tax gain on the sale of Transok of approximately $120 million in 1996.

Transok's operating results for 1996 and 1995 are summarized in the following table (transactions with CSW have not been eliminated).

	1996	1995
Total revenue	$362	$721
Operating income before income taxes	23	52
Earnings before income taxes	18	38
Income taxes	(6)	(13)
Net income from discontinued operations	$12	$25

16. PROPOSED AEP MERGER

In December 1997, CSW and AEP entered into a definitive merger agreement for a tax-free, stock-for stock transaction with AEP being the surviving corporation. The transaction is subject to the approval of various state and federal regulatory agencies. The shareholders of CSW will be asked to approve the AEP Merger and the shareholders of AEP will be asked to approve the issuance of shares of AEP common stock pursuant to the AEP Merger Agreement and to amend AEP's certificate of incorporation to increase the number of authorized shares of AEP common stock from 300 million shares to 600 million shares.

The proposed AEP Merger, with a targeted completion date in the first half of 1999, is expected to be accounted for as a pooling of interests.

Upon completion of the AEP Merger, CSW common stockholders will receive 0.6 shares of AEP common stock for each share of CSW common stock. At that time, CSW common stockholders will own approximately 40% of the outstanding common stock of AEP. Under the AEP Merger Agreement, there will be no changes required with respect to the outstanding debt, preferred stock or Trust Preferred Securities of CSW or its subsidiaries. The transaction must satisfy many conditions, some of which may not be waived by the parties. There can be no assurance that the AEP Merger will be consummated.

17. EXTRAORDINARY ITEM

In the general election held in the United Kingdom on May 1, 1997, the United Kingdom's Labour Party won control of the government with a considerable majority. Prior to the general election, the Labour Party had announced that, if elected, it would impose a windfall profits tax on certain industries in the United Kingdom, including the privatized utilities, to fund a variety of social improvement programs. On July 2, 1997, the one-time windfall profits tax was introduced in the Labour Party's Budget and the legislation enacting the tax subsequently was passed during the third quarter of 1997. Accordingly, during the third quarter of 1997, SEEBOARD U.S.A. accrued, as an extraordinary item, £109.5 million (or $176 million when converted at £1.00=$1.61) for a one-time, windfall profits tax enacted by the United Kingdom government.

The windfall profits tax is payable in two equal installments, due December 1, 1997 and December 1, 1998. The tax was charged at a rate of 23% on the difference between nine times the average profits after tax for the four years following flotation in 1990, and SEEBOARD's market capitalization calculated as the number of shares issued at flotation multiplied by the flotation price per share. On December 1, 1997, SEEBOARD made the first such payment.

As enacted, the windfall profits tax is not tax deductible for United Kingdom purposes. To date, no United States income tax benefit has been recognized due to the uncertainty as to the impact on the use of foreign tax credits. CSW continues to analyze the potential United States income tax benefit from the use of foreign tax credits.

18. PRO FORMA INFORMATION (UNAUDITED)

CSW secured effective control of SEEBOARD in December 1995. The unaudited pro forma information is presented in response to applicable accounting rules relating to acquisition transactions. The pro forma information gives effect to the acquisition of SEEBOARD accounted for under the purchase method of accounting for the twelve months ended December 31, 1995 as if the transaction had been consummated at the beginning of the period presented.

The unaudited pro forma information has been prepared in accordance with United States generally accepted accounting principles. The pro forma information in the following table is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the SEEBOARD acquisition had taken place at the beginning of the period specified, nor is it necessarily indicative of future operating results. The following pro forma information has been prepared reflecting the February 1996 issuance of CSW Common, and has been converted at an exchange rate of £1.00=$1.58 for the twelve months ended December 31, 1995.

	1995 (millions except EPS)
Operating Revenues	$5,404
Operating Income	750
Net Income for Common Stock	445
EPS of Common Stock	$2.15

19. QUARTERLY INFORMATION (UNAUDITED)

The following unaudited quarterly information includes, in the opinion of management, all adjustments necessary for a fair presentation of such amounts. Information for quarterly periods is affected by seasonal variations in sales, rate changes, timing of fuel expense recovery and other factors.

QUARTER ENDED	1997 (1)	1996 (2)
	(millions, except EPS)	
March 31		
Operating Revenues	$1,278	$1,215
Operating Income	127	144
Income from Continuing Operations	25	43
Net Income for Common Stock	25	51
Basic and Diluted EPS from Continuing Operations	$0.12	$0.22
Basic and Diluted EPS	$0.12	$0.26
June 30		
Operating Revenues	$1,184	$1,267
Operating Income	169	214
Income from Continuing Operations	83	11
Net Income for Common Stock	83	128
Basic and Diluted EPS from Continuing Operations	$0.39	$0.05
Basic and Diluted EPS	$0.39	$0.61
September 30		
Operating Revenues	$1,477	$1,438
Operating Income	303	284
Income from Continuing Operations	196	190
Extraordinary Item	(176)	--
Net Income for Common Stock	20	190
Basic and Diluted EPS from Continuing Operations	$0.93	$0.90
Basic and Diluted EPS from Extraordinary Item	$(0.83)	--
Basic and Diluted EPS	$0.10	$0.90
December 31		
Operating Revenues	$1,329	$1,235
Operating Income	136	153
Income from Continuing Operations	25	53
Net Income for Common Stock	25	60
Basic and Diluted EPS from Continuing Operations	$0.11	$0.26
Basic and Diluted EPS	$0.11	$0.28
Total		
Operating Revenues	$5,268	$5,155
Operating Income	735	795
Income from Continuing Operations	329	297
Extraordinary Item	(176)	--
Net Income for Common Stock	153	429
Basic and Diluted EPS from Continuing Operations	$1.55	$1.43
Basic and Diluted EPS from Extraordinary Item	$(0.83)	--
Basic and Diluted EPS	$0.72	$2.07

(1) The first, second and third quarters of 1997 include the effect of certain reclassifications to conform with the 1997 year end financial statement presentation.

(2) In 1996, CSW EPS of Common Stock for the year do not sum to the total of the individual quarters' EPS of Common Stock due to different levels of average shares outstanding for the different periods.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Central and South West Corporation:

We have audited the accompanying consolidated balance sheets of Central and South West Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows, for each of the three years ended December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of CSW Finance Company (1997 - which includes CSW Investments) and CSW Investments (1996), which statements reflect total assets and total revenues of 22 percent and 35 percent in 1997 and 23 percent and 36 percent in 1996, respectively, of the consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Central and South West Corporation and subsidiary companies as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years ended December 31, 1997, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Dallas, Texas
February 16, 1998

AUDITOR'S REPORT TO THE MEMBERS OF CSW UK FINANCE COMPANY

We have audited the consolidated balance sheets of CSW UK Finance Company and subsidiaries as of 31 December 1997 and the related consolidated statement of earnings and statements of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CSW UK Finance Company and subsidiaries at 31 December 1997 and the result of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected results of operations and shareholders' equity as of and for the year ended 31 December 1997 to the extent summarised in Note 23 to the consolidated financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London, England
19 January 1998

AUDITOR'S REPORT TO THE MEMBERS OF CSW INVESTMENTS

We have audited the consolidated balance sheets of CSW Investments and subsidiaries as of 31 December 1996 and the related consolidated statement of earnings and statements of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CSW Investments and subsidiaries at 31 December 1996 and the result of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected results of operations and shareholders' equity as of and for the year ended 31 December 1996 to the extent summarised in the notes to the consolidated financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London, England
22 January 1997

REPORT OF MANAGEMENT

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

The consolidated financial statements have been audited by CSW's independent public accountants who were given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the board of directors and committees of the board. CSW and its subsidiaries believe that representations made to the independent public accountants during their audit were valid and appropriate. The reports of independent public accountants are presented elsewhere in this report.

CSW, together with its subsidiary companies, maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that the consolidated financial statements are prepared in accordance with generally accepted accounting principles and that the assets of CSW and its subsidiaries are properly safeguarded against unauthorized acquisition, use or disposition. The system includes a documented organizational structure and division of responsibility, established policies and procedures including a policy on ethical standards which provides that the companies will maintain the highest legal and ethical standards, and the careful selection, training and development of our employees.

Internal auditors continuously monitor the effectiveness of the internal control system following standards established by the Institute of Internal Auditors. Actions are taken by management to respond to deficiencies as they are identified. The board, operating through its audit committee, which is comprised entirely of directors who are not officers or employees of CSW or its subsidiaries, provides oversight to the financial reporting process.

Due to the inherent limitations in the effectiveness of internal controls, no internal control system can provide absolute assurance that errors will not occur. However, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived.

CSW and its subsidiaries believe that, in all material respects, its system of internal controls over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition functioned effectively as of December 31, 1997.

E. R. Brooks
Chairman and
Chief Executive Officer

Glenn D. Rosilier
Executive Vice President and
Chief Financial Officer

Lawrence B. Connors
Controller

GLOSSARY OF TERMS

The following abbreviations or acronyms used in this Financial Report are defined below:

Abbreviation or Acronym	Definition
ACSI	American Customer Satisfaction Index™ (Survey conducted by the University of Michigan Business School and the American Society of Quality Control)
AEP	American Electric Power Company, Inc.
AEP Merger	Proposed Merger between AEP and CSW where CSW would become a wholly owned subsidiary of AEP
APBO	Accumulated Postretirement Benefit Obligation
AFUDC	Allowance for funds used during construction
Alpek	Alpek S.A. de C.V.
ANI	American Nuclear Insurance
Arkansas Commission	Arkansas Public Service Commission
Btu	British thermal unit
Burlington Northern	Burlington Northern Railroad Company
C3 Communications	C3 Communications, Inc., Austin, Texas (formerly CSW Communications, Inc.)
CAAA	Clean Air Act/Clean Air Act Amendments
Cajun	Cajun Electric Power Cooperative, Inc.
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
ChoiceCom	CSW/ICG ChoiceCom, L.P., a joint venture between C3 Communications and ICG Communications, Inc.
CLECO	Central Louisiana Electric Company, Inc.
Court of Appeals	Court of Appeals, Third District of Texas, Austin, Texas
CPL	Central Power and Light Company, Corpus Christi, Texas
CPL 1997 Final Order	Final orders received from the Texas Commission in CPL's rate case Docket No. 14965, including both the order received on September 10, 1997 and the revised order received on October 16, 1997
CPL 1997 Original Rate Order	Final order issued on March 31, 1997 by the Texas Commission in CPL's rate case Docket No. 14965
CPL 1995 Agreement	Settlement agreement filed by CPL with the Texas Commission to settle certain CPL regulatory matters
CPL 1996 Fuel Agreement	Fuel settlement agreement entered into by CPL and other parties
CSW	Central and South West Corporation, Dallas, Texas
CSW Common	CSW common stock, $3.50 par value per share
CSW Credit	CSW Credit, Inc., Dallas, Texas
CSW Energy	CSW Energy, Inc., Dallas, Texas
CSW Energy Services	CSW Energy Services, Inc., Dallas, Texas
CSW International	CSW International, Inc., Dallas, Texas
CSW Investments	CSW Investments, an unlimited company organized in the United Kingdom through which CSW International owns SEEBOARD
CSW Leasing	CSW Leasing, Inc., Dallas, Texas
CSW Power Marketing	CSW Power Marketing, Inc., Dallas, Texas
CSW Services	Central and South West Services, Inc., Dallas, Texas and Tulsa, Oklahoma
CSW System	CSW and its subsidiaries
CSW UK Finance Company	CSW Finco, an unlimited company organized in the United Kingdom through which CSW International owns CSW Investments
CSW U.S. Electric System	CSW and the U.S. Electric Operating Companies
CWIP	Construction work in progress
DGES	Director General Electricity Supply
DHMV	Dolet Hills Mining Venture
DOE	United States Department of Energy
ECOM	Excess cost over market
El Paso	El Paso Electric Company
El Paso Merger Agreement	Agreement and Plan of Merger between El Paso and CSW, dated as of May 3, 1993, as amended
Energy Policy Act	National Energy Policy Act of 1992
EnerShop	EnerShop℠ Inc., Dallas, Texas
Entergy Texas	Entergy Texas Utilities Company
EPA	United States Environmental Protection Agency
EPS	Earnings per share of common stock
ERCOT	Electric Reliability Council of Texas

GLOSSARY OF TERMS (continued)

The following abbreviations or acronyms used in this Financial Report are defined below:

Abbreviation or Acronym	Definition
ERISA	Employee Retirement Income Security Act of 1974, as amended
Exchange Act	Securities Exchange Act of 1934, as amended
EWG	Exempt Wholesale Generator
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
FMB	First mortgage bond
FUCO	Foreign utility company as defined by the Holding Company Act
Guadalupe	Guadalupe-Blanco River Authority pollution control revenue bond issuing authority
HL&P	Houston Lighting & Power Company
Holding Company Act	Public Utility Holding Company Act of 1935, as amended
HVdc	High-voltage direct-current
IBEW	International Brotherhood of Electrical Workers
ISO	Independent system operator
ITC	Investment tax credit
KW	Kilowatt
LIFO	Last-in first-out (inventory accounting method)
Louisiana Commission	Louisiana Public Service Commission
LTIP	Long-Term Incentive Plan
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MDEQ	Mississippi Department of Environmental Quality
MGP	Manufactured gas plant or coal gasification plant
Mirror CWIP	Mirror construction work in progress
Mississippi Power	Mississippi Power Company
MMbtu	Million Btu
MW	Megawatt
MWH	Megawatt-hour
National Grid	National Grid Group plc
NEIL	Nuclear Electric Insurance Limited
NRC	Nuclear Regulatory Commission
OASIS	Open access same time information system
Oklahoma Commission	Corporation Commission of the State of Oklahoma
Oklaunion	Oklaunion Power Station Unit No. 1
OPEB	Other postretirement benefits (other than pension)
PCB	Polychlorinated biphenyl
PowerShare	CSW's PowerShare[SM] Dividend Reinvestment and Stock Purchase Plan
PRP	Potentially responsible party
PSO	Public Service Company of Oklahoma, Tulsa, Oklahoma
PSO 1997 Rate Settlement Agreement	Joint stipulation agreement reached by PSO and other parties to settle PSO's rate inquiry
PURA	Public Utility Regulatory Act of Texas (including amendments to the law)
PURPA	Public Utility Regulatory Policies Act of 1978
RCRA	Federal Resource Conservation and Recovery Act of 1976
Retirement Plan	CSW's tax-qualified Cash Balance Retirement Plan
Rights Plan	Stockholders Rights Agreement between CSW and CSW Services, as Rights Agent
RUS	Rural Utilities Service of the federal government
SEC	United States Securities and Exchange Commission
SEEBOARD	SEEBOARD plc., Crawley, West Sussex, United Kingdom
SEEBOARD U.S.A.	CSW's investment in SEEBOARD consolidated and converted to U.S. Generally Accepted Accounting Principles
SFAS	Statement of Financial Accounting Standards
SFAS No. 52	Foreign Currency Translation
SFAS No. 71	Accounting for the Effects of Certain Types of Regulation
SFAS No. 87	Employers' Accounting for Pensions
SFAS No. 106	Employers' Accounting for Postemployment Benefits
SFAS No. 115	Accounting for Certain Investments in Debt and Equity Securities
SFAS No. 123	Accounting for Stock-Based Compensation

GLOSSARY OF TERMS (continued)

The following abbreviations or acronyms used in this Financial Report are defined below:

Abbreviation or Acronym	Definition
SFAS No. 125	Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities
SFAS No. 128	Earnings Per Share
SFAS No. 130	Reporting Comprehensive Income
SFAS No. 131	Disclosure about Segments of an Enterprise and Related Information
SPP	Southwest Power Pool
STP	South Texas Project nuclear electric generating station
STPNOC	STP Nuclear Operating Company, a non-profit Texas corporation, jointly owned by CPL, HL&P, City of Austin, and City of San Antonio
SWEPCO	Southwestern Electric Power Company, Shreveport, Louisiana
SWEPCO Plan	The plan of reorganization for Cajun filed by the Members Committee and SWEPCO on January 15, 1998 with the U.S. Bankruptcy Court for the Middle District of Louisiana
Tejas	Tejas Gas Corporation
Texas Commission	Public Utility Commission of Texas
Transok	Transok, Inc. and subsidiaries, Tulsa, Oklahoma
Trust Preferred Securities	Collective term for securities issued by business trusts of CPL, PSO and SWEPCO classified on the balance sheet as "Certain Subsidiary-obligated, mandatorily redeemable preferred securities of subsidiary trusts holding solely Junior Subordinated Debentures of such Subsidiaries"
Union Pacific	Union Pacific Railroad Company
U.S. Electric or U.S. Electric Operating Companies	CPL, PSO, SWEPCO and WTU
Vale	Empresa De Electricidade Vale Paranapanema S/A
WTU	West Texas Utilities Company, Abilene, Texas
WTU 1995 Stipulation and Agreement	Stipulation and Agreement to settle certain WTU regulatory matters