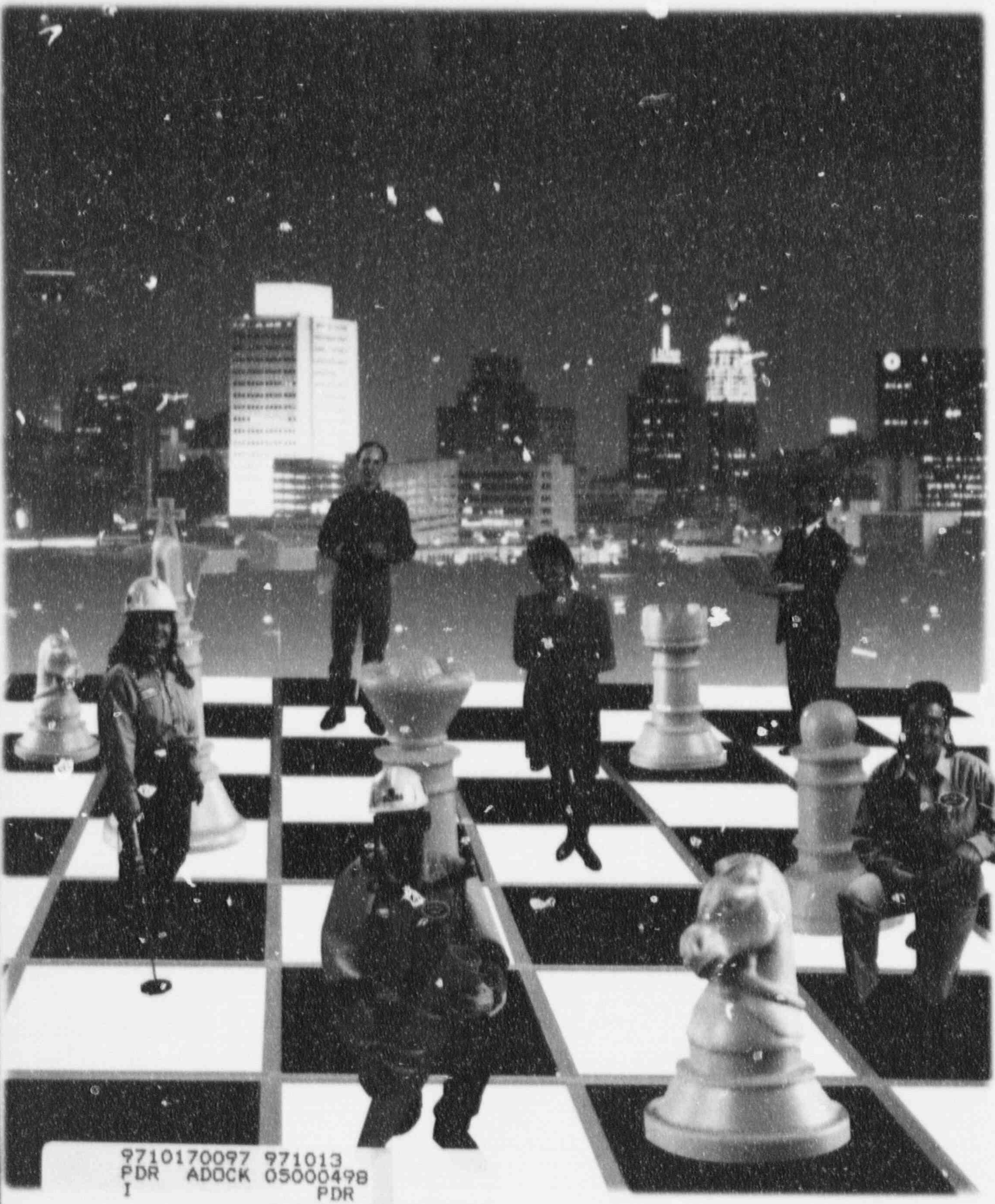


CITY PUBLIC SERVICE OF SAN ANTONIO

1996-1997 ANNUAL REPORT

CITY PUBLIC SERVICE OF SAN ANTONIO

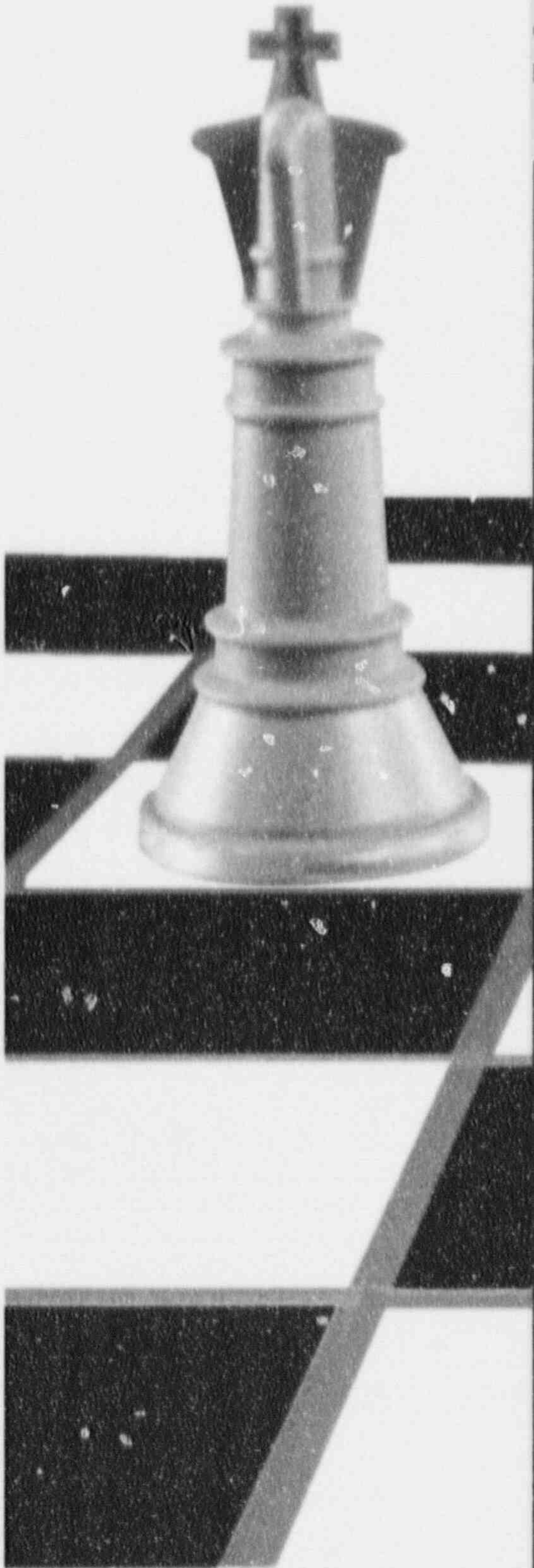
1996-1997 ANNUAL REPORT

SIGNIFICANT FACTS FOR THE YEAR

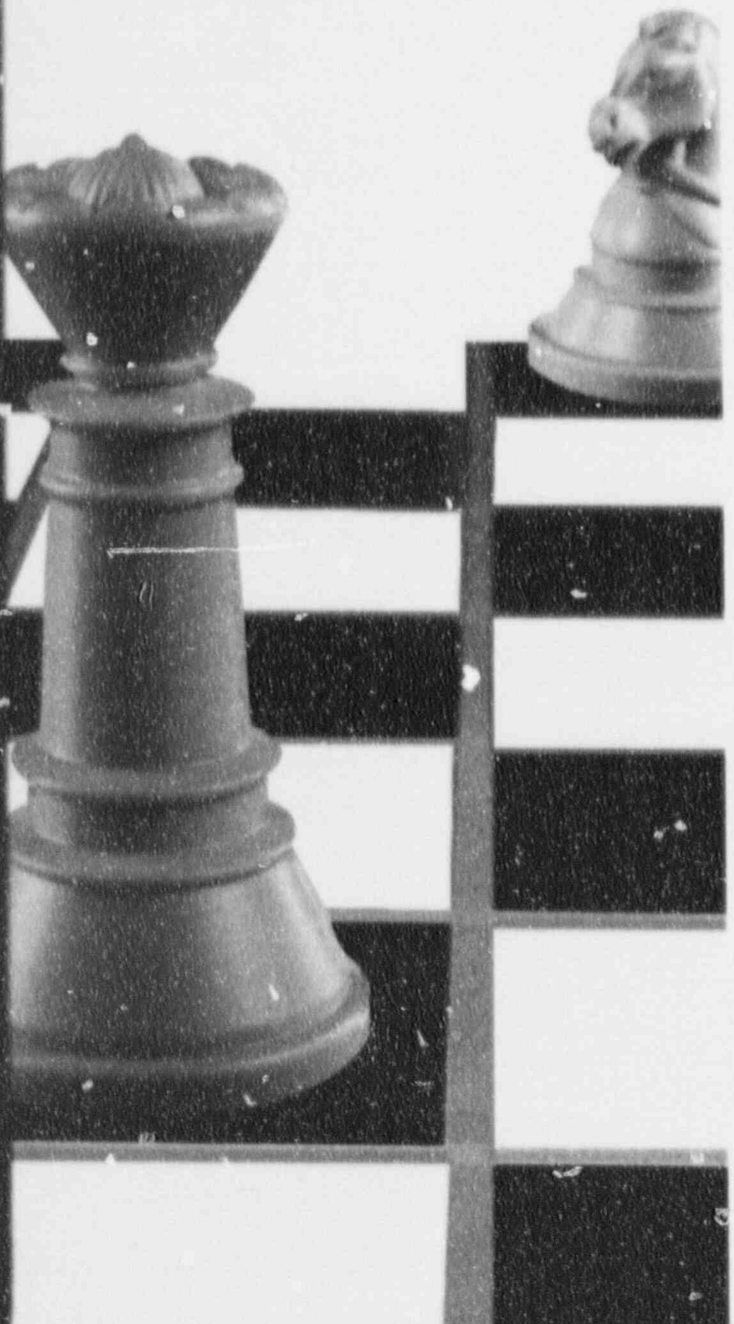
Gross revenue increased $109,465,000 to	$1,024,315,000
Fuel and operating and maintenance expenses increased $33,638,000 to	$488,352,000
City payment increased $14,666,000 to	$137,588,000
Long-term debt service requirements on bonds increased $6,288,000 to	$217,300,000
Maximum electric system load increased 107,000 KW to	3,356,000 KW
9,470 electric customers were added to total	528,739
KWH sales increased 7.1% to	15,267,505,481 KWH
Cost to residential customer per KWH increased 0.8% to	6.48¢
1,018 gas customers were added to total	300,185
MCF sales increased 5.9% to	26,786,350 MCF
Cost to residential customer per MCF	$6.35

SUMMARY OF APPLICATION OF REVENUES (in thousands)

Gross revenue for 1996-97		$1,024,315
Application of revenue:		
Fuel, purchased power, and resale gas		$255,055
Other operating and general expenses		161,874
Maintenance of the systems		71,423
For debt requirements and other interest	$246,530	
Interest charged to construction	3,654	
Net debt requirements and other interest		$242,876
Payments to the City of San Antonio		137,588
Balance from operations available for construction		155,499
Total		$1,024,315
Gross amount spent for replacement, improvements and expansion of gas and electric systems		$172,268
Funds obtained from:		
Operations		$155,499
Bond Construction Fund		57,157
Improvements and Contingencies Fund		(47,316)
Contributions and advances in aid of construction		6,928
Total		$172,268



PROFILE OF CITY PUBLIC SERVICE



City Public Service is one of the largest municipal utilities in the country, serving 528,739 electric customers throughout its 1,566 square mile service area. The gas system supplies 300,185 customers in the San Antonio urban area.

CPS generates power for its customers at two coal-fired and five natural gas-fired plants with a combined capacity of 3,815 megawatts in the San Antonio area. The utility also owns 28 percent of the South Texas Project nuclear plant on the Texas coast, which adds another 700 megawatts of capacity. The gas system is comprised of 4,068 miles of gas lines through which natural gas is delivered to CPS customers.

The CPS goal is to produce reliable, low-cost energy to serve the San Antonio area, which has a population of approximately 1.4 million. Tourism, manufacturing, construction, insurance, retailing and medical care have been the traditional economic mainstays, along with one of the largest concentrations of military installations in the U.S. In recent years, San Antonio has broadened its economic base to include numerous firms in the fields of electronics, data processing, biotechnology and telemarketing.

Purchased by the City of San Antonio in 1942, the utility is governed by a five-member Board of Trustees, which includes the Mayor of San Antonio.

City Public Service had 3,427 employees as of January 31, 1997.

LETTER FROM THE CHAIRMAN AND GENERAL MANAGER

City Public Service has completed another successful year with good financial results, continued low rates and good service provided to customers. While these successes have become somewhat routine for CPS, they certainly take on greater importance each year as changes occur in the utility industry.

The Board of Trustees and Management of CPS believe that the success CPS has enjoyed in the past puts the utility in a good position to meet the challenges of competition. And those challenges already have begun in Texas.

CPS has participated in work groups addressing issues of open access. Some of the key issues and actions at the state level include:

- The Public Utility Regulatory Act of 1995 requires unrestricted use of transmission lines for wholesale transactions, including use by power brokers/marketers and wholesale generators. The legislation also requires information to be provided to the Texas Legislature for use in drafting future restructuring legislation.
- The Texas Public Utility Commission adopted a new transmission rate structure, formed the Independent System Operator, initiated the Electronic Transmission Information Network and prepared a report on potential levels of stranded investment under a variety of restructuring scenarios.
- The feasibility of developing an AC interconnection between the Electric Reliability Council of Texas and the Southwest Power Pool is being studied.

These actions have made changes in the wholesale side of the electric utility industry in Texas and point to the potential for other changes, such as retail competition, in the future. With the 1997 Texas Legislature in session, CPS is following developments carefully to assure any discussion of retail competition takes municipal utility concerns into account. CPS management suggests a cautious approach to changes on the retail side, preferring to allow regulators and the industry time to evaluate the changes already made in wholesale competition before taking the next major step.

Impending change has given CPS an opportunity to assess the organization and evaluate strengths that will continue to be important in the future. Following this assessment, CPS reorganized in four business units to allow separation of generation from the corporate services, distribution and transmission segments of the business. Assessments will continue, helping to assure that the utility is fully prepared to continue serving its customers' needs.

CPS will continue to build on its strengths: a financial position which is the envy of many utilities, rates that are among the lowest in the state and nation and service in a dynamic and growing community. Additionally, CPS enjoys a unique position as both a natural gas and electric utility.

These qualities provide a sound basis for even greater achievements in the future, accomplishments that become possible through the talents and dedication of an excellent work force. The future is positive for CPS and the utility looks forward to the challenges ahead.

Pat Legan
Chairman

Arthur von Rosenberg
General Manager

POSITIONING FOR COMPETITION

The secret to winning a chess match is in positioning — having the playing pieces in an advantageous arrangement. Planning, flexibility and a contingency plan are important in positioning for success. Competing in a deregulated electric utility marketplace can be like a highly-contested chess match for even the most skilled player. City Public Service, San Antonio's natural gas and electric utility, is analyzing every move as it positions itself for competition.

The most important piece in the game is the king. The match revolves around strategies for safeguarding the king and eliminating the competition. In a deregulated electric utility industry, the customer will dictate the characteristics of products or services and, in essence, will be the king. Customers will expect high quality products and services at the lowest cost with added value and built-in convenience. The provider that positions itself to fill this need will win the contest for market share.

For more than 50 years, City Public Service has responded to the needs of customers by providing reliable, quality gas and electric services at low rates. In a deregulated environment in which the customer can select an energy provider, CPS will retain its customers by continuing to meet their needs. To this end, the utility will continue to use its strengths to safeguard the interests of its customers.

The 1996-97 fiscal year proved to be a year of positioning CPS for competition. CPS increased flexibility and began preparation for a deregulated wholesale market by restructuring the organization into core business units: Corporate Services and Finance, Customer and Distribution Services, System Engineering and Engineering Services and Production. Low rates, added value through technology and multi-fuel capabilities will allow CPS to build on its past strengths, thus increasing sales potential for the future. The utility continues to emphasize hiring and retaining the highly skilled and experienced work force needed to out-perform the competition and enhance its investment in the community through economic initiatives, employee donations and volunteerism.

With the stage set and the players prepared, CPS began positioning itself for competition. Success will assure that the customer remains king and CPS becomes a grandmaster of competition as the industry moves from a regulated environment to a market-driven one.

CREATE A FLEXIBLE ORGANIZATIONAL STRUCTURE

In chess, a skilled player will advance his defensive strategy by balancing the configuration of his pieces with the conditions of the game. During the past fiscal year, CPS restructured its organization into business units to comply with new open transmission access rules and to balance the organization with anticipated markets, creating a more flexible and advantageous position from which to serve customers. CPS established an administration core and three business units, each of which can generate revenue and achieve greater efficiencies to enhance the financial management of CPS. In addition, CPS redesigned budgeting and accounting systems for the four business units.

Jamie Rochelle heads Corporate Services and Finance, which provides core corporate services to the other business units. The unit encompasses the Financial Services, Legal Services, Administrative Services, Human Resources, Work Force Policy and Planning, Information and Communication Services and Materials Management departments, as well as the Internal Auditing and Governmental Affairs divisions and the Economic Development Section. The main objective of the administrative core is to assist the other business units and the utility as a whole in remaining competitive. Internally, the business unit enhances the competitive stance of CPS by providing support in unbundling services and prices, implementing revenue enhancement programs and assisting in cost control strategies. Externally, Corporate Services and Finance personnel participate in the formulation of national and state policy on utility industry deregulation to assure CPS has a voice.

Assistant General Manager for Customer and Distribution Services Ken Fiedler now oversees the Distribution, Customer Services, Special Distribution Projects and Public Relations and Marketing departments. This unit serves as the utility's point of contact with customers and seeks to satisfy the customer by delivering gas and electric services in a safe, reliable and cost-effective manner. This function involves not only building, maintaining and operating the gas and electric distribution systems but also assuring that CPS provides energy services desired by customers. The unit will aggressively market CPS services and secure multi-year contractual commitments from existing and future customers.

Engineering was consolidated into System Engineering and Engineering Services headed by Assistant General Manager Joe Treviño. His areas of responsibility include Gas, Transmission and Distribution Engineering and Field Administration. This unit plans the development of the electric and gas systems, constructs and maintains electric transmission systems, manages field contracts and provides the company with cost-effective fleet vehicle services.

Senior Manager for Production Bill Gunst heads the unit responsible for generating electricity, including both wholesale off-system power marketing and fuel acquisition. Mr. Gunst oversees the Production, Generation Control and Marketing and Fuels departments, in addition to the Nuclear Division. This business unit purchases fuels, operates and maintains CPS power plants in compliance with environmentally sound practices and buys and sells wholesale bulk power when economically beneficial.

Each business unit is initiating changes which allow CPS to better serve its market niche and give both the individual business units and the integrated utility a competitive edge. For example, in

Customer and Distribution Services, CPS began restructuring the Distribution Department to better serve customers. CPS decentralized certain planning functions by moving centrally located commercial and residential sales representatives to one of its three centers serving CPS customers. By the end of 1997, CPS will convert its three centers to full-service, one-stop facilities which will coordinate directly with customers needing energy services. Each service center, under the direction of a superintendent, will design and construct new facilities, maintain electric distribution service and manage the associated costs and revenues. By simplifying work and approval processes and by eliminating excessive specialization, the one-stop concept is designed to both reduce costs and shorten the length of most projects from weeks to days.

The City Public Service management team collectively has 150 years of utility experience. From left to right are: Bill Gunst, Senior Manager for Production; Ken Fiedler, Assistant General Manager for Customer and Distribution Services; Jamie Rochelle, Assistant General Manager for Corporate Services and Finance; Arthur von Rosenberg, General Manager; and Joe Treviño, Assistant General Manager for System Engineering and Engineering Services.

MAINTAIN ADVANTAGE THROUGH LOW RATES

Businesses, like chess players, build on advantages and often utilize maneuvers which have proven effective in the past. In a market-driven environment, competitive pricing will be the most effective advantage.

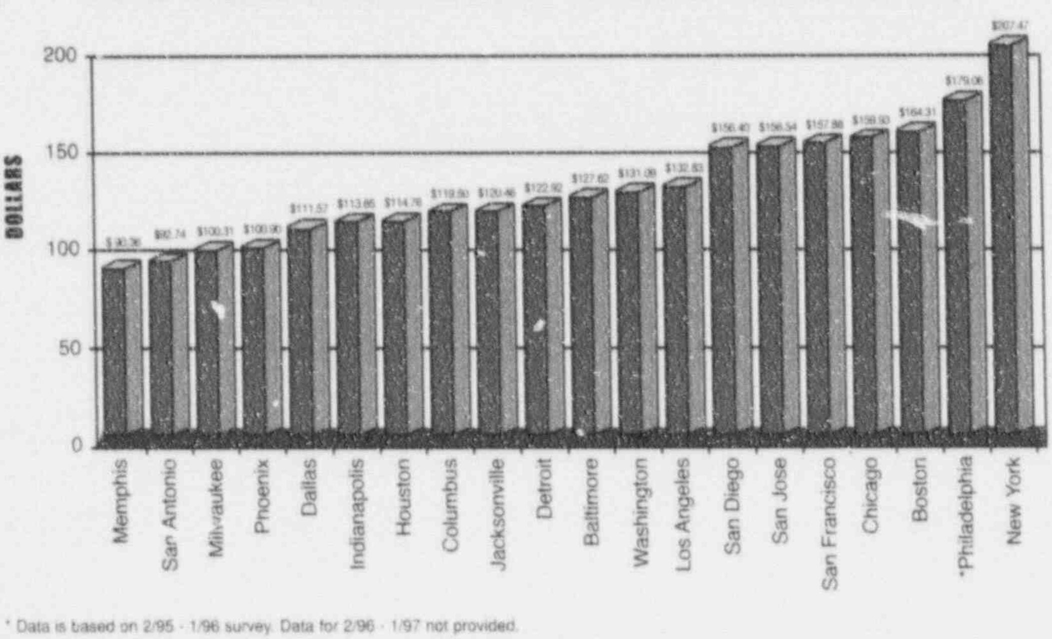
CPS has a history of providing low-cost and reliable natural gas and electric service. During the 1996-97 fiscal year, CPS customers paid some of the lowest rates in the state and the nation. The CPS residential gas and electric bill ranked second lowest among the 20 largest cities in the country. The average monthly electric bill for 1,000 kilowatts of electricity in major Texas cities during the year was $77.14, while CPS customers paid $63.63.

CPS has been able to maintain low rates due to its favorable fuel prices, low production costs at its power plants and sound financial management. The CPS fuel diversification program, which allows the utility to use coal, natural gas and nuclear fuel, helped to maintain low fuel costs.

Record performance levels in 1996 at the South Texas Project nuclear plant helped keep fuel costs and therefore bills low. The STP generated about 20.7 billion net kilowatt hours of electricity for the 1996 calendar year, placing it among the top producing nuclear plants. Unit 2 ranked second while Unit 1 placed third among 109 operating nuclear plants in the United States. Worldwide, Unit 2 and Unit 1 placed sixth and seventh, respectively, when compared to the electrical generation of 435 nuclear plants.

The utility also benefited from good performance at its coal-fired plants. In a report prepared by the Utility Data Institute, the J.T. Deely Plant ranked nineteenth for its five-year production cost

Residential Gas and Electric Bills for the 20 Largest U.S. Cities
Average for Twelve Months Ending January 1997 Based on 5 MCF and 1,000 KWH



* Data is based on 2/95 - 1/96 survey. Data for 2/96 - 1/97 not provided.

among the 700 U.S. steam-electric power plants. The plant averaged $13.08 per net megawatt hour through 1995 and was the only Texas plant to rank among the top twenty. UDI included fuel costs in the calculation of production costs.

Improvements at the J.T. Deely Power Plant during the year included water lances in the power plant boiler, chemical cleaning of the turbine and an on-line performance monitoring system in the control room. The utility installed water lances, high pressure water blasting systems used to remove ash from the boiler wall, to help maintain the heat transfer efficiency of the boiler. The installation of water lances significantly decreased the number of load reductions for deslagging at the Deely Plant.

As a result of chemically cleaning the high pressure turbine, an essential component in the pro 'uction of electricity, CPS regained 40 megawatts of capacity on each of the units at the J.T. Deely Plant. This process, unique to the power plant industry, has helped keep the plant capacity factor at an all-time high.

Another improvement at the Deely Plant included an on-line performance monitoring system for the two units. Through a software program, CPS control room operators can monitor the plant heat rate in the steam generator cycle and then make efficiency adjustments which lower the fuel cost by using less coal in the production of electricity.

Though not included in the UDI Report, the J. K. Spruce Plant, which begar commercial operation in November 1992, has shown good performance. According to statistics compiled by CPS, the Spruce Plant averaged $12.43 per megawatt hour during three years and two months of operation through 1995.

Job consolidation in the Production Department helped to keep production costs low during the 1996-97 fiscal year. At the J.K. Spruce Plant, the desulfurization system control room was consolidated with the plant control room, eliminating seven positions. Following employee training, the utility also will increase productivity with the consolidation of power plant insulation, carpentry and boiler maintenance into one craft.

Coal supplies one half of the CPS electric generation and is a major factor in achieving low production costs.

ENHANCE PERFORMANCE AND SERVICE THROUGH TECHNOLOGY

The utilization of playing pieces or "resources" can determine the outcome of a chess game. In a deregulated market, the use of technology will enhance the utility's resources and competitive viability. CPS has historically utilized technology to manage the delivery of gas and electric services. Keeping pace with innovation, the utility continues to pursue the use of technology as a means of improving service reliability for customers while adding value to service.

During the 1996-97 fiscal year, CPS continued to upgrade its communications infrastructure, which will enhance internal operations and allow the utility to communicate directly with its customers. CPS communications infrastructure includes the state-of-the-art fiber optics backbone and the application of wireless communications and computer technology at all electric substations, power plants and office facilities.

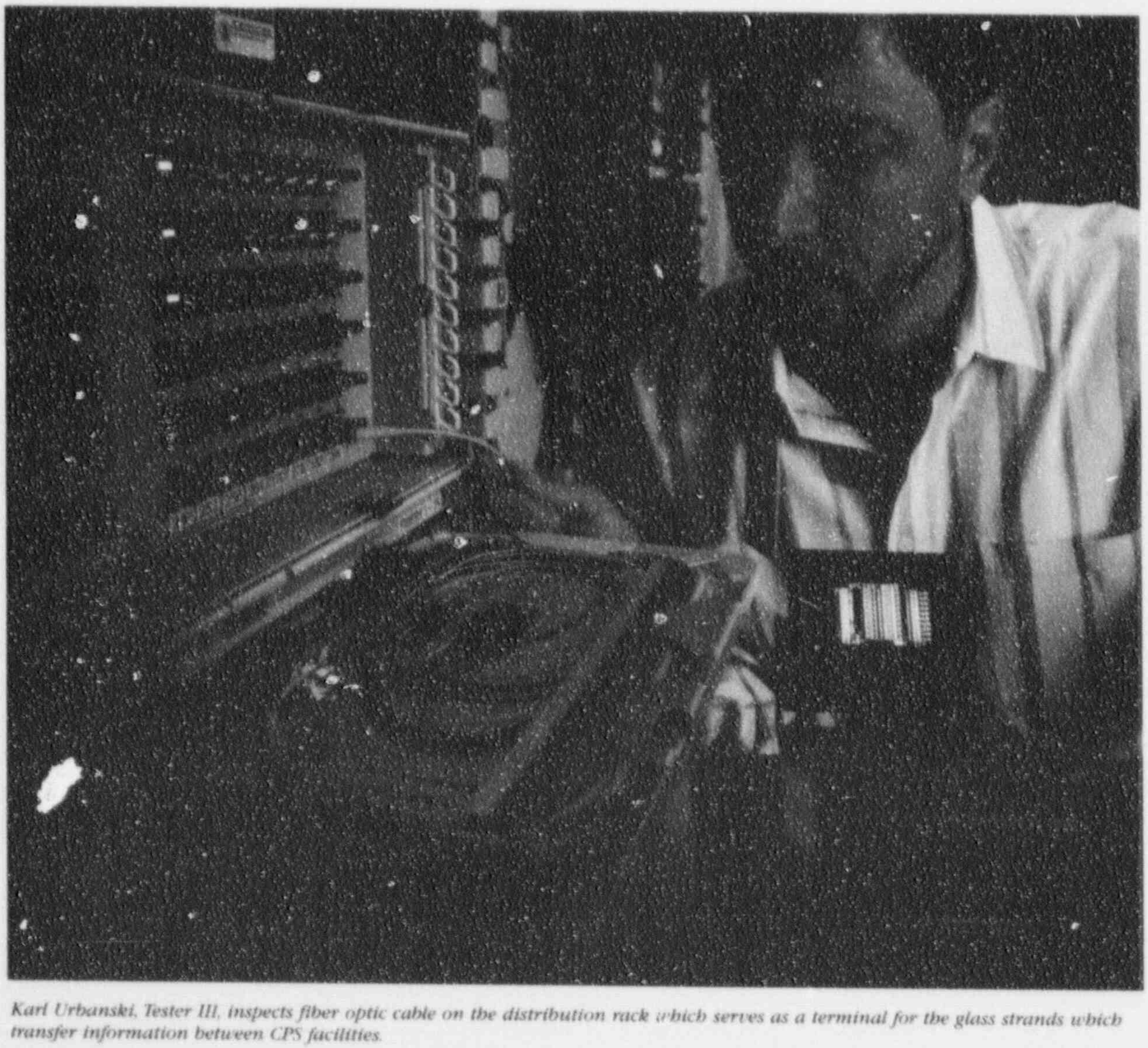
A total of 377 miles of single mode, fiber optic cable will make up the backbone of the communications infrastructure. By year end, CPS had installed nearly 37 percent, or 140 miles, of the fiber optic network, which will be operational in 1998. Fiber optics and computer technology will allow CPS to more effectively manage the electric and gas distribution systems. Presently, the CPS central control features extend to the electric generation and transmission system. In the future, the expanded communication facilities will provide for similar control features within the electric distribution infrastructure. This new capability will facilitate reduced system losses, more reliable service and improved long-term utilization of distribution facilities, creating the opportunity to defer some capital investment on the CPS electric system. Communication and computer technologies also will offer almost limitless possibilities in electronic information transfer, such as real-time product pricing, automated meter reading and customer outage information. Technical and business management tools available to CPS on its information super highway will include numerous high speed protective relaying channels, computer networks and data exchange, security video and voice applications.

Since it is impractical to use fiber to reach all customers, wireless technology also will play a vital role in the CPS communications infrastructure. During the past fiscal year, CPS added 30 new monopole communication towers to its existing 26 towers. In the future, CPS will use the towers as elements within the widespread communications network that will allow continual direct interface with the customer and will provide the communications infrastructure needed for wider application of distribution automation. This communications platform will enable CPS to utilize two-way communications with any device or customer in its service territory. As an additional benefit to the community, other communications service providers will be able to lease space for their equipment on CPS towers, creating a revenue stream and aiding the City of San Antonio by reducing visual clutter across the city. In accordance with a recently-passed City ordinance, CPS is providing sufficient capacity to offset the need for at least 115 additional towers.

CPS initiated a pilot program which will use the new communications infrastructure to test customer applications through the $11 million electric distribution automation pilot project, jointly sponsored by CPS and the Electric Power Research Institute. During 1996-97, CPS selected vendors to provide the computer system and distribution equipment which will allow CPS to fully monitor and control two distribution feeder circuits in east Bexar County via the expanded CPS fiber optic network. The

distribution automation equipment is scheduled to be installed by the summer of 1997, allowing CPS the capability of monitoring and controlling the distribution circuits remotely. Features will include control of various distribution system devices, voltage and power factor monitoring and customer outage detection. Also in the not so distant future, CPS will set up residential and commercial customer sites which will receive automated energy services, such as electronic meter reading, current billing information, energy usage monitoring of residential appliances and energy conservation guidance through a customer interface.

CPS also is using the communications infrastructure to improve customer service. The Integrated Mobile Data Communications System, which uses satellite global positioning, is a prime example of the expanded application of wireless technology. The project will largely automate the dispatch of field personnel responding to customer needs and will enhance crew efficiency and safety. Presently, crews receive broadcast voice-communicated orders from the CPS



Karl Urbanski, Tester III, inspects fiber optic cable on the distribution rack which serves as a terminal for the glass strands which transfer information between CPS facilities.

control center and written orders from the service centers. The state-of-the-art project consists of a series of integrated mobile work force management programs which consider order scheduling, work load distribution and CPS customer service needs. Field staff in vehicles will receive text and data field service orders on vehicle-mounted screens utilizing radio technology broadcast from the array of communications towers. The system will route available personnel on the basis of customer need and job priority, job skill requirements, existing work loads and the proximity of the crew to the job.

Cost savings in the maintenance of CPS facilities and in response to customer service needs will be achieved through better utilization of the CPS work force and equipment. The system will facilitate a "dispatched-from-home" work force in some cases, further eliminating significant administrative and travel costs. CPS anticipates savings of $1.4 million per year through the application of this technology.

During the 1996-97 fiscal year, CPS selected a vendor for the Mobile Data Communications System. By the second quarter of 1997, the system will be installed in 150 CPS vehicles and will be phased into 100 more vehicles shortly thereafter.

Technology also provided added conveniences for customers and at the same time increased productivity for the utility. A year ago, customers began obtaining CPS account information and reporting outages through the automated telephone answering system. One service provides access to basic customer billing information, as well as office hours and locations. The second service allows customers to report outages by eliciting responses from callers and recording utility problems.

During the 1996-97 fiscal year, CPS added a new feature to the automated telephone answering system. Customers can now request extra time to pay their bills. The automated credit extension line handled an average of approximately 14,560 calls per month, freeing the customer service representatives to answer more complex customer inquiries. Available in English and Spanish 24-hours-a-day, the automated telephone answering system processed 372,574 calls during the 1996-97 fiscal year, equivalent to 21 percent of the total number of calls answered.

Another avenue for communicating with customers is the CPS web site on the internet. Local students began accessing information about the gas and electric systems, while customers learned more about CPS services, energy conservation and gas and electric safety. The CPS web site is located at http://www.ci.sat.tx.us/cps.

Mike Gonzalez, Journeyman Lineman, verifies the next address where he will restore power. By the end of 1997, CPS will use 250 Mobile Data Communications Systems, like the one pictured here, to automatically dispatch field personnel.

COMBINE GAS AND ELECTRICITY TO CREATE AN ADVANTAGE

In the electric utility industry, some electric utilities have prepared for competition by acquiring a gas utility. By providing both electricity and natural gas, CPS already has both that advantage and the longer term knowledge and experience in the joint development of gas and electric infrastructure.

For more than 50 years, City Public Service has played a key role in providing the infrastructure for a growing city. During the fiscal year, CPS added 9,470 electric and 1,018 gas customers. By 2021, the population of Bexar County is expected to increase 45 percent, from approximately 1.33 million currently to 1.93 million, resulting in about 265,000 new households.

To meet the continued growth in the San Antonio metropolitan area and to offer customers the flexibility of future energy choices, CPS continues to expand the gas system. As of January 31, 1997, CPS completed approximately 24 percent of the $12.5 million second outer gas loop which will encircle San Antonio by the year 2000. This new component of the gas distribution system will extend service to areas with substantial gas market growth potential. The eastern leg of the new loop connects the north central area to northeast San Antonio while the western leg will join northeast San Antonio with the western part of the city.

Doyle Haese, Gas and General Construction Inspector, monitors the installation of a 16-inch gas main part of the second outer loop which will encircle San Antonio by the year 2000, making both gas and electric service available in north Bexar County.

CONTINUE TO HIRE AND RETAIN QUALITY EMPLOYEES

A highly-skilled chess player is known as a "master." As competition becomes commonplace in the electric utility industry, highly-skilled employees will play a major role in the determination of utility "masters." At CPS, efficient and conscientious employees are the foundation for the 54 years of demonstrated success the utility has experienced in serving the San Antonio area. Excellent and reliable gas and electric service and low rates result from the efforts of a talented and diligent work force.

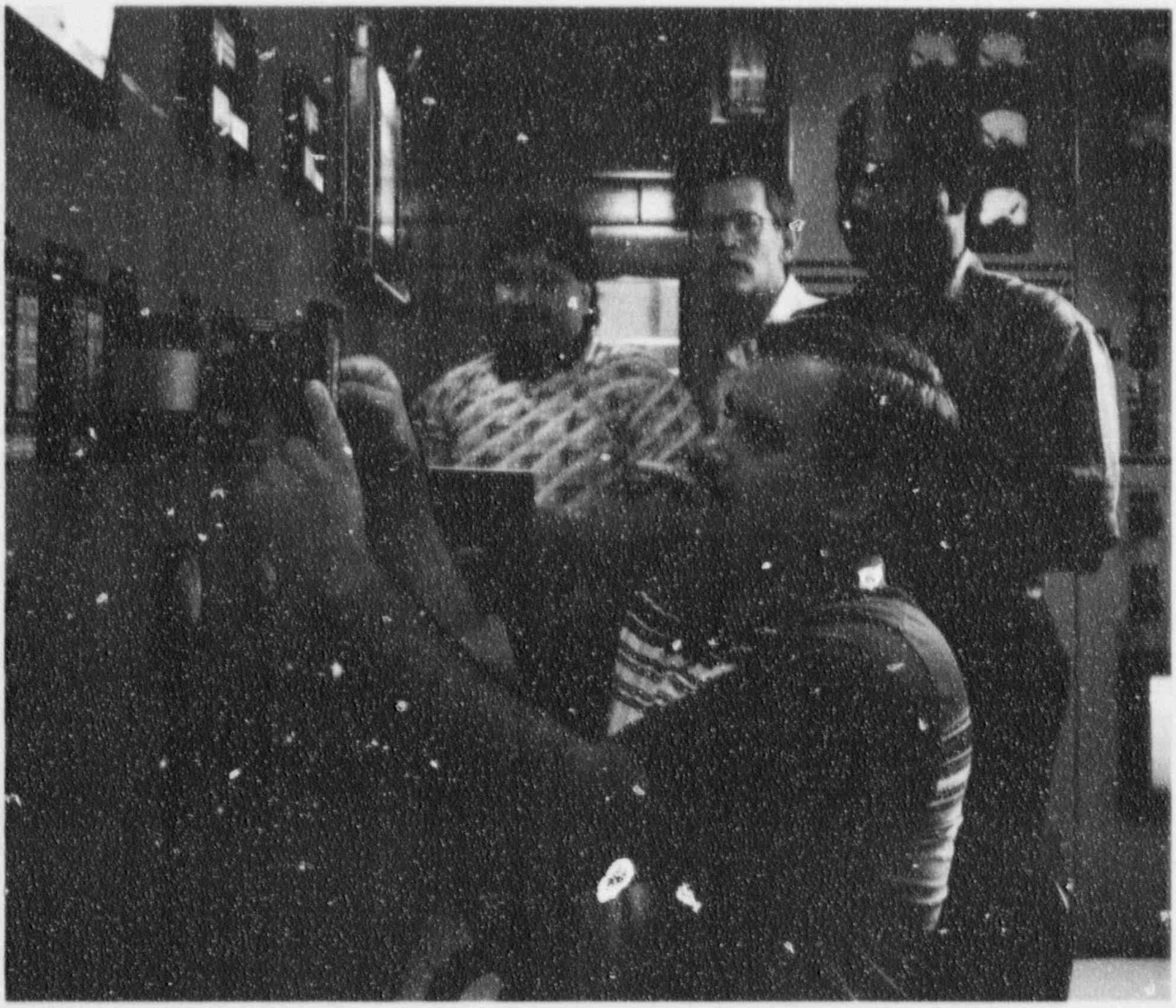
In a market-based environment, CPS employees will continue to be key players. The work force understands customer expectations and needs and is in a position to respond well to the interests of customers.

With an attrition rate of approximately 3.5 percent, CPS has a stable work force with an average of 14 years of utility experience. In addition, employees are well educated, with 10 percent holding undergraduate and graduate degrees.

The CPS management staff brings a wealth of knowledge and an average of 22 years of utility experience. CPS management is recognized by its peers and acknowledged by the top rating agencies in the country as among the best in the utility industry.

CPS considers training essential to the competitive viability of the organization. The Training Division develops classes to focus on management and employee needs, organizational and utility industry changes and training trends. A comprehensive training program keeps employees abreast of new technology and work processes which better serve customers. During the 1996-97 fiscal year, CPS offered 71 courses on writing, supervisory skills, customer service and computer skills to 920 employees. In addition, 374 employees in power plant instrumentation and maintenance, environmental hazards and safety, as well as electric and gas operations completed 22 training courses.

CPS also encourages employees to pursue higher education through the CPS tuition reimbursement program. The utility reimburses students who successfully complete courses which will help them on the job. During the fiscal year, 98 employees registered in undergraduate courses, while 35 enrolled in graduate studies. During the last five years, 70 employees received their degrees through the reimbursement program.



Mateo Camargo, Instrument Maintenance Trainer, demonstrates power plant instrument controls to Joe Puente, Barry Bales and Lonnie Benson, Instrument Journeymen. The Production Department uses training to upgrade the skills of its employees.

STAY CLOSE TO THE CUSTOMERS AND COMMUNITY

Skillful chess players also find it beneficial to have key pieces guard the king since "king safety" is one of the primary elements of chess. In a competitive environment, a close relationship with the customer and, by extension, the community pays dividends. During its 54 years as a municipal utility, CPS has made community investment a top priority, serving as a catalyst for economic development and for improving the quality of life in San Antonio.

CPS also provides an added benefit to citizens of San Antonio through payments to the City of San Antonio. Each year, CPS transfers 14 percent of its gross revenues to the City of San Antonio general fund which pays for City services. The $137.6 million payment for the 1996-97 fiscal year represents the largest source of income for the City of San Antonio, approximately one third of the City's general fund. Since 1942, CPS has contributed more than $2 billion to the municipal government with the City's equity in the utility standing at $1.8 billion.

During the past year, the close relationship between CPS and its customers translated into an added bonus. Through an out-of-court settlement with Houston Lighting & Power, HL&P guaranteed CPS $225 million in cash and operational savings during a ten-year period. The claims arose from cost overruns during the construction of the South Texas Project nuclear plant near Bay City and the shut down of the plant during 1993-94.

The settlement included $75 million in cash which the CPS Board of Trustees voted to return to CPS customers who had paid higher utility bills as a result of the STP outage in 1993-94. After paying $11 million in litigation-related expenses, CPS distributed $64 million to more than 511,000 utility customers. Customers received approximately 63 percent of their July cycle electric bill. Those with current accounts received a check, while customers who owed the utility received a credit. CPS mailed approximately 427,000 checks ranging from $6 to $425,000 with the average totaling $76. Some 86,000 customers received credit to their accounts.

Customers benefited from lower energy costs arising out of the joint operation of CPS and HL&P power plants. CPS will receive $150 million during the next 10 years from savings resulting from using the most cost-effective of each utility's power plants. The settlement stipulates that yearly cumulative savings must be at least $10 million, with HL&P making up any difference in cash. Joint operation of the two utilities' power plants began on June 25, 1996.

CPS continued to work closely with the San Antonio Economic Development Foundation to attract new industry to San Antonio. During the fiscal year, 19 companies announced they would locate in the Alamo City, bringing approximately 2,900 jobs. The larger ones include Unibase Technology, Inc., which specializes in data processing and will employ 900 employees, and BABN Technology Corp., which prints instant lottery tickets, with 400 employees. Pacificare, a regional insurance service center with 320 employees, and Norwest Banks Regional Operations Center, a financial institution with 300 employees, also established offices in San Antonio.

CPS contributes to the local economy by purchasing services and products from San Antonio companies. The CPS Small Business Office increased bidding by local firms through outreach efforts. For the second consecutive year, the United States Small Business Administration awarded CPS the highest rating among utilities for increased participation of small and disadvantaged businesses.

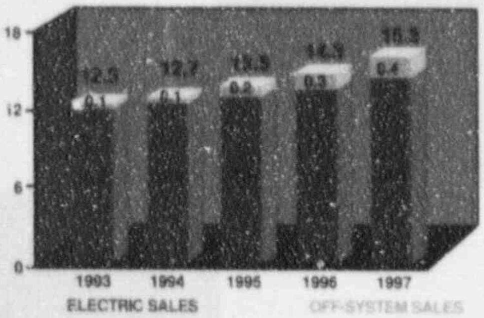
CPS employees also helped improve the quality of life with contributions to United Way, an organization which funds human service agencies benefiting one fourth of the population in Bexar County. More than 85 percent of the active CPS work force and 119 CPS retirees contributed to the CPS United Way campaign which raised $466,345. Under the Volunteers in Public Service program, CPS employees donated 14,055 hours and raised about $15,560 for non-profit organizations and community projects.

Angie Salinas, Accounting Clerk I and Volunteer In Public Service representative, chats with senior citizen Mrs. Guadalupe Galindo at the Elder House of Centro del Barrio, a United Way agency. Galindo is holding two of the 18 shaws Salinas crocheted for senior citizens at the adult day center.

Conclusion

As CPS moves its pieces forward on the chess board, the electric utility industry will continue to define itself. With wholesale competition instituted in 1996 and retail competition on the horizon, the rules of the game have changed and will require new strategies. CPS has positioned itself for competition in a deregulated market and will continue to watch developments in legislation affecting the industry. As the utility analyzes each move, it will remain flexible and take advantages of opportunities that result from changes. The utility's objective in this highly-competitive match will be to protect the interests of its customers. In the end, the most valuable piece on the chess board, the customer, will reap the benefits of low rates, quality gas and electric service and community investment for years to come.

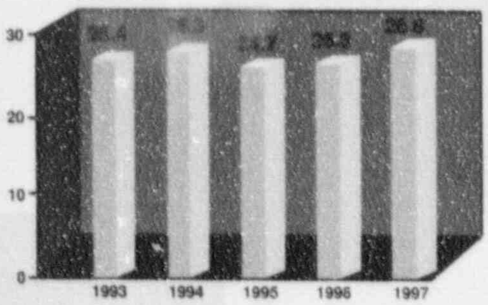
ELECTRIC SALES
In Billion KWH



City Public Service achieved record gross revenue and electric sales during the 1996-97 fiscal year, which also marked continued financial strength and low rates for the utility's customers. In line with management objectives to reduce costs, operating expenses were less than projected and lower than the previous year. Construction spending was slightly more than last year but was reduced from the projection through careful planning and timing for major projects. Costs of gas for generation of electricity and resale were greater than a year ago and also somewhat above projections, due to the national trend in natural gas prices throughout the year. Gas sales for the year were the highest since the fiscal year ending January 1990.

CPS assets totaled $4.6 billion which reflects that the utility is financially strong. The City of San Antonio's $1.8 billion equity continued to grow, rising $72 million from the prior year. The record gross revenue for 1996-97 resulted in a record payment of $137 million to the City's general fund. CPS has provided more than $2 billion in payments and services to the City of San Antonio since 1942 while maintaining rates that are among the lowest in the state and the nation. During this time, CPS also has maintained a very sound financial condition and high credit ratings.

GAS SALES
In Million MCF

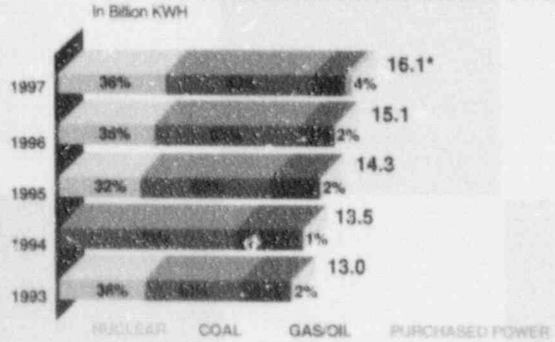


The year's successes included financial benefits from settling legal action against Houston Lighting & Power Co. (HL&P) concerning mismanagement of the South Texas Project nuclear plant and cost overruns during its construction. The settlement included $75 million in cash and the guarantee of at least $150 million in savings during the next 10 years by jointly dispatching electricity from the two utilities' generating plants. CPS distributed $64 million of the cash proceeds to customers and used $11 million to pay litigation expenses. According to the agreement, CPS will receive 90 percent of the savings resulting from greater efficiencies and lower overall fuel costs from joint operations. During fiscal 1996-97, CPS received $17.5 million in benefits from the joint operating agreement. In April 1996, CPS rebated a small portion of these savings to its customers through lower fuel costs. All remaining joint operations savings have been set aside pending an evaluation and review of possible future uses by the CPS Board of Trustees.

OPERATIONS

The South Texas Project nuclear plant, of which CPS is a 28 percent owner, performed at record levels in 1996-97. CPS received 36.6 percent of its generation from the nuclear plant. STP operating expenses, while essentially as budgeted for 1996-97, were at a lower level than the prior year, since only one refueling was conducted.

ELECTRIC GENERATION & PURCHASED POWER
In Billion KWH



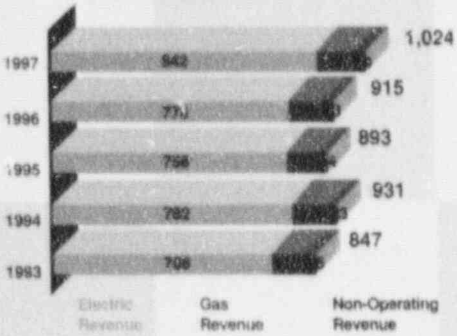
* Excludes joint system operations generation

Fiscal Years Ending January 31

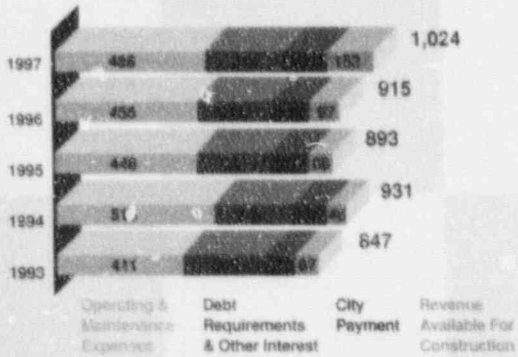
Other STP achievements during 1996 include:

- Unit 1 set a world record of 22.6 days for the briefest refueling for a pressurized water reactor plant.
- New records were established for the number of consecutive days on line with 309 days for Unit 2 and 205 days for Unit 1.
- The capacity factors were 93 percent and 95 percent, respectively, for Unit 1 and Unit 2.
- STP received the highest rating awarded by the Institute of Nuclear Power Operations, an organization dedicated to promoting excellence in nuclear plant operations.
- The plant received superior marks in maintenance and plant support and good marks in operations and engineering in the 1996 Nuclear Regulatory Commission's Standard Assessment of Licensee Performance.

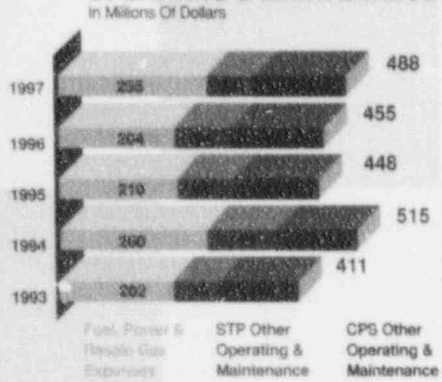
GROSS REVENUE
In Millions Of Dollars



GROSS REVENUE AND APPLICATION OF REVENUE
In Millions Of Dollars



OPERATING & MAINTENANCE EXPENSES
In Millions Of Dollars



Fiscal Years Ending January 31

The CPS coal-fired units also performed well, producing 50 percent of the utility's generation. The average cost for coal was $10.15 per megawatt hour compared to $11.38 the previous year. The overall average cost for generation fuel and purchased power was $10.83 per megawatt hour, a small increase for the year.

During 1996, CPS set an hourly peak demand record of 3,356 megawatts and a 24-hour usage record of 62,674 megawatt hours. The hourly peak demand record set on June 19 exceeded the 1995 record by 3.3 percent, while the 24-hour record set on June 20 represented a 3 percent increase from the previous record. A winter hourly peak demand of 2,495 megawatts set on January 13, 1997, exceeded last winter's record by 8.3 percent.

REVENUE AND SALES

Gross revenue set an all-time record, reaching more than $1 billion. The 12 percent increase from last year was due primarily to greater fuel and gas cost recoveries and increased sales for both the electric and gas systems. Electric fuel recoveries rose $23.6 million, while gas cost recoveries advanced $33.1 million; both were affected by the overall higher unit price of gas. Increased sales accounted for $40.4 million of the electric revenue and $2.3 million of the gas revenue.

Electric sales increased 7.1 percent, reaching 15 billion kilowatt hours and setting a new record. CPS served an average of 9,470 more electric customers than the previous year. Usage per customer increased by 4.6 percent, as temperatures during the summer of 1996 were much warmer than in the previous year. For the second consecutive year, CPS reported strong off-system sales to other Texas utilities and power marketers. Gas sales increased 5.9 percent due to a colder than normal winter, and the overall average usage per customer increased 5.3 percent.

CPS derived 85 percent of its operating revenue from electric sales and approximately 15 percent from the gas system. Average revenue of 5.6 cents per kilowatt hour and $5.49 per MCF were 1.8 percent and 28.9 percent higher, respectively, than last year as a result of higher fuel and resale gas prices. Other sources of revenue included interest on investments and miscellaneous income which contributed $35 million to gross revenue, an increase of $6 million.

EXPENSES

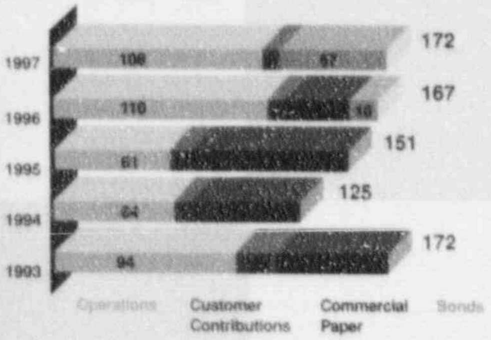
Operating and maintenance expenses for the fiscal year totaled $488.4 million, a net increase of $33.6 million from the previous year. Generation fuel and gas for resale cost $255.1 million, $51.8 million more than last year, due to higher unit prices and more usage. Non-fuel operating and maintenance expenses were $7.4 million less than last year as a result of management's commitment to cost containment as one of the utility's strategic initiatives.

South Texas Project maintenance and operating costs, excluding fuel, were $79.4 million. The $10.8 million decline in spending resulted from completion of one refueling outage in 1996 compared with two refueling outages the previous year. Expenses also were lowered as a result of staff reductions.

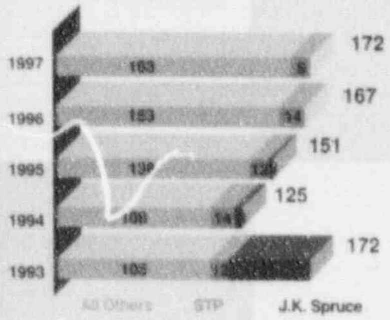
CONSTRUCTION

Construction expenditures of $172.1 million increased $4.8 million from last year. Capital projects included additions to both the gas and electric distribution systems to support customer growth and continued building of the fiber optic network. Revenue from operations provided 63 percent of the funding for construction. The November 1995 bond issue funds financed 33 percent of the construction costs, and the remainder came from customer contributions.

FUNDING OF CAPITAL PROJECTS
In Millions Of Dollars



CAPITAL EXPENDITURES
In Millions Of Dollars



Fiscal Years Ending January 31

FINANCING

During January 1997, the last Old Series Bond payments were made and $16.6 million in reserve fund assets were returned to CPS by the Trustee. These assets were transferred to the New Series Bond Reserve Fund to reduce future principal payments. This year, CPS did not have any new long- or short-term debt offerings. CPS continued to reduce its outstanding debt by redeeming $17.3 million of commercial paper principal and $88.7 million of bond principal.

CPS continues to maintain the highly favorable AA+ bond rating by Fitch Investors Service, Aa1 bond rating by Moody's Investor Services and AA bond rating by Standard & Poor's Corporation. The commercial paper program continues to carry the highest ratings issued for variable rate debt by all three rating agencies. These ratings place CPS among the highest rated municipal utilities in the country, which results in lower financing costs to CPS and its customers.

In their review of competitiveness based on management's strategic planning capabilities and legal and regulatory issues, both Fitch and Standard and Poor's have ranked CPS among the most competitive. The Fitch Competitive Indicator placed CPS third among 86 public power and investor-owned utilities in the nation. In the Standard & Poor's Business Position Indicator rating, CPS ranked fifth among 62 public power utilities. In addition, CPS was classified as "somewhat above average" and ranked the best in this category.

FUTURE PLANS

CPS continues to make a concerted effort to sign long-term contracts with its largest customers, including its municipal customers. As the electric utility industry is deregulated, large customer retention and marketing efforts will become even more important among the utility's strategic initiatives.

CPS continues to focus on customer needs and improved service through an automated 24-hour telephone system, quicker response to inquiries and outages, additional community service programs, increasing use of fiber optics technology and aesthetically pleasing construction features.

CPS expects to fund future capital needs with greater use of fixed and variable rate debt, although some construction will continue to be funded by internally generated funds. In the spring of 1997, CPS expects to begin securing bond financing to fund construction requirements for the next two years. Included with the new financing will be refunding bonds that will add to the $409 million in interest savings already realized since 1985 through refinancing strategies.

As CPS continues working to maintain its cost competitiveness, the utility also is positioning itself to continue providing the highest quality service to its customers. Throughout the company, employees continue to remain focused on customers while taking on additional responsibilities as the overall number of employees is declining. This strong commitment to the communities and the people served will continue to be emphasized as the industry moves into the competitive marketplace.

BALANCE SHEETS

ASSETS	January 31, 1997	January 31, 1996
	(In thousands)	
UTILITY PLANT, at cost *(Notes 1, 3, and 9)*:		
Plant in service —		
Electric	$ 4,544,452	$ 4,427,212
Gas	322,611	302,619
General	133,353	127,682
Total plant in service	5,000,416	4,857,513
Less accumulated depreciation	1,402,951	1,269,710
Plant in service, net	3,597,465	3,587,803
Construction work in progress	182,958	175,164
Nuclear fuel, less accumulated amortization of $143,760 in 1997 and $116,298 in 1996	54,256	60,229
Held for future use	31,384	30,380
Utility plant, net	3,866,063	3,853,576
RESTRICTED CASH AND INVESTMENTS *(Notes 1, 2, 3, and 4)*:		
Bond construction fund	51,735	108,891
Bond fund current requirements —		
Old series	0	933
New series	30	23
Bond reserve —		
Old series	0	16,639
New series	215,432	199,205
Improvements and contingencies fund	134,572	93,305
Overhead conversion fund	27,040	20,851
CPS joint operations savings fund (Note 9)	15,626	0
Other	18,610	18,357
Total restricted cash and investments	463,045	458,204
CURRENT ASSETS:		
Cash and temporary investments *(Notes 1 and 2)*	41,064	30,696
Cash restricted for customer service deposits payable	26,122	25,776
Customer accounts receivable, less allowance for doubtful accounts of $2,524 in 1997 and $2,431 in 1996	69,661	54,424
Other receivables	13,804	12,383
Inventories and supplies, at average cost —		
Materials and supplies	58,429	57,611
Fuel stock	29,877	32,761
Prepayments and other	7,881	5,330
Total current assets	246,838	218,981
DEFERRED DEBITS AND OTHER *(Notes 1 and 6)*	38,838	46,203
TOTAL	$ 4,614,784	$ 4,576,964

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

EQUITY AND LIABILITIES

	January 31, 1997	January 31, 1996
	(In thousands)	
LONG-TERM DEBT:		
Revenue bonds *(Notes 1, 3, and 4)* —		
New series	$ 2,694,770	$ 2,787,915
Deductions —		
Unamortized discount on new series bonds	(67,168)	(72,577)
Unamortized discount on capital appreciation bonds	(236,864)	(254,778)
Unamortized costs of bond reacquisition	(166,386)	(183,568)
Revenue bonds, net	2,224,352	2,276,992
Commercial paper *(Note 5)*	250,800	277,800
Long-term debt, net	2,475,152	2,554,792
EQUITY:		
Appropriated retained earnings *(Note 3)* —		
Bond fund current requirements —		
Old series	0	933
New series	30	23
Bond reserve —		
Old series	0	10,639
New series	162,974	146,747
Improvements and contingencies fund	134,572	93,305
Overhead conversion fund	27,040	20,851
Total appropriated retained earnings	324,616	278,498
Reinvested earnings	1,509,367	1,482,832
Total equity	1,833,983	1,761,330
CURRENT LIABILITIES:		
Current maturities of revenue bonds *(Note 4)*	93,145	88,700
Current portion of commercial paper redemption *(Note 5)*	27,000	17,300
Accounts payable and accrued liabilities	83,459	72,103
Customer service deposits	26,122	25,776
Total current liabilities	229,726	203,879
DEFERRED CREDITS AND OTHER *(Note 1)*:		
Customer advances for construction	12,149	11,669
Other	63,774	45,294
Total deferred credits and other	75,923	56,963
COMMITMENTS AND CONTINGENCIES *(Notes 3, 6, 7, 9, and 10)*	—	—
TOTAL	$ 4,614,784	$ 4,576,964

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

STATEMENTS OF CHANGES IN EQUITY

	Years Ended January 31, 1997	1996
	(In thousands)	
BOND CURRENT REQUIREMENTS, old series bonds:		
Balance, beginning of year	$ 933	$ 843
Additions — Transfer to provide for debt service	14,445	14,678
Deductions — Payment of old series principal and interest with reserve transfers	(14,445)	(14,588)
Deductions — Transfer remaining funds to CPS	(933)	0
Balance, end of year	$ 0	$ 933
BOND RESERVE, old series bonds:		
Balance, beginning of year	$ 16,639	$ 16,725
Additions — Allocate earnings to reserve	947	948
Deductions — For current debt service requirements	(1,034)	(1,034)
Deductions — Transfer of remaining assets to new series reserve	(16,552)	0
Balance, end of year	$ 0	$ 16,639
BOND CURRENT REQUIREMENTS, new series bonds:		
Balance, beginning of year	$ 23	$ 17
Additions — From improvements and contingencies fund for debt service	203,788	196,335
Deductions — Payment of new series principal and interest	(203,781)	(196,329)
Balance, end of year	$ 30	$ 23
BOND RESERVE, new series bonds:		
Balance, beginning of year	$ 146,747	$ 147,368
Additions — Allocate earnings to reserve	12,126	12,158
Additions — Transfer from old series reserve	16,552	0
Deductions — For current debt service requirements	(12,451)	(12,779)
Balance, end of year	$ 162,974	$ 146,747
COMMERCIAL PAPER REDEMPTION FUND:		
Balance, beginning of year	$ 0	$ 56
Additions — From improvements and contingencies fund for principal and interest	22,975	23,746
Deductions — Payment of principal and interest	(22,975)	(23,802)
Balance, end of year	$ 0	$ 0
OVERHEAD CONVERSION FUND:		
Balance, beginning of year	$ 20,851	$ 14,150
Additions — From improvements and contingencies fund	7,563	6,701
Deductions — Payments from overhead conversion fund	(1,374)	0
Balance, end of year	$ 27,040	$ 20,851

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

	Years Ended January 31, 1997	1996
	(In thousands)	
IMPROVEMENTS AND CONTINGENCIES FUND:		
Balance, beginning of year	$ 93,305	$ 110,416
Additions —		
From application of revenue —		
Minimum requirement (12 1/2 percent of gross revenue)	128,039	114,356
Balance of available net revenue	253,897	204,799
From overhead conversion fund	1,374	0
Total	383,310	319,155
Deductions —		
New series bonds —		
Net (additions) deductions to reserve	325	621
Payment of bond interest	(128,581)	(127,269)
Payment of bond principal	(75,207)	(69,067)
Commercial paper —		
Payment of commercial paper redemption interest	(5,675)	(7,102)
Payment of commercial paper redeemed	(17,300)	(16,700)
Deductions (additions) to commercial paper redemption fund	0	56
Construction expenditures	(108,042)	(110,104)
Transfer to overhead conversion fund	(7,563)	(6,701)
Total	(342,043)	(336,266)
Balance, end of year	$ 134,572	$ 93,305
REINVESTED EARNINGS:		
Balance, beginning of year	$ 1,482,332	$ 1,456,509
Additions —		
From improvements and contingencies fund —		
For construction	108,042	110,104
For new series bonds principal payments	75,200	69,060
For commercial paper principal payments	17,300	16,700
From application of earnings —		
For old series bonds principal payments	13,500	12,750
Proceeds from sale of property	0	34
Total	214,042	208,648
Deductions —		
Depreciation	(146,559)	(142,102)
Amortization of discount on capital appreciation bonds	(17,913)	(16,705)
Amortization of bond reacquisition costs and debt issue expenses	(17,626)	(18,069)
Amortization of discount on new series bonds	(5,409)	(5,449)
Total	(187,507)	(182,325)
Balance, end of year	$ 1,509,367	$ 1,482,832

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

	Years Ended January 31, 1997	1996
	(In thousands)	
REVENUE *(Note 1)*:		
Electric	$ 841,699	$ 777,657
Gas	147,980	108,625
Interest and other income	34,636	28,568
Gross revenue	1,024,315	914,850
EXPENSES *(Note 1)*:		
Fuel, purchased power and resale gas	255,055	203,337
Other operating and general	161,874	172,745
Maintenance	71,423	78,632
Depreciation	146,559	142,102
Interest and debt expense	182,817	182,718
Allowance for interest used during construction (Deduction)	(3,654)	(2,818)
Tax equivalent to City of San Antonio *(Note 8)*	15,154	13,696
Total Expenses	829,228	790,412
EXCESS OF REVENUES OVER EXPENSES	195,087	124,438
ADD:		
Depreciation	146,559	142,102
Amortization of discount on capital appreciation bonds	17,913	16,705
Amortization of bond reacquisition costs and debt issue expenses	17,626	18,069
Amortization of discount on new series bonds	5,409	5,449
Interest requirements on new series bonds	128,581	127,269
Interest requirements for commercial paper redemption	5,675	7,102
AVAILABLE FOR APPLICATION	$ 516,850	$ 441,134

APPLICATION:		
To pay long-term debt requirements *(Note 3)*:		
Old series bonds —		
Principal payments	$ 13,500	$ 12,750
Current requirements (Deductions) Additions	(933)	90
Bond reserve (Deduction)	(87)	(87)
To improvements and contingencies fund		
Minimum requirements (12 1/2 percent of gross revenue)	128,039	114,356
Additional cash payments to and services for the City of San Antonio *(Note 8)*	122,434	109,226
To improvements and contingencies fund		
Balance of available net revenue	253,897	204,799
TOTAL APPLICATION	$ 516,850	$ 441,134

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

	Years Ended January 31, 1997	1996
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 195,087	$ 124,438
Noncash items included —		
Allowance for interest used during construction	(3,654)	(2,818)
Depreciation expense	146,559	142,102
Amortization expense —		
Bond reacquisition costs and debt issue expenses	17,626	18,069
Discount on new series bonds	5,409	5,449
Discount on capital appreciation bonds	17,913	16,705
Additional cash payments to and services for the City of San Antonio	(122,434)	(109,226)
Changes in current assets and current liabilities *(Note 1)*	(5,441)	(26,911)
(Increase) decrease in other assets	16,419	15,940
Increase (decrease) in other liabilities	14,956	2,756
Net cash provided by operating activities	282,440	186,504
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to utility plant	(171,467)	(167,082)
Allowance for interest used during construction	3,654	2,818
Contributions in aid and customer advances for construction	6,928	7,727
Sale of revenue bonds	0	125,000
Sale of commercial paper	0	30,300
Principal payments on revenue bonds	(88,700)	(81,810)
Commercial paper redeemed	(17,300)	(16,700)
Debt issue expenses	0	(254)
Old series bond reserve defeasance	(16,552)	0
New series bond reserve asset transfer	16,552	0
Net cash used for capital and related financing activities	(266,885)	(100,001)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 15,555	$ 86,503
CASH, CURRENT RESTRICTED CASH, AND TEMPORARY INVESTMENTS:		
Beginning of year	$ 56,472	$ 67,450
End of year	67,186	56,472
Net increase (decrease)	10,714	(10,978)
RESTRICTED CASH AND INVESTMENTS:		
Beginning of year	458,204	360,723
End of year	463,045	458,204
Net increase (decrease)	4,841	97,481
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 15,555	$ 86,503

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

1. Significant Accounting Policies

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

BASIS OF ACCOUNTING — The financial statements of CPS are presented in accordance with generally accepted accounting principles for rate-regulated enterprises. The accounting records of CPS follow the Uniform System of Accounts for Gas and Electric Utilities issued by the National Association of Regulatory Utility Commissioners. Also, CPS has elected not to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, which is an alternative of the Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. This election avoids conflicts created when the FASB issues standards that conflict with GASB pronouncements.

FISCAL YEAR — The fiscal year ended January 31, 1997, is referred to herein as 1997; the fiscal years ended January 31, 1996, January 31, 1995, and January 31, 1994 as 1996, 1995, and 1994 respectively.

REVENUE AND EXPENSES — Revenue is recognized as billed on a cycle basis. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS recognizes fuel and resale gas costs on the same basis as it recognizes revenue.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is included in fuel expense, in the amount of $0.00093 per generated kilowatt hour (KWH) for its share of electricity produced by STP. For further discussion regarding the STP, see Note 9.

UTILITY PLANT — Utility plant is stated at the cost of construction, including costs of contracted services, direct material and labor, indirect costs, including general engineering, labor and material overhead, and an allowance for interest used during construction (AIUDC). CPS computes AIUDC using rates representing the cost of borrowed funds on projects estimated to cost in excess of $250,000. Retirements of utility plant, together with removal cost less salvage, are charged to accumulated depreciation. The maintenance of property, as well as replacements and renewals of items determined to be less than a unit of property, are charged to maintenance expense. General utility plant assets consist of land, buildings, and equipment for general and administrative purposes that are used commonly in electric and gas operations.

CPS computes depreciation using the straight-line method over the estimated service lives of the various classes of depreciable property as determined by periodic engineering studies. Depreciation as a percentage of average depreciable plant was 2.95 percent in 1997 and 1996.

RESTRICTED CASH AND INVESTMENTS — These funds are generally restricted as to use for other than current operations or are designated for expenditures in the acquisition or construction of non-current assets. Funds consist primarily of unspent bond issue proceeds, debt service and reserves required for Old and New Series Bonds and commercial paper, and funds for future construction or contingencies. The Overhead Conversion Fund was established in 1995. This fund includes 1 percent of the prior fiscal year's electric revenue from cities in the CPS service area. The current amount represents the unused balance from 1994 through January 31, 1997.

As of February 1, 1997, the Old Series Bonds were fully defeased. The remaining balance in the Old Series Bond Reserve was transferred to the New Series Bond Reserve. For further discussion regarding the Old Series Bonds, New Series Bonds, and their corresponding reserves, see Note 3.

Also included in the restricted cash category is the CPS Joint Operations Savings Fund, which was established in 1997. This fund represents the restricted portion of CPS' cumulative savings as a result of the joint systems operations agreement with Houston Lighting and Power; the amount is being restricted until it is determined how these funds will be disbursed.

CPS customer assistance program funds, insurance reserves, and short-term investments of tax-exempt commercial paper proceeds are also included in this category.

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

DEFERRED DEBITS AND OTHER — These amounts consist primarily of the unamortized balances of debt issuance expenses, nuclear fuel assessment and STP litigation expenses and noncurrent litigation settlement receivables.

Amortization of debt expense is recorded over the period of the outstanding bonds. Also included are assets of an employee deferred compensation plan held by a trustee.

DEFERRED CREDITS AND OTHER — These amounts consist primarily of liabilities relating to employee deferred compensation, nuclear fuel assessment, customer assistance program contributions, customer advances for construction, and the CPS [illegible] Operations Savings Fund. Operating reserves for property insurance and injuries and damages are also included in this category.

STATEMENT OF CASH FLOWS — For purposes of reporting cash flows, CPS considers all highly liquid debt instruments purchased with a maturity of approximately three months or less to be short-term investments. Accordingly, CPS' temporary investments and restricted cash and investments are cash equivalents. No material noncash investing or noncapital financing transactions occurred during 1997 and 1996.

To determine net cash provided by operating activities, net earnings have been adjusted by changes in current assets and current liabilities, excluding changes in cash and temporary investments and current maturities of long-term debt. Changes shown as an (increase) decrease in current assets and as an increase (decrease) in current liabilities are as follows:

	1997	1996
	(In thousands)	
Customer accounts receivable	$ (15,236)	$ (5,495)
Other receivables	(1,422)	(7,047)
Inventories and supplies	2,066	(11,283)
Prepayments and other	(2,550)	(1,153)
Accounts payable and accrued liabilities	11,355	(2,140)
Customer service deposits	346	207
Changes in current assets and current liabilities	$ (5,441)	$ (26,911)

Cash interest paid by CPS, net of AFUDC, was $138,300 and $137,954 in 1997 and 1996, respectively.

2. Cash and Temporary Investments

CPS cash deposits at January 31, 1997, and 1996, were entirely insured or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government obligations held in book entry form by a third party in CPS' name. CPS' cash book values were $5.6 million at January 31, 1997, and CPS' bank balances were $11.7 million also at year end.

At January 31, 1997, and 1996, CPS' investments, both restricted and unrestricted, were all in U.S. Government obligations and were held in book entry form by a third party in CPS' name. CPS' investments are generally limited to U.S. Government or U.S. Government guaranteed obligations by Trust Indenture, Ordinances, and State Law. Investments carried at amortized cost plus accrued interest were $524.6 million with a market value of $530.1 million at January 31, 1997, and were $507.3 million with a market value of $514.1 million at January 31, 1996.

3. Revenue Bond Indenture Requirements

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

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

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

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

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

As of January 31, 1997, bond reserve requirements for the New Series Bonds have been met. As of February 1, 1997, the Old Series Bonds were totally defeased and the provisions set forth by the bond ordinances for New Series Bonds became effective.

4. Revenue Bonds

A summary of revenue bonds is as follows:

	Maturities	Weighted-Average Interest Rate on Outstanding Bonds a January 31, 1997	January 31 1997	1996
			(In thousands)	
Old Series, 1974		—	$ —	$ 13,500
New Series Serial Bonds, 1977 - 1995	1998 - 2018	5.606%*	2,285,350	2,360,550
Unamortized New Series Bonds issue discount			(67,168)	(72,577)
New Series Capital Appreciation Bonds, 1989 and 1991	2002 - 2012		502,565	502,565
Unamortized Capital Appreciation Bond discount			(236,864)	(254,778)
		5.606%	2,483,883	2,549,260
Less: Current maturities of bonds			93,145	88,700
Unamortized cost of bond reacquisition			166,386	183,568
Revenue bonds, net of current maturities			$ 2,224,352	$ 2,276,992

* All new series bonds, including capital appreciation bonds

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

Year	New Series Bonds
1998	$ 93,145
1999	94,555
2000	102,890
2001	120,545
2002	109,122

In prior years, CPS refunded certain previously issued and outstanding New Series Bonds through the issuance of New Series Revenue Refunding Bonds. The refunded bonds and related trust accounts are not included in CPS financial statements. At January 31, 1997, portions of the bonds (in thousands) which have been defeased were still outstanding as follows:

Fiscal year 1988 refunding	$ 79,350
Fiscal year 1992 refunding	4,100
Fiscal year 1993 refunding	160,205
Fiscal year 1995 refunding	100,990

In 1996, CPS issued $125.0 million of New Series 1995 Revenue Bonds at an average interest cost of 5.50 percent, with delivery on November 16, 1995. Some of the proceeds from these bonds are still available and will be used for CPS' construction programs in 1998.

In February 1994, CPS issued New Series Bonds which included $37 million of London Interbank Offered Rate (LIBOR) Floater Bonds, the rates on which are reset semi-annually. CPS entered into a rate hedge contract with a counterparty which resulted in the LIBOR Floater Bonds being a fixed rate payment obligation for CPS. At the option of the bondholders, $36 million of the LIBOR Floater Bonds were converted to fixed rate obligations during fiscal year 1995, with the remaining $1 million being converted by the bondholders to fixed rate on February 1, 1995. The bondholders' converted rates are higher than CPS' contract fixed rate. During the 1996 fiscal year, CPS was exposed to minimal market risk. This risk is equivalent to the difference between CPS' contract fixed rate and the converted fixed rate on these bonds for one interest period. CPS does not anticipate nonperformance by the contract counterparty, who is rated AAA by Standard & Poor's Corporation.

5. Commercial Paper

In October 1988, the City Council of San Antonio, Texas (City Council) adopted an ordinance authorizing the issuance of up to $300 million in Tax-Exempt Commercial Paper (TECP). This ordinance as amended provides for funding to assist in the financing of eligible projects, including fuel acquisition and capital improvements to the utility systems (the Systems), and to refinance or refund any outstanding obligations which are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

Based upon the revised ordinance authorization, CPS issued $211 million of TECP to call long-term bonds during fiscal year 1994. CPS has self-imposed a schedule to pay off the balance of the principal used for the redemption of long-term debt. Under this payback, $17.3 million of the $211 million was redeemed during 1997; $16.7 million was redeemed during 1996; $16.9 million was redeemed during 1995; and $5.6 million was redeemed during 1994. In fiscal 1998, the principal payment scheduled is $27.0 million with slightly greater amounts scheduled for the following two fiscal years.

As of January 31, 1997, $277.8 million in principal amount was outstanding, with a weighted-average interest rate of approximately 3.48 percent and an average life of approximately 105 days.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $300 million for the purpose of paying amounts due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 1998, and may be renewed for additional periods.

There have been no borrowings under the credit agreement as of January 31, 1997. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of the Old Series Bonds, the New Series Bonds and any New Series Bonds to be issued in the future.

6. Benefit Plans

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

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

	1997	1996
	(In thousands)	
Employee contributions	**$ 6,061**	$ 5,738
CPS contributions	**14,267**	14,078
Total contributions	**$ 20,328**	$ 19,816
Covered payroll	**$ 125,173**	$ 115,634
Total payroll	**$ 124,764**	$ 125,315

The actuarially determined contribution requirement as of December 31, 1996, was computed using an assumed rate of return of 8.5 percent. For 1997 the past-service costs were amortized over 15 years, as compared to a 20-year amortization for 1996 and 1995, and a 30-year amortization for prior years. There were no changes in actuarial assumptions or cost methods from 1996 to 1997.

On December 1, 1996, the Plan was amended to increase the in-service death benefit for active employees, who were eligible to retire at their date of death. The effect of this change was an increase in the December 31, 1996 Pension Benefit Obligation of $1.6 million and an increase in the actuarially determined contribution requirement beginning February 1, 1997 of $263 thousand with a 15 year funding assumption for fiscal year 1997-98.

CPS contributions amounted to 11.4 percent of covered payroll in 1997, and 12.2 percent in 1996, and 11.8 percent in 1995. Of the amounts contributed during years 1997, 1996, and 1995, approximately $14.7 million, $13.9 million, and $13.4 million, respectively, was to fund the normal costs of the Plan each year. The remaining contribution in each year was to fund the amortization of the unfunded actuarial accrued liability.

GASB Statement No. 5, Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers, requires that a pension benefit obligation be measured using the actuarial present value of credited projected benefits, as adjusted for projected salary increases. This measure is independent of the funding method used to determine contributions to the Plan; however, the significant actuarial assumptions used to compute the contribution requirement are the same as those used to compute the pension benefit obligation.

Under GASB Statement No. 5, the following represents CPS' pension benefit obligation (in thousands) as of December 31, 1996, and 1995:

	1996	1995
For retirees, beneficiaries and inactive participants	**$ 194,061**	$ 173,[illegible]
For active participants:		
Employer and employee-financed vested benefits	**240,115**	229,608
Employer-financed nonvested benefits	**53,030**	52,327
Total pension benefit obligation	**487,206**	455,331
Net assets available for plan benefits (at fair market value)	**515,036**	453,985
(Overfunded)/Unfunded pension benefit obligation	**$ (27,830)**	$ 1,346

Net assets available for plan benefits were 105.7 percent of total pension benefit obligation in 1996, as compared with 99.7 percent in 1995 and 83 percent in 1994. Net assets exceeded the pension benefit obligation for 1996 by 22.2 percent of covered payroll. The unfunded pension benefit obligation was equal to 1.2 percent of annual covered payroll in 1995, as compared with 61 percent in 1994.

Prior to GASB Statement No. 5, CPS reported the Plan status as the actuarial present value of accumulated plan benefits. Under such method, the actuarial present value of accumulated plan benefits using an assumed rate of return of 8.5 percent was $392.[illegible] million at December 31, 1996 with net assets of $515.0 million at fair market value. As of December 31, 1995, the actuarial present value of accumulated plan benefits was $3[illegible]3.2 million as compared to net assets of $454.0 million.

Employees who retired prior to [illegible] are receiving annuity payments from an insurance carrier as well as receiving some benefits directly from CPS. CPS costs for fiscal 1997 and 1996 were $447 thousand and $498 thousand, respectively, and [illegible] recorded when paid.

Deferred Compensation Plan

CPS offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan receives no contributions from CPS. It is available to all CPS employees and permits them to defer a portion of their salary until future years. Funds are managed by an independent trustee. The deferred compensation is not available to employees until termination, retirement, or death, or due to an unforeseeable emergency.

As a result of the Small Business Job Protection Act of 1996 (the Act), certain provisions of the Internal Revenue Code 457 have been amended that are applicable to CPS' deferred compensation plan. Under the amended provisions, all assets of the plan are to be held in a trust for the exclusive benefit of participants and their beneficiaries; however, the assets do not have to be placed in a trust until January 1, 1999. In compliance with the Act, CPS has officially amended and restated its deferred compensation plan to provide that a trust to hold all assets of the plan for the exclusive benefit of the participants and beneficiaries shall become effective on or before January 1, 1999.

7. Other Postemployment Benefits

CPS provides certain health care and life insurance benefits for retired employees. All former CPS employees are eligible for these benefits upon retirement from CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs. These costs approximated $2.4 million and $2.0 million for 1997 and 1996, respectively. CPS reimbursed $42.50 per month for Medicare supplement for certain retirees and their spouses enrolled in Medicare Part B in 1996 and $43.80 effective January 1, 1997.

Retired employees and covered dependents contributed $925 thousand and $762 thousand for their health care and life insurance benefits in fiscal 1997 and 1996, respectively. In fiscal 1997, there were approximately 1,734 retirees and covered dependents eligible for health care and life insurance benefits, as compared to approximately 1,638 in 1996.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 1997, valuations are $38.4 million for health and $14.9 million for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $31.9 million for health, $4.3 million for life insurance and $2.1 million for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $5 million in fiscal year 1997, $7 million per year in 1996, and $5 million per year for 1993 through 1995.

8. Payments to the City

The trust indenture provides for benefits and services totaling 14 percent of CPS gross revenues, as defined, to be paid or provided to the City. Payments to the City for 1997 and 1996 (in thousands), based on allowable revenue, were as follows:

	1997	1996
Tax equivalent	$ 15,154	$ 13,696
Refund gas and electric services	17,109	16,587
Additional cash payments	105,325	92,639
Total payments to the City	$137,588	$122,922

9. South Texas Project (STP)

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are the project manager, Houston Lighting & Power Company (HL&P), Central Power and Light Company (CPL), and the City of Austin (Austin). Full power operating licenses were issued by the Nuclear Regulatory Commission (NRC) on March 22, 1988, for Unit 1 and March 28, 1989, for Unit 2. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28-percent ownership in the STP represents 700 megawatts of plant capacity. At January 31, 1997, CPS' investment in the STP utility plant was approximately $1.7 billion, net of accumulated depreciation.

Under the terms of the current STP Participation Agreement, STP is maintained and operated by HL&P as Project Manager and each participant provides funding for its share of expenditures. The participants have agreed to create a new operating company which would replace HL&P as Project Manager and become the operating licensee of STP. An Amended and Restated Participation Agreement, setting forth the new terms and conditions of the operation by the participants, is expected to replace the current Participation Agreement during fiscal year 1997-98. The responsibility for sharing costs in proportion to ownership interests would remain unchanged.

LITIGATION — CPS and HL&P entered into a joint operations agreement effective July 1, 1996 which resolved CPS' claims against HL&P concerning the shutdown of the STP nuclear plant during fiscal 1994 and cost overruns during the STP construction period. The total amount of the settlement was for $225 million.

CPS received the initial $75 million of the settlement in cash proceeds during the summer of fiscal 1997, of which $11 million was used to reimburse CPS for litigation expenses incurred. The remaining $64 million was directly refunded to the ratepayers during September 1996.

The settlement also includes an agreement to jointly dispatch CPS' and HL&P's generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. This joint operations agreement must result in at least $10 million in cumulative savings per year to CPS, or HL&P will make up the difference in cash. A similar payment will be made by HL&P to insure benefits to CPS of $150 million in savings during the ten year life of the joint operating agreement.

NUCLEAR INSURANCE — The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities, is in effect until August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $8.92 billion per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $75.5 million, which may be adjusted for inflation, for each licensed reactor, but not more than $10 million per reactor for each nuclear incident in any one year. CPS and each of the other participants of STP are subject to such assessments. CPS and the other participants have agreed that any such assessments will be borne on the basis of their respective ownership interests in STP. CPS' ownership interest in STP is 28 percent. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $400 million for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers' compensation system as sole remedy and bring suit against another party. STP could be assessed up to approximately $3.8 million to pay its share for this liability coverage during the life of the plant.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses. The $2.75 billion of nuclear property insurance consists of $500 million in primary property damage insurance, along with $2.25 billion of excess property damage insurance that is subject to a retrospective assessment being paid by each electric utility which is a member of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies is $14.8 million during any one policy year.

NUCLEAR DECOMMISSIONING — In July 199?, CPS, together with the other owners of the STP, filed with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1994, the owners conducted a review of decommissioning costs. The results estimated CPS' share of decommissioning costs at approximately $270 million in 1994 dollars, which also exceeded NRC minimum requirements.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The trust accounts and related decommissioning liability are not included in CPS' financial statements.

At January 31, 1997, CPS has accumulated approximately $57.1 million of decommissioning funds in the external trust. Based upon the 1994 decommissioning cost study, the annual levelized funding increase to $8.8 million for 1996 has remained the same for 1997.

10. Commitments and Contingencies

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

Purchase and construction commitments amounted to approximately $988 million at January 31, 1997. This amount includes approximately $645 million that is expected to be paid for natural gas purchases to be made under the contracts currently in effect through the year 2002; the actual amount to be paid will be dependent upon CPS' actual requirements during the contract period and the price of gas. Also included is $37 million for coal purchases through 2000, $203 million for coal transportation through 2004, and $14 million for treated cooling water through 2005, based upon the minimum firm commitment under these contracts.

The Public Utility Commission (PUC) of Texas has promulgated new rules designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based 70 percent on a single state-wide fee and 30 percent on the calculated economic impact of open access on each electric utility in Texas. This rate structure potentially would cost CPS $15 million per year in additional transmission costs that will effectively subsidize competing utilities with higher transmission costs. The PUC's Rule includes a rate-moderation plan that will minimize the impact of the new pricing mechanism for the first three years that the Rule is in effect. Under this plan, CPS' costs for calendar year 1997 would be 10 percent of the total cost mentioned above; costs for 1998 and 1999 would be 20 percent and 30 percent of the above cost, respectively. CPS has petitioned the PUC to amend the Rule and has challenged the Rule's validity in State District Court. CPS has also filed an appeal from the PUC's determination as to the level of transmission costs CPS may recover under the PUC's Rule.

The ultimate effect of the Rule and other developments in the restructuring of the electric industry is unknown at this time. CPS is continuously monitoring developments as it positions itself to maximize potential benefits and mitigate detrimental effects where possible.

11. Segment Information

	1997			1996		
	Electric	Gas	Total	Electric	Gas	Total
	(In thousands)			(In thousands)		
REVENUE	$ 841,699	$ 147,980	$ 989,679	$ 777,657	$ 108,625	$ 886,282
EXPENSES:						
Operating and maintenance expenses	379,219	109,133	468,352	374,468	80,246	454,714
Depreciation	136,343	10,216	146,559	132,413	9,689	142,102
Total expenses	515,562	119,349	634,911	506,881	89,935	596,816
OPERATING INCOME	$ 326,137	$ 28,631	354,768	$ 270,776	$ 18,690	289,466
Interest and other income			34,636			28,568
Net interest and debt expense and tax equivalent to the City of San Antonio			(194,317)			(193,596)
EXCESS OF REVENUES OVER EXPENSES			$ 195,087			$ 124,438
CAPITAL EXPENDITURES	$ 131,777	$ 40,491	$ 172,268	$ 126,203	$ 27,123	$ 153,326
Identifiable assets	$ 3,742,891	$ 297,625	$ 4,040,516	$ 3,760,528	$ 260,494	$ 4,021,022
General assets			574,268			555,942
TOTAL ASSETS			$ 4,614,784			$ 4,576,964

ERNST & YOUNG LLP RWD GARZA, PREIS, GARCIA & CO. Certified Public Accountants

Board of Trustees
City Public Service

We have audited the accompanying balance sheets of City Public Service as of January 31, 1997 and 1996, and the related statements of revenues and application of revenues, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the management of City Public Service. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Public Service as of January 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP Robert Wayne Douglas Garza, Preis, Garcia & Co.

San Antonio, Texas
March 14, 1997

Years Ended January 31,
(In thousands)

(Unaudited)	1997	1996	1995	1994	1993
REVENUE AND APPLICATION					
Revenues:					
Electric Sales	$ 841,699	$ 777,657	$ 757,937	$ 781,661	$ 708,257
Gas Sales	147,980	108,625	110,694	125,491	112,611
Interest and other income	34,636	28,568	24,525	23,353	26,508
Total revenues	$1,024,315	$ 914,850	$ 893,156	$ 930,505	$ 847,376
Revenues applied:					
Cost of operating systems:					
Fuel, purchased power and resale gas	$ 255,055	$ 203,337	$ 210,503	$ 260,215	$ 201,699
Other operating and general expenses	161,874	172,745	164,885	166,054	143,753
Maintenance	71,423	78,632	72,848	88,528	65,170
Total	$ 488,352	$ 454,714	$ 448,236	$ 514,797	$ 410,622
Debt requirements for Old Series Bonds:					
Interest expense	$ 945	$ 1,838	$ 2,678	$ 3,390	$ 4,067
Principal requirements	12,567	12,840	12,235	13,112	12,306
Reserve requirements *	(16,639)	(87)	(327)	(346)	(239)
Debt expense	1	3	4	6	7
Total	$ (3,126)	$ 14,594	$ 14,590	$ 16,162	$ 16,141
Payments and services to City:					
Tax equivalent to City of San Antonio	$ 15,154	$ 13,696	$ 12,736	$ 11,817	$ 11,244
Refunds for services	17,109	16,587	16,163	16,464	16,387
Additional payment	105,325	92,639	90,953	96,601	85,884
Total	$ 137,588	$ 122,922	$ 119,852	$ 124,882	$ 113,515
Debt requirements for New Series Bonds/Other:					
Interest expense	$ 128,581	$ 127,268	$ 129,899	$ 150,588	$ 159,169
Principal requirements	77,207	69,067	64,597	66,460	69,965
Reserve requirements *	16,227	(621)	1,150	1,239	5,568
Debt expense	28	17	14	42	69
Other interest	6,638	6,267	3,721	3,252	5,394
Commercial paper redemption requirements	22,975	23,746	22,795	8,429	0
Total	$ 249,656	$ 225,744	$ 222,176	$ 230,010	$ 240,165
Allowance for interest used during construction	$ (3,654)	$ (2,818)	$ (3,072)	$ (1,977)	$ (29,055)
Additions to plant:					
Gross construction for year	$ 172,268	$ 153,326	$ 149,519	$ 124,162	$ 171,952
Less construction funds provided by sources other than revenues	64,226	43,222	88,792	59,679	78,089
Revenues used for additions to plant	$ 108,042	$ 110,104	$ 60,727	$ 64,483	$ 93,863
Additions to Improvements and Contingencies Fund	41,268	(17,111)	16,497	(17,852)	2,125
Net additions to Overhead Conversion Fund (Paid by I&C Fund)	6,189	6,701	14,150	0	0
Total	$ 155,499	$ 99,694	$ 91,374	$ 46,631	$ 95,988
Total revenues applied	$1,024,315	$ 914,850	$ 893,156	$ 930,505	$ 847,376
BALANCE SHEET DATA					
Utility plant at cost	$5,269,014	$5,123,286	$5,013,020	$4,911,599	$4,793,976
Gross construction	172,268	153,326	149,519	124,162	171,952
Accumulated depreciation	1,402,952	1,269,710	1,159,599	1,042,1[illegible]	917,783
Annual depreciation allowance	146,559	142,102	138,939	136,957	120,879
Bond principal and interest coverage	2.47x	2.18x	2.12x	1.78x	1.78x

* *Old Series Reserve Requirements for 1997 includes a transfer of remaining assets of $16,552 to the New Series Reserve at year-end. New Series Reserve Requirements for 1997 reflects this added transfer.*

FIVE YEAR OPERATIONS REVIEW

Years Ended January 31,
(In thousands)

(Unaudited)	1997	1996	1995	1994	1993
OPERATING REVENUES					
Electric:					
Residential	$ [illegible]8,061	$ 360,484	$ 346,396	$ 350,583	$ 320,067
Commercial and industrial	[illegible]	304,090	301,319	315,156	284,289
Street lighting	[illegible]	10,762	10,454	10,468	9,845
Public Authorities	[illegible]	80,812	78,504	86,370	78,061
Sales for resale	1[illegible],26[illegible]	9,966	9,316	9,611	8,546
Off-system sales *	6,8[illegible]8	5,580	5,923	3,958	2,259
Miscellaneous	6,386	5,963	6,025	5,516	5,190
Total electric	$ 841,699	$ 777,657	$ 757,937	$ 781,662	$ 708,257
Gas:					
Residential	$ 87,362	$ 65,668	$ 65,965	$ 75,708	$ 68,208
Commercial and industrial	50,360	36,305	37,982	41,944	37,332
Public Authorities	9,284	5,763	5,824	6,905	6,283
Miscellaneous	974	889	923	934	788
Total gas	$ 147,980	$ 108,625	$ 110,694	$ 125,491	$ 112,611
SALES (In thousands)					
Electric — KWH:					
Residential	6,142,014	5,606,699	5,287,483	5,005,292	4,831,794
Commercial and industrial	6,409,608	6,090,667	5,881,461	5,604,418	5,420,383
Street lighting	97,339	95,428	92,392	90,619	87,567
Public Authorities	1,946,948	1,854,042	1,765,728	1,668,884	1,619,005
Sales for resale	290,265	261,325	235,900	213,765	205,758
Off-system sales *	381,331	347,129	236,964	142,399	122,789
Total	15,267,505	14,255,290	13,499,928	12,725,377	12,287,296
Gas — MCF:					
Residential	13,752	12,902	12,488	13,921	13,397
Commercial and industrial	10,963	10,683	10,566	10,584	10,166
Public Authorities	2,071	1,718	1,639	1,803	1,800
Total	26,786	25,303	24,693	26,308	25,363
PURCHASE FOR RESALE:					
Electric (1000) KWH **	438,107	345,107	327,082	70,977	292,686
Gas (1000) MCF	27,673	25,927	24,975	27,112	25,326
ELECTRIC GENERATION — (1000) KWH * & ***	15,659,321	14,764,596	13,945,516	13,431,946	12,710,278
Electric Gen. Capacity, KW (Gas)	2,430,000	2,430,000	2,400,000	2,400,000	2,400,000
Electric Gen. Capacity, KW (Coal)	1,385,000	1,385,000	1,336,000	1,336,000	1,336,000
Electric Gen. Capacity, KW (Nuclear)	700,000	700,000	700,000	700,000	700,000
ELECTRIC PEAK DEMAND — KW	3,356,000	3,249,000	3,052,000	2,908,000	2,817,000
NUMBER OF CUSTOMERS:					
Electric	528,739	519,269	506,646	494,385	485,345
Gas	300,185	299,167	296,200	292,241	290,497
RESIDENTIAL AVERAGES:					
Electric:					
Revenue per customer	$ 862.33	$ 799.26	$ 786.61	$ 814.44	$ 756.51
KWH per customer	13,306	12,431	12,007	11,628	11,420
Revenue per KWH	6.48¢	6.43¢	6.55¢	7.00¢	6.62¢
Gas:					
Revenue per customer	$ 313.44	$ 237.20	$ 240.75	$ 279.13	$ 253.96
MCF per customer	49.3	46.6	45.6	51.3	49.9
Revenue per MCF	$ 6.35	$ 5.09	$ 5.28	$ 5.44	$ 5.09

** 1997 includes $150 (in thousands) and 66,110 MWH of Fuel-Supplied energy transactions with a wholesale customer*
*** 1993 includes Test Energy of 226,794 MWH for J.K. Spruce Pre-Commercial testing*
**** 1997 does not include 2,259,699 MWH generation provided as part of the Joint Systems Operating Agreement with HL&P.*

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