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SUBJECT: Forwards Arizona Public Svc Co 1992 net cash flow  
projection & "Southern California Public Power Authority  
1990 - 1991 Annual Rept," as evidence of payment of deferred  
premiums. *see #*

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**Arizona Public Service Company**

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WILLIAM F. CONWAY  
EXECUTIVE VICE PRESIDENT  
NUCLEAR

102-02158-WFC/JRP

May 27, 1992

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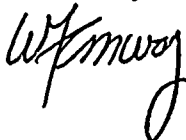
Dear Sirs:

**Subject: Palo Verde Nuclear Generating Station (PVNGS)**  
**Units 1, 2, and 3**  
**Docket Nos. STN 50-528/529/530**  
**Licensee Guarantee of Payment of Deferred Premium**  
**File: 92-003-240**

Pursuant to the requirements of 10 CFR 140.21(e), Arizona Public Service Company, for itself and on behalf of the PVNGS participants, herewith submits the projected 1992 cash flow statements.

If you should have any questions, please contact Thomas R. Bradish of my staff at (602) 393-5421.

Sincerely,



WFC/JRP/pmm

Enclosure

cc: J. B. Martin  
D. H. Coe  
A. C. Gehr  
A. H. Gutterman

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**ARIZONA PUBLIC SERVICE COMPANY**  
**1992 Net Cash Flow Projection**  
**for Palo Verde Nuclear Generating Station**  
**(000's)**

	<u>1991 Actual</u>	<u>1992 Projected</u>
Participant: ARIZONA PUBLIC SERVICE COMPANY		
1. Net Income After Taxes	(\$222,649)	\$225,686
Less:		
2. Dividends Paid on Preferred Stock	33,127	31,613
3. Dividends Paid on Common Stock	<u>170,000</u>	<u>170,000</u>
4. Retained Earnings	(425,776)	24,073
Adjustments:		
5. Disallowed Palo Verde Costs (1)	577,145	0
6. Palo Verde Accretion Income (Pretax) (1)	(5,307)	(67,421)
7. In-Lieu Refund/Obligation Revenues (Pretax) (1)	52,057	(21,372)
8. Depreciation and Amortization (2)	261,188	261,296
9. Deferred Income Taxes	(128,904)	83,584
10. Deferred ITC (Net)	(15,393)	(7,063)
11. Allowance for Funds Used During Construction (Equity & Borrowed)	(10,538)	(12,648)
12. Gross Cost Deferrals	(133,954)	0
13. Decommissioning	(5,745)	(6,516)
14. Other (3)	<u>9,194</u>	<u>0</u>
15. Total Adjustments	599,743	229,860
16. Internal Cash Flow (Line 4 + Line 12)	173,967	253,933
17. Average Quarterly Cash Flow (Line 13/4)	43,492	63,483

Percentage Ownership in All Nuclear Units:

Unit 1 - 29.1%  
Unit 2 - 29.1% (4)  
Unit 3 - 29.1%

Maximum Total Contingent Liability for PVNGS is \$30 million (\$10 million per Unit)

- (1) Related to 12/91 ACC settlement agreement.
- (2) Includes Nuclear Fuel Amortization.
- (3) Amortization of Tax Benefits Sold in 1981 and current tax effect of gain on the sale of Cholla 4.
- (4) Includes Portion of Palo Verde Unit 2 Leased.





SOUTHERN CALIFORNIA EDISON COMPANY

1992 Internal Cash Flow Projection  
(Dollars in Thousands)

	1991 Actual	1992 Projected
Net Income After Taxes	\$629,500	*
Dividends Paid	627,900	*
Retained Earnings	\$1,600	*
Adjustments:		
Depreciation	758,900	794,900
Net Deferred Taxes & ITC	33,000	53,200
Allowance for Funds Used During Construction	(27,900)	(31,500)
Total Adjustments	\$764,000	\$816,600
Internal Cash Flow	\$765,600 =====	*
Average Quarterly Cash Flow	\$191,400 =====	*
Percentage Ownership in All Nuclear Units:		
San Onofre Nuclear Generating Station Unit 1		
Southern California Edison Company		80.00%
San Diego Gas & Electric Company		20.00%
San Onofre Nuclear Generating Station Units 2 & 3		
Southern California Edison Company		75.05%
San Diego Gas & Electric Company		20.00%
City of Anaheim		3.16%
City of Riverside		1.79%
Palo Verde Nuclear Generating Station Units 1-3		15.80%
Maximum Total Contingent Liability:		
San Onofre Nuclear Generating Station Unit 1		\$10,000
San Onofre Nuclear Generating Station Unit 2		10,000
San Onofre Nuclear Generating Station Unit 3		10,000
Palo Verde Nuclear Generating Station Unit 1		1,580
Palo Verde Nuclear Generating Station Unit 2		1,580
Palo Verde Nuclear Generating Station Unit 3		1,580
		\$34,740 =====

\* Company policy prohibits disclosure of financial data which will enable unauthorized persons to forecast earnings or dividends, unless assured confidentiality. The Net Estimated Cash Flow for 1992 is expected to be comparable to the Actual Cash Flow for 1991.



INTERNAL CASH FLOW PROJECTION OF SALT RIVER PROJECT  
(JOINT OWNER OF PALO VERDE NUCLEAR GENERATING STATION)  
FOR FISCAL YEARS ENDED APRIL 30, 1991 and 1992  
(\$000)

	1991 ACTUAL	1992 PROJECTED
Net Income after taxes	(218,342)	28,244
Less dividends paid:		
Preferred dividend requirements		
Dividends on common stock		
Retained Earnings	(218,342)	28,244
Adjustments:		
Depreciation and amortization	159,038	168,592
Deferred Income Taxes and Investment Tax Credits		
Allowance for Funds Used During Construction	(5,540)	(6,204)
Write-down of Coronado Unit III	203,684	
Total Adjustments	357,182	162,388
Internal Cash Flow	138,840	190,632
Average Quarterly Cash Flow	34,710	47,658
Percentage Ownership in all nuclear units		
Unit 1	17.49%	17.49%
Unit 2	17.49%	17.49%
Unit 3	17.49%	17.49%

I, Michael W. Lowe, Corporate Treasurer of the Salt River Project Agricultural Improvement and Power District certify that the above 1991 figures are based upon our Accounting Records, and agree, as appropriate with our audited financial statements. The 1992 projections are based upon May 1991 through March 1992 actual amounts, plus budgeted figures for the month of April.

Michael W. Lowe 5/5/92  
Michael W. Lowe

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LOS ANGELES CITY DEPARTMENT OF WATER AND POWER  
POWER SYSTEM

INTERNAL CASH FLOW  
(Thousands of Dollars)

	1990-91 Actual <u>Total</u>	1991-92 Estimated <u>Total *</u>
Net Income	\$95,927	\$104,220
Less: Transfer to the City	<u>92,494</u>	<u>90,600</u>
Retained Earnings	<u>3,433</u>	<u>13,620</u>
Adjustments		
Depreciation and Amortization	152,190	157,540
Allowance for funds used during construction	<u>(6,143)</u>	<u>(13,340)</u>
Total Adjustments	<u>146,047</u>	<u>144,200</u>
Internal Cash Flow	<u>\$149,480</u>	<u>\$157,820</u>
Average Quarterly Cash Flow	<u>\$37,370</u>	<u>\$39,455</u>

FOR: PALO VERDE NUCLEAR POWER STATION



1992 PRO FORMA CASH FLOW STATEMENT  
FOR PUBLIC SERVICE COMPANY OF NEW MEXICO  
(Excluding Non-utility Subsidiaries)

	<u>1991 Actual</u>	<u>1992 Projected</u>
Net Income After Taxes	22,960	27,345
Less Dividends Paid	<u>9,474</u>	<u>8,794</u>
Retained Earnings	13,486	18,551
Adjustments:		
Depreciation and Amortization	76,053	76,276
Deferred Income Taxes and		
Investment Tax Credits	10,625	(9,000)
Allowance for Equity Funds		
Used During Construction	(1,105)	(1,932)
Other, Non-Cash	<u>18,772</u>	<u>17,458</u>
TOTAL ADJUSTMENTS	<u>104,345</u>	<u>82,802</u>
INTERNAL CASH FLOW	<u>117,831</u>	<u>101,353</u>
 Average Quarterly Cash Flow	 29,458	 25,338

Percentage Entitlement in all Nuclear Units:

Palo Verde Unit 1--10.2%  
Palo Verde Unit 2--10.2%  
Palo Verde Unit 3--10.2%

By:

Tom Sategna  
Tom Sategna  
Controller, Electric and Water



# OFFICIAL STATEMENT

NEW ISSUE — BOOK-ENTRY ONLY

Docket # 50-528-  
Accession # 9206040244  
Date 5/27/92 of Ltr  
Regulatory Docket File

## Southern California Public Power Authority (a public entity organized under the laws of the State of California)

\$7,265,000 Special Obligation Bonds, Crossover Series A  
\$63,415,000 Special Obligation Bonds, Crossover Series B  
\$59,800,000 Power Project Revenue Bonds, 1992 Refunding Series C  
(Palo Verde Project)

Dated January 1, 1992

Due July 1, as shown herein

The Crossover Bonds and the Series C Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Crossover Bonds and the Series C Bonds. Individual purchases of the Crossover Bonds and the Series C Bonds will be made in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Semiannual interest on the Crossover Bonds and the Series C Bonds are payable each January 1 and July 1, commencing July 1, 1992. Payments of principal of, Redemption Price, if applicable, and interest on the Crossover Bonds and the Series C Bonds are to be made to purchasers by DTC through DTC Participants (as such term is herein defined). Purchasers will not receive physical delivery of the Crossover Bonds or the Series C Bonds purchased by them. See "Book-Entry Only System" herein.

The Crossover Bonds and the Series C Bonds are subject to redemption prior to maturity as set forth herein.

The Crossover Bonds and the Series C Bonds are being issued to provide moneys to refund certain of the Authority's outstanding Power Project Revenue Bonds, all of which were issued to finance costs of acquisition and construction of the Authority's interest and rights in the Palo Verde Nuclear Generating Station located near Phoenix, Arizona and certain associated facilities, and to finance costs of issuance related thereto.

As more fully described herein, on July 1, 1995 (the "Series A Crossover Date"), provided certain conditions are satisfied, each Outstanding Series A Special Obligation Bond will be exchangeable for a Series A Bond bearing the same interest rate, having the same maturity date and subject to optional redemption at the same times and at the same redemption prices as such Series A Special Obligation Bond. However, if the Series A Bonds are not delivered on the Series A Crossover Date, the Outstanding Series A Special Obligation Bonds will be redeemed on the Series A Crossover Date in whole at par, plus accrued interest to the redemption date. See "Description of the Series A Crossover Bonds — Exchange for Series A Bonds" herein.

As more fully described herein, on July 1, 1996 (the "Series B Crossover Date"), provided certain conditions are satisfied, each Outstanding Series B Special Obligation Bond will be exchangeable for a Series B Bond bearing the same interest rate, having the same maturity date and subject to optional redemption at the same times and at the same redemption prices as such Series B Special Obligation Bond. However, if the Series B Bonds are not delivered on the Series B Crossover Date, the Outstanding Series B Special Obligation Bonds will be redeemed on the Series B Crossover Date in whole at par, plus accrued interest to the redemption date. See "Description of the Series B Crossover Bonds — Exchange for Series B Bonds" herein.

The principal of, redemption price, if any, and interest on the Series A Special Obligation Bonds are payable solely from the moneys and Series A Eligible Investments on deposit in the Series A Special Escrow Fund held by First Interstate Bank of California, as Special Trustee, under the Series A Special Obligation Bond Indenture. The Series A Special Obligation Bonds shall not be payable from and shall not be secured by a lien or charge on or pledge of the security for the Series A Bonds (including payments under the Power Sales Contracts) described below. The principal of, redemption price, if any, and interest on the Series B Special Obligation Bonds are payable solely from the moneys and Series B Eligible Investments on deposit in the Series B Special Escrow Fund held by First Interstate Bank of California, as Special Trustee, under the Series B Special Obligation Bond Indenture. The Series B Special Obligation Bonds shall not be payable from and shall not be secured by a lien or charge on or pledge of the security for the Series B Bonds (including payments under the Power Sales Contracts) described below.

The principal of, premium, if any, and interest on the Series A Bonds (if delivered), the Series B Bonds (if delivered) and the Series C Bonds will be payable solely from and secured solely by a pledge and assignment of Revenues and certain other moneys as described herein. Such Revenues include all payments attributable to the Project to be made to the Authority by the Project Participants pursuant to the Power Sales Contracts. Such payments, together with other available Revenues, are to equal the Authority's costs relating to the Project. Each Project Participant has agreed to make its share of such payments solely from its electric system revenues. The payment obligations of the Project Participants under the Power Sales Contracts are not contingent upon the operation of the Project or the performance or nonperformance by any party under any agreement for any cause whatever.

THE SERIES A SPECIAL OBLIGATION BONDS, THE SERIES B SPECIAL OBLIGATION BONDS AND THE SERIES C BONDS ARE NOT, AND THE SERIES A BONDS AND SERIES B BONDS WILL NOT BE, OBLIGATIONS OF THE STATE OF CALIFORNIA, ANY PUBLIC AGENCY THEREOF (OTHER THAN THE AUTHORITY), ANY MEMBER OF THE AUTHORITY OR ANY PROJECT PARTICIPANT AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY OF THE FOREGOING (INCLUDING THE AUTHORITY) IS PLEDGED FOR THE PAYMENT OF THE CROSSOVER BONDS OR THE SERIES C BONDS. THE AUTHORITY HAS NO TAXING POWER.

Payment of the principal of and interest on the Crossover Bonds and the Series C Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of such Bonds by

**AMBAC.**  
MUNICIPAL BOND INSURANCE

*In the opinion of Bond Counsel, under existing law, interest on the Crossover Bonds and the Series C Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenant described herein, interest on the Crossover Bonds and the Series C Bonds is excluded from gross income for Federal income tax purposes and is not a specific preference item for purposes of the Federal alternative minimum tax. See, however, "Federal and State Income Taxes" herein for a description of certain other taxes on corporations.*

The Series A Special Obligation Bonds, Series B Special Obligation Bonds and Series C Bonds are offered when, as and if issued and received by the Underwriters, and subject to the approval of legality by Mudge Rose Guthrie Alexander & Ferdon, Los Angeles, California, Bond Counsel, and certain other conditions. O'Brien Partners Inc. is serving as Financial Advisor to the Authority in connection with the issuance of the Crossover Bonds and the Series C Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, O'Melveny & Myers. It is expected that the Series A Special Obligation Bonds, Series B Special Obligation Bonds and Series C Bonds will be available for delivery through the DTC book-entry system on or about February 4, 1992.

The First Boston Corporation  
Smith Barney, Harris Upham & Co.  
Incorporated

Dean Witter Reynolds Inc.

The date of this Official Statement is January 24, 1992

# AMOUNTS, MATURITIES, INTEREST RATES AND PRICES OR YIELDS

## \$7,265,000 Special Obligation Bonds, Crossover Series A

<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
\$ 110,000	1996	4.80%	100%	\$ 2,220,000	1999	5.30%	5.40%
2,010,000	1997	5.00	100	820,000	2000	5.40	5.50
2,105,000	1998	5.25	100				

## \$63,415,000 Special Obligation Bonds, Crossover Series B

<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
\$ 735,000	1997	5.00%	100%	\$11,585,000	2002	5.70%	5.75%
770,000	1998	5.25	100	4,290,000	2003	5.80	5.85
10,045,000	1999	5.30	5.40	4,545,000	2004	5.90	5.95
10,575,000	2000	5.40	5.50	4,805,000	2005	6.00	6.05
10,975,000	2001	5.60	5.65	5,090,000	2006	6.15	100

## \$59,800,000 Power Project Revenue Bonds, 1992 Refunding Series C

### \$27,085,000 Series C Serial Bonds

<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
\$ 205,000	1992	2.75%	100%	\$ 550,000	2000	5.40%	5.50%
\$ 3,595,000	1993	3.70	100	605,000	2001	5.60	5.65
5,340,000	1994	4.10	100	640,000	2002	5.70	5.75
4,305,000	1995	4.50	100	675,000	2003	5.80	5.85
4,985,000	1996	4.80	100	710,000	2004	5.90	5.95
2,900,000	1997	5.00	100	755,000	2005	6.00	6.05
495,000	1998	5.25	100	805,000	2006	6.15	100
520,000	1999	5.30	5.40				

\$13,860,000 5.75% Series C Term Bonds Due July 1, 2017 — Price 93.416%  
(Accrued interest to be added)

### \$1,980,000 Series C Zero Coupon Serial Bonds

<u>Principal Amount</u>	<u>Initial Amount</u>	<u>Maturity</u>	<u>Yield</u>	<u>Price</u>	<u>Principal Amount</u>	<u>Initial Amount</u>	<u>Maturity</u>	<u>Yield</u>	<u>Price</u>
\$495,000	\$190,337.40	2007	6.30%	38.452%	\$495,000	\$165,315.15	2009	6.40%	33.397%
495,000	177,472.35	2008	6.35	35.853	495,000	155,222.10	2010	6.40	31.358

\$16,875,000 0% Series C Term Bonds Due July 1, 2016 — Price 21.235%

# **SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

## **BOARD OF DIRECTORS**

Edward K. Aghjayan (Anaheim)  
Bill D. Carnahan (Riverside)  
Terry M. Collins (Banning)  
Eldon A. Cotton (Los Angeles)  
Gale A. Drews (Colton)  
Michael P. Hopkins (Glendale)

Joseph F. Hsu (Azusa)  
Bruce V. Malkenhorst (Vernon)  
Kenneth S. Noller (Imperial)  
David C. Plumb (Pasadena)  
Ronald V. Stassi (Burbank)

## **MANAGEMENT**

Ronald V. Stassi — President  
Bill D. Carnahan — Vice President  
Eldon A. Cotton — Secretary  
Linda M. Lazzerino — Executive Director,  
Treasurer/Auditor  
George R. Spencer — Assistant Secretary

## **PROJECT PARTICIPANTS**

Department of Water and Power  
of The City of Los Angeles  
Imperial Irrigation District  
City of Riverside  
City of Vernon  
City of Burbank

City of Glendale  
City of Pasadena  
City of Azusa  
City of Banning  
City of Colton

## **SPECIAL TRUSTEE, TRUSTEE, REGISTRAR AND PAYING AGENT**

First Interstate Bank of California  
Los Angeles, California

## **BOND COUNSEL**

Mudge Rose Guthrie Alexander & Ferdon  
Los Angeles, California

## **SPECIAL COUNSEL**

Rourke & Woodruff, a Professional Corporation  
Orange, California

## **FINANCIAL ADVISOR**

O'Brien Partners Inc.  
New York, New York

No dealer, broker, salesman or other person has been authorized by Southern California Public Power Authority or by the Underwriters to give any information or to make any representations, other than as contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Crossover Bonds or the Series C Bonds by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

The information set forth herein has been furnished by the Authority and the Project Participants, and includes information obtained from other sources which are believed to be reliable, but no representation as to the accuracy or completeness of such information is made by the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or any Project Participant since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE CROSSOVER BONDS OR THE SERIES C BONDS OR BOTH, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## Official Statement

relating to

### Southern California Public Power Authority

\$7,265,000 Special Obligation Bonds, Crossover Series A  
\$63,415,000 Special Obligation Bonds, Crossover Series B  
\$59,800,000 Power Project Revenue Bonds, 1992 Refunding Series C

## INTRODUCTION

This Official Statement (which includes the cover page, the table of contents and the appendices attached hereto) is furnished by Southern California Public Power Authority (the "Authority"), a joint powers agency and a public entity organized under the laws of the State of California, to provide information concerning the Project described herein, and the \$7,265,000 Special Obligation Bonds, Crossover Series A (the "Series A Special Obligation Bonds"), \$63,415,000 Special Obligation Bonds, Crossover Series B (the "Series B Special Obligation Bonds") and \$59,800,000 Power Project Revenue Bonds, 1992 Refunding Series C (the "Series C Bonds") to be issued by the Authority.

The Series A Special Obligation Bonds are being issued pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act") and an indenture of trust (the "Series A Special Obligation Bond Indenture"), dated as of January 1, 1992, by and between the Authority and First Interstate Bank of California, as trustee (the "Special Trustee"). The Series B Special Obligation Bonds are being issued pursuant to the Act and a separate indenture of trust (the "Series B Special Obligation Bond Indenture"), dated as of January 1, 1992, by and between the Authority and the Special Trustee.

The proceeds of the Series A Special Obligation Bonds will be invested in Eligible Investments to be held by the Special Trustee in the Special Escrow Fund created under the Series A Special Obligation Bond Indenture (the "Series A Special Escrow Fund"). The income from the Eligible Investments and the maturing principal thereof, together with certain other funds on deposit in the Series A Special Escrow Fund, will be applied to pay interest on the Series A Special Obligation Bonds when due to and including July 1, 1995 (the "Series A Crossover Date") and to pay on the Series A Crossover Date the redemption price of the Series A Refunded Bonds or the Series A Special Obligation Bonds, as described below. See "Description of the Series A Crossover Bonds — Security and Sources of Payment." On the Series A Crossover Date, provided certain conditions are satisfied, the Authority's Power Project Revenue Bonds, 1992 Refunding Series A Bonds, will be authenticated and delivered (said 1992 Series A Bonds, if so delivered, are herein referred to as the "Series A Bonds"), and amounts on deposit in the Series A Special Escrow Fund will be applied to the redemption of the Series A Refunded Bonds. In such event, each Owner of a Series A Special Obligation Bond will be entitled to receive interest on such Series A Special Obligation Bond to the Series A Crossover Date and to receive upon surrender of such Series A Special Obligation Bond, a Series A Bond in the same principal amount, bearing the same interest rate, having the same maturity date and subject to the same optional redemption terms as such Series A Special Obligation Bond. See "Description of the Series A Crossover Bonds — Exchange for Series A Bonds." If, however, the Series A Bonds are not delivered on the Series A Crossover Date, the Outstanding Series A Special Obligation Bonds will be redeemed in whole at par, plus accrued interest to the redemption date, from moneys on deposit in the Series A Special Escrow Fund. For purposes of this Official Statement, the Series A Special Obligation Bonds prior to the Series A Crossover Date and the Series A Bonds on and after the Series A Crossover Date are herein sometimes referred to collectively as the "Series A Crossover Bonds."

The proceeds of the Series B Special Obligation Bonds will be invested in Eligible Investments to be held by the Special Trustee in the Special Escrow Fund created under the Series B Special Obligation Bond Indenture (the "Series B Special Escrow Fund"). The income from the Eligible Investments and the maturing principal thereof, together with certain other funds on deposit in the Series B Special Escrow Fund, will be applied to pay interest on the Series B Special Obligation Bonds when due to and including July 1, 1996 (the "Series B Crossover Date") and to pay on the Series B Crossover Date the redemption price of the Series B Refunded Bonds or the Series B Special Obligation Bonds, as described below. See "Description of the Series B Crossover Bonds — Security and Sources of Payment." On the Series B Crossover Date, provided certain conditions are satisfied, the Authority's Power Project Revenue Bonds, 1992 Refunding Series B Bonds will be authenticated and delivered (said 1992 Series B Bonds, if so delivered, are herein referred to as the "Series B Bonds"), and amounts on deposit in the Series B Special Escrow Fund will be applied to the redemption of the Series B Refunded Bonds. In such event, each Owner of a Series B Special Obligation Bond will be entitled to receive interest on such Series B Special Obligation Bond to the Series B Crossover Date and to receive upon surrender of such Series B Special Obligation Bond, a Series B Bond in the same principal amount, bearing the same interest rate, having the same maturity date and subject to the same optional redemption terms as such Series B Special Obligation Bond. See "Description of the Series B Crossover Bonds — Exchange for Series B Bonds." If, however, the Series B Bonds are not delivered on the Series B Crossover Date, the Outstanding Series B Special Obligation Bonds will be redeemed in whole at par, plus accrued interest to the redemption date, from moneys on deposit in the Series B Special Escrow Fund. For purposes of this Official Statement, the Series B Special Obligation Bonds prior to the Series B Crossover Date and the Series B Bonds on and after the Series B Crossover Date are herein sometimes referred to collectively as the "Series B Crossover Bonds" (together, the Series A Crossover Bonds and the Series B Crossover Bonds are referred to herein as the "Crossover Bonds").

The Series A Bonds are to be issued pursuant to the Act and the Authority's Indenture of Trust (the "Original Indenture"), dated as of July 1, 1981, by and between the Authority and First Interstate Bank of California, as trustee (the "Trustee"), as amended and supplemented by the First Supplemental Indenture of Trust, dated as of August 1, 1982, by and between the Authority and the Trustee, and as supplemented by the Eleventh Supplemental Indenture of Trust, dated as of January 1, 1992, by and between the Authority and the Trustee. The Series B Bonds are to be issued pursuant to the Act and the Original Indenture, as amended and supplemented, and as supplemented by the Twelfth Supplemental Indenture of Trust dated as of January 1, 1992, by and between the Authority and the Trustee. The Series C Bonds are being issued pursuant to the Act and the Original Indenture, as amended and supplemented, and as supplemented by the Thirteenth Supplemental Indenture of Trust, dated as of January 1, 1992, by and between the Authority and the Trustee. The Original Indenture and indentures supplemental thereto and amendatory thereof, including the First Supplemental Indenture of Trust, the Eleventh Supplemental Indenture of Trust, the Twelfth Supplemental Indenture of Trust and the Thirteenth Supplemental Indenture of Trust, are herein collectively referred to as the "Bond Indenture." The Series A Bonds, Series B Bonds and Series C Bonds (collectively, the "Series A, B and C Bonds") and other bonds heretofore or hereafter issued by the Authority pursuant to the Act and the Bond Indenture, to the extent Outstanding (as defined in the Bond Indenture) are herein referred to as the "Bonds."

The Authority currently has Outstanding \$1,158,450,000 aggregate principal amount of Bonds, including the Bonds to be refunded by the Series A, B and C Bonds (together, the "Prior Series Bonds"), issued to finance costs of acquisition and construction of the Authority Interest (hereinafter defined). The Series A Bonds and Series B Bonds, if and when authenticated and delivered on their respective Crossover Dates, will rank equally as to security and payment with the Authority's other Outstanding Bonds.

## **The Refunded Bonds**

The Series A Special Obligation Bonds are being issued by the Authority to provide moneys to redeem on July 1, 1995 the \$3,815,000 aggregate principal amount of the Authority's outstanding Power Project Revenue Bonds, 1985 Refunding Series A maturing July 1, 1997, July 1, 1998 and July 1, 1999 and the \$3,310,000 aggregate principal amount of the Authority's Power Project Revenue Bonds, 1985 Refunding Series B maturing July 1, 1997, July 1, 1998, July 1, 1999 and July 1, 2000 (the "Series A Refunded Bonds"). The Series B Special Obligation Bonds are being issued by the Authority to provide moneys to redeem on July 1, 1996 the \$62,000,000 aggregate principal amount of the Authority's outstanding Power Project Revenue Bonds, 1986 Refunding Series A maturing July 1, 1999, July 1, 2000, July 1, 2001, July 1, 2002 and July 1, 2006 (the "Series B Refunded Bonds"). The Series C Bonds are being issued by the Authority to provide moneys to advance refund the \$5,550,000 aggregate principal amount of the Authority's outstanding Power Project Revenue Bonds, 1982 Series A maturing July 1, 1993 and July 1, 1994, the \$30,880,000 aggregate principal amount of the Authority's outstanding Power Project Revenue Bonds, 1982 Series B maturing July 1, 1994, July 1, 1995 and July 1, 2017, the \$6,480,000 aggregate principal amount of the Authority's outstanding Power Project Revenue Bonds, 1983 Series A maturing July 1, 1995, July 1, 1996 and July 1, 1997 and the \$2,280,000 aggregate principal amount of the Authority's outstanding Power Project Revenue Bonds, 1984 Series A maturing July 1, 1996 (the "Series C Refunded Bonds"). All of such outstanding Power Project Revenue Bonds were issued to finance costs of acquisition and construction of the Authority Interest and to pay costs of issuance related thereto. See "The Authority's Refunding Plan."

## **The Authority**

The Authority, the membership of which is comprised of ten cities and one irrigation district of the State of California, was formed pursuant to the Act, and the Joint Powers Agreement, dated as of November 1, 1980 (said Joint Powers Agreement as amended to the date hereof being hereinafter referred to as the "Joint Powers Agreement"). See "Southern California Public Power Authority — Formation and Membership." Certain duties and responsibilities of the Authority arising in connection with the Project are performed by the Department of Water and Power of The City of Los Angeles (the "Agent" or "Department") pursuant to the Agency Agreement, dated as of July 1, 1981 (the "Agency Agreement"). See "Southern California Public Power Authority — Organization and Management."

## **The Project and the ANPP Transmission System**

The Prior Series Bonds were issued by the Authority for the purpose of financing the purchase from Salt River Project Agricultural Improvement and Power District ("Salt River Project"), pursuant to the Salt River Project-Authority Palo Verde Nuclear Generating Station Assignment Agreement, dated as of August 14, 1981, as amended (the "Assignment Agreement"), and financing costs of acquisition, construction and placing into operation, of (a) (i) a 5.91% undivided ownership interest in the Palo Verde Nuclear Generating Station, Units 1, 2 and 3 ("PVNGS"), and certain associated facilities and contractual rights relating thereto, and (ii) a 5.56% undivided ownership interest in the ANPP High Voltage Switchyard and contractual rights relating thereto; and (b) a 6.55% share of the right to use the Arizona Nuclear Power Project Valley Transmission System. PVNGS, including certain associated facilities and contractual rights and the ANPP High Voltage Switchyard and associated contractual rights are collectively referred to herein as the "Project." Additionally, the Arizona Nuclear Power Project Valley Transmission System is referred to herein as the "ANPP Transmission System." The Authority's ownership interest in and rights to use the Project and the ANPP Transmission System are collectively referred to herein as the "Authority Interest." The transfer of the Authority Interest from Salt River Project to the Authority took place on September 10, 1982 at a cost to the Authority of \$265,005,281.

The Project and the ANPP Transmission System are presently owned as tenants in common by Salt River Project, Arizona Public Service Company ("APS"), Public Service Company of New Mexico

("PNM") and El Paso Electric Company ("El Paso") pursuant to the Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, as amended (the "Participation Agreement"). The Authority, Southern California Edison Company ("Edison") and the Department are also owners as tenants in common of the Project pursuant to the Participation Agreement, but they have no ownership interest in the ANPP Transmission System. In connection with financing of the Project, APS, PNM and El Paso have transferred portions of their ownership interests in PVNGS and related facilities in various sale and leaseback transactions. See "Availability of Operating Funds and Available Information Concerning Other Owners of Palo Verde Nuclear Generating Station". Pursuant to the Participation Agreement, APS has constructed and operates and maintains the Project on its behalf and on behalf of the other owners, with the exception of the switchyard portions of the Project which were constructed and are being managed by Salt River Project.

Construction of the Project began on June 10, 1976. Units 1, 2 and 3 were declared to have achieved firm power operation on January 27, 1986, September 18, 1986 and January 19, 1988, respectively.

Based on, among other things, cost estimates provided by APS, and considering that the Project and ANPP Transmission System are fully operational, and certain assumptions made by the Department, as the Authority's agent, the estimated costs of acquisition and construction of the Authority Interest is \$474,116,000. The Authority has completed financing of the estimated costs of acquisition and construction of the Authority Interest. The Authority's financing has also funded certain major capital projects (e.g., a new Administration Building and a second training simulator) which were not included in the original scope of the Project but were required to satisfy regulatory or operational requirements, and initial deposits for payment of the Authority's share of the costs of decommissioning of PVNGS.

#### Power Sales

The Authority has sold the entire capability of the Authority Interest in the Project pursuant to power sales contracts (the "Power Sales Contracts") with nine California municipalities and a California irrigation district (collectively, the "Project Participants"), each of which is a member of the Authority and is represented on the Authority's Board of Directors. For selected information with respect to the Project Participants, see "The Project Participants" herein and Appendix A hereto.

Under the Power Sales Contracts, the Project Participants are entitled to Project generation capabilities based on their respective Project Entitlement Shares, and the Project Participants are obligated to make payments therefor on a "take or pay" basis, that is, whether or not the Authority Interest or any part thereof is operating or is operable (or has been completed), or its output is suspended, interfered with, reduced or curtailed or terminated in whole or in part. The payment obligations under the Power Sales Contracts constitute operating expenses of the respective Project Participants, payable solely from their electric system revenues. See "Security and Sources of Payment for the Bonds — Power Sales Contracts" herein and "Summaries of Certain Documents — Summary of Certain Provisions of the Power Sales Contracts" in Appendix B hereto.



## Cost and Entitlement Shares

The following table sets forth the Cost and Entitlement Shares of each of the Project Participants with respect to the Authority Interest.

<u>Project Participants</u>	<u>Cost Share and Entitlement Share</u>
Department of Water and Power of The City of Los Angeles .....	67.0%
Imperial Irrigation District .....	6.5
City of Riverside .....	5.4
City of Vernon .....	4.9
City of Burbank .....	4.4
City of Glendale .....	4.4
City of Pasadena .....	4.4
City of Azusa .....	1.0
City of Banning .....	1.0
City of Colton .....	1.0
Total .....	<u>100.0%</u>

In preparing this Official Statement, the Authority has relied upon (i) a letter of the Department, a copy of which is attached hereto as Appendix E, (ii) certain information relating to the Project provided to the Authority by Salt River Project, APS and the Agent, and (iii) certain information relating to the Project Participants furnished to the Authority by the respective Project Participants. This Official Statement also includes summaries of the terms of the Bonds, the Crossover Bonds, the Bond Indenture, the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture and certain contracts and other arrangements for the supply of power and energy. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument. Capitalized terms not defined herein shall have the meanings as set forth in the respective documents.

## THE AUTHORITY'S REFUNDING PLAN

### Crossover Bonds

If the Series A Bonds are authenticated and delivered on the Series A Crossover Date, proceeds of the Series A Special Obligation Bonds will be used to redeem the \$7,125,000 aggregate principal amount of the Authority's Series A Refunded Bonds set forth in the chart below. See also "Estimated Sources and Uses of Funds."

### Series A Refunded Bonds

<u>Revenue Bonds</u>	<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Price</u>	<u>Redemption Date July 1</u>
1985 Refunding Series A .....	1997	\$1,165,000	9.0%	102½%	1995
	1998	1,265,000	9.1	102½	1995
	1999	1,385,000	9.2	102½	1995
1985 Refunding Series B .....	1997	730,000	8.4	102½	1995
	1998	790,000	8.5	102½	1995
	1999	860,000	8.6	102½	1995
	2000	930,000	8.7	102½	1995

Pursuant to the terms of the Series A Special Obligation Bond Indenture, the refunding of the Series A Refunded Bonds will be effected by depositing the proceeds of the Series A Special Obligation Bonds in the Series A Special Escrow Fund created and established pursuant to the Series A Special Obligation Bond Indenture. Such proceeds will be used to purchase certain non-callable bonds or other obligations which, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed by, the United States of America (the "Series A Eligible Investments"). The Series A Eligible Investments will bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid in accordance with their respective terms, sufficient moneys will be available to pay when due (a) interest on the Series A Special Obligation Bonds to and including the Series A Crossover Date and (b) either (i) the redemption price of the outstanding Series A Special Obligation Bonds on the Series A Crossover Date or (ii) the redemption price of the Series A Refunded Bonds on the Series A Crossover Date. The Series A Special Escrow Fund shall be held by the Special Trustee in an irrevocable trust and used solely as described above, subject only to the payment to the Authority in accordance with the Series A Special Obligation Bond Indenture of any cash not required for such purpose.

On the date of delivery of the Series A Special Obligation Bonds the Authority will receive a certification from Ernst & Young, independent certified public accountants, verifying the adequacy of the maturing principal amounts of the Series A Eligible Investments on deposit in the Series A Special Escrow Fund together with certain other available amounts, if any, and interest income earned and to be earned on such Series A Eligible Investments, to pay, when due, interest on the Series A Special Obligation Bonds from the date of delivery thereof to and including the Series A Crossover Date, and to pay, on the Series A Crossover Date, the redemption price of the Series A Refunded Bonds if the Series A Bonds are delivered on the Series A Crossover Date or the Series A Special Obligation Bonds if the Series A Bonds are not delivered on the Series A Crossover Date, as the case may be. See "Verification of Mathematical Computations."

If the Series B Bonds are authenticated and delivered on the Series B Crossover Date, proceeds of the Series B Special Obligation Bonds will be used to redeem the \$62,000,000 aggregate principal amount of the Authority's Series B Refunded Bonds set forth in the chart below. See also "Estimated Sources and Uses of Funds."

#### Series B Refunded Bonds

<u>Power Project Revenue Bonds</u>	<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Price</u>	<u>Redemption Date July 1</u>
1986 Refunding Series A .....	1999	\$ 9,230,000	7.8%	103%	1996
	2000	9,950,000	7.9	103	1996
	2001	10,735,000	7.9	103	1996
	2002	11,580,000	8.0	103	1996
	2006	20,505,000	8.0	103	1996

Pursuant to the terms of the Series B Special Obligation Bond Indenture, the refunding of the Series B Refunded Bonds will be effected by depositing the proceeds of the Series B Special Obligation Bonds in the Series B Special Escrow Fund created and established pursuant to the Series B Special Obligation Bond Indenture. Such proceeds will be used to purchase certain non-callable bonds or other obligations which, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed by, the United States of America (the "Series B Eligible Investments"). The Series B Eligible Investments will bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid in accordance with their respective terms, sufficient moneys will be available to pay when due (a) interest on the Series B Special Obligation Bonds to and including the Series B Crossover Date and (b) either (i) the redemption price of the outstanding Series B Special Obligation Bonds on the Series B Crossover Date or (ii) the redemption price of the Series B Refunded Bonds on the Series B Crossover Date. The Series B Special Escrow Fund shall be

held by the Special Trustee in an irrevocable trust and used solely as described above, subject only to the payment to the Authority in accordance with the Series B Special Obligation Bond Indenture of any cash not required for such purpose.

On the date of delivery of the Series B Special Obligation Bonds the Authority will receive a certification from Ernst & Young, independent certified public accountants, verifying the adequacy of the maturing principal amounts of the Series B Eligible Investments on deposit in the Series B Special Escrow Fund together with certain other available amounts, if any, and interest income earned and to be earned on such Series B Eligible Investments, to pay, when due, interest on the Series B Special Obligation Bonds from the date of delivery thereof to and including the Series B Crossover Date, and to pay, on the Series B Crossover Date, the redemption price of the Series B Refunded Bonds if the Series B Bonds are delivered on the Series B Crossover Date or the Series B Special Obligation Bonds if the Series B Bonds are not delivered on the Series B Crossover Date, as the case may be. See "Verification of Mathematical Computations."

### Series C Bonds

The Series C Bonds are being issued for the purpose of advance refunding the \$45,190,000 aggregate principal amount of the Series C Refunded Bonds set forth in the chart below. See also "Estimated Sources and Uses of Funds."

#### Series C Refunded Bonds

<u>Power Project Revenue Bonds</u>	<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Price</u>	<u>Redemption Date July 1</u>
1982 Series A .....	1993	\$ 2,630,000	10.70%	103%	1992
	1994	2,920,000	11.00	103	1992
1982 Series B .....	1994	1,600,000	9.50	103	1992
	1995	1,755,000	9.70	103	1992
	2017	27,525,000	6.00	85	1992
1983 Series A .....	1995	1,985,000	8.65	103	1993
	1996	2,150,000	8.80	103	1993
	1997	2,345,000	8.90	103	1993
1984 Series A .....	1996	2,280,000	10.25	103	1994

Pursuant to the terms of the Bond Indenture, the advance refunding of the Series C Refunded Bonds will be effected by depositing a portion of the proceeds of the Series C Bonds and transferring certain other available moneys to the 1992 Refunding Series C Bonds Escrow Fund created and established pursuant to the Bond Indenture (the "Series C Escrow Fund"). Such proceeds and moneys will be used to purchase certain non-callable bonds or other obligations which, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed by, the United States of America (collectively, the "Government Obligations"). The Government Obligations will bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid in accordance with their respective terms, sufficient moneys will be available to pay the Redemption Price of the Series C Refunded Bonds on their respective redemption dates set forth above and interest to become due on or prior to the respective dates of redemption of the Series C Refunded Bonds. The Series C Escrow Fund shall be held by the Trustee in irrevocable trust and used solely for the payment of the Redemption Price of and interest on the Series C Refunded Bonds, subject only to the payment to the Authority in accordance with the Bond Indenture of any cash not required for such purpose.

The refunding of the Series C Refunded Bonds will discharge the pledge and assignment of any Revenues and other moneys and securities securing the Series C Refunded Bonds under the Bond Indenture, except for the rights of the holders of the Series C Refunded Bonds to payments from the Series C Escrow Fund.

On the date of delivery of the Series C Bonds the Authority will receive a certification from Ernst & Young, independent certified public accountants, verifying the adequacy of the maturing principal amounts of the Government Obligations on deposit in the Series C Escrow Fund together with certain other available amounts, if any, and interest income earned on such Government Obligations, to pay, when due, interest on the Series C Refunded Bonds on and prior to the redemption dates thereof, and to pay on the redemption date thereof, the redemption price of the Series C Refunded Bonds. See "Verification of Mathematical Computations."

### ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds (including accrued interest) to accomplish the refunding of the Series A Refunded Bonds, the Series B Refunded Bonds and the Series C Refunded Bonds is shown below:

#### Sources:

Principal Amount of Crossover Bonds and Series C Bonds .....	\$130,480,000
Original Issue Discount.....	(15,814,378)
Underwriters' Discount.....	(938,651)
Accrued Interest(1).....	551,292
Subtotal .....	<u>\$114,278,263</u>
Transfer from Debt Service Account.....	281,638
Transfer from Debt Service Reserve Account.....	357,950
Total Sources .....	<u><u>\$114,917,851</u></u>

#### Uses:

Deposit to Series A Special Escrow Fund .....	\$ 7,279,546
Deposit to Series B Special Escrow Fund.....	63,248,949
Deposit to Series C Escrow Fund .....	43,060,707
Deposit to Debt Service Account.....	189,017
Costs of Issuance(2) .....	1,139,632
Total Uses .....	<u><u>\$114,917,851</u></u>

(1) Assumes delivery on February 4, 1992.

(2) Includes municipal bond insurance premium.

### DESCRIPTION OF THE SERIES A CROSSOVER BONDS

#### General

The Series A Crossover Bonds when initially issued will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC, or its nominee Cede & Co., is the registered owner of all the Series A Crossover Bonds, all payments of principal of, Redemption Price, if applicable, and interest on the Series A Crossover Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants (as hereinafter defined) will be the responsibility of DTC. Disbursement of such payments to the Beneficial Owners (as hereinafter defined) of the Series A Crossover Bonds will be the responsibility of the DTC Participants as more fully described herein. See "Book-Entry Only System."

*Prior to the Series A Crossover Date.* The Series A Special Obligation Bonds are to be issued in the aggregate principal amount of \$7,265,000 will be dated January 1, 1992, will bear interest from that date as described herein, at the rates set forth on the inside front cover of this Official Statement, payable semi-annually on January 1 and July 1 of each year, commencing July 1, 1992, and will mature on July 1

in the years and in the principal amounts set forth with respect to the Series A Special Obligation Bonds on the inside front cover of this Official Statement.

The Series A Special Obligation Bonds will be issued as fully registered bonds in denominations of \$5,000 principal amount or any integral multiple thereof.

The principal and redemption price of the Series A Special Obligation Bonds shall be payable at the principal corporate trust office of First Interstate Bank of California, Los Angeles, California, as Special Trustee and Paying Agent. Interest on the Series A Special Obligation Bonds is payable by check mailed to the registered owners thereof as of the applicable record date at the addresses shown on the registration books of the Authority kept for that purpose at the principal corporate trust office of the Special Trustee acting as Series A Special Obligation Bond Registrar.

*On and After the Series A Crossover Date.* Unless certain conditions are not satisfied (see "Description of the Series A Crossover Bonds — Exchange for Series A Bonds"), the Series A Bonds will be authenticated and delivered on July 1, 1995 in the aggregate principal amount of \$7,265,000, will be dated July 1, 1995, will bear interest from that date as described herein payable semi-annually on January 1 and July 1 of each year, commencing January 1, 1996, and will mature on July 1 in the years and in the principal amounts set forth with respect to the Series A Special Obligation Bonds on the inside front cover of this Official Statement. The Series A Bonds maturing on a particular date shall be issued in the same principal amounts, bear interest at the same rate and have redemption provisions the same as the Series A Special Obligation Bonds maturing on such date.

The Series A Bonds will be fully registered bonds in denominations of \$5,000 principal amount or any integral multiple thereof.

The principal and redemption price of the Series A Bonds will be payable at the principal corporate trust office of First Interstate Bank of California, Los Angeles, California as Trustee and Paying Agent. Interest on the Series A Bonds will be payable by check or draft of the Trustee, as Paying Agent, mailed to the registered owners thereof at the addresses shown on the registration books of the Authority kept for that purpose at the principal corporate trust office of the Trustee, as Bond Registrar.

#### Redemption Provisions

On July 1, 1995, the Outstanding Series A Special Obligation Bonds will be either (a) exchangeable for Series A Bonds or (b) if the Series A Bonds are not delivered on the Series A Crossover Date, redeemed in whole at par on the Series A Crossover Date, together with interest to the Series A Crossover Date.

The Series A Bonds are not subject to redemption prior to maturity.

#### Notice of Redemption

The Series A Special Obligation Bond Indenture requires the Special Trustee to give notice of any redemption of the Series A Special Obligation Bonds by mail. Failure to mail notice to any one or more of the respective Owners of any of the Series A Special Obligation Bonds designated for redemption will affect the validity of the proceedings for redemption only with respect to the Owner or Owners to whom such notice was not mailed. See "Summaries of Certain Documents — Summary of Certain Provisions of the Series A Special Obligation Bond Indenture — Notice of Redemption" in Appendix B hereto.

#### Interchangeability

*Prior to the Series A Crossover Date.* Prior to the Series A Crossover Date, the Series A Special Obligation Bonds, upon surrender thereof at the principal corporate trust office of the Special Trustee, as Bond Registrar with a written instrument of transfer satisfactory to the Special Trustee, as Bond

Registrar, duly executed by the Owner or his duly authorized attorney, may be exchanged for an equal aggregate principal amount of Series A Special Obligation Bonds of the same maturity and of any other authorized denominations.

In all cases in which the privilege of exchanging or transferring the Series A Special Obligation Bonds is exercised, the Authority shall execute and the Special Trustee shall authenticate and deliver Series A Special Obligation Bonds in accordance with the provision of the Series A Special Obligation Bond Indenture. For every such exchange or transfer of the Series A Special Obligation Bonds, the Authority or the Special Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, but may impose no other charge therefor. Neither the Authority nor the Special Trustee, as Bond Registrar shall be required to transfer or exchange any Series A Special Obligation Bond (a) for a period of 20 days next preceding an interest payment date or (b) from and including June 20, 1995 to and including the Series A Crossover Date. Notwithstanding the foregoing, any exchange of a Series A Special Obligation Bond for a Series A Bond which does not involve a transfer of such Bond shall be made by the Special Trustee without the imposition of any charge whatsoever by the Authority or the Special Trustee to the Owner.

*On and after the Series A Crossover Date.* On and after the Series A Crossover Date, the Series A Bonds, upon surrender thereof at the principal corporate trust office of the Trustee, as Bond Registrar with a written instrument of transfer satisfactory to the Trustee, as Bond Registrar, duly executed by the registered owner or his duly authorized attorney, may be exchanged for an equal aggregate principal amount of Series A Bonds of the same maturity and of any other authorized denominations.

In all cases in which the privilege of exchanging or transferring the Series A Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver Series A Bonds in accordance with the provisions of the Bond Indenture. For every such exchange or transfer of the Series A Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, but may impose no other charge therefor. Neither the Authority nor the Bond Registrar shall be required to transfer or exchange any Series A Bond (a) for a period of 20 days next preceding an interest payment date or next preceding any selection of Series A Bonds to be redeemed or thereafter until after the first publication or mailing of any notice of redemption or (b) if such Series A Bond has been called for redemption.

#### Exchange for Series A Bonds

On the Series A Crossover Date, the Outstanding Series A Special Obligation Bonds will be either exchangeable for Series A Bonds or, if the Series A Bonds have not been authenticated and delivered on such date, redeemed as a whole at par.

The Authority has covenanted in the Eleventh Supplemental Indenture that (i) if on May 15, 1995 the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Bond Indenture and there is on deposit in the Debt Service Reserve Account an amount at least equal to the Debt Service Reserve Requirement (calculated giving effect to the issuance of the Series A Bonds), the Authority will direct the Trustee to publish notice of the redemption of the Series A Refunded Bonds on the Series A Crossover Date and (ii) such directions shall be revoked if, and only if after such directions have been given and prior to June 1, 1995, an Event of Default (as defined in the Bond Indenture) has occurred and is continuing under the Bond Indenture or the Debt Service Reserve Requirement (calculated as above) shall not be satisfied.

When the Authority has directed the Trustee to publish notice of redemption of the Series A Refunded Bonds as discussed above, the Trustee shall authenticate and deliver the Series A Bonds to the Special Trustee on the Series A Crossover Date against payment by the Special Trustee to the Trustee, from the Series A Special Escrow Fund, of an amount equal to the redemption price of the Series A Refunded Bonds on the Series A Crossover Date.

The authentication and delivery of the Series A Bonds on the Series A Crossover Date will not require further action by the Authority, but is subject to the additional conditions that (A) the amount on deposit in the Debt Service Reserve Account on the Series A Crossover Date is at least equal to the Debt Service Reserve Requirement (calculated giving effect to the issuance of the Series A Bonds) and (B) the Trustee shall have received (i) a certificate of an Authorized Authority Representative, dated the Series A Crossover Date, stating that no Event of Default has occurred and is continuing under the Bond Indenture and (ii) an Opinion of Counsel, dated the Series A Crossover Date, to the effect that, upon such authentication and delivery, the Series A Bonds have been duly and validly authorized and issued and are valid and binding obligations of the Authority and as to the validity of the pledge under the Bond Indenture. The approving opinion which Bond Counsel proposes to render upon the delivery of the Series A Special Obligation Bonds will contain an opinion (under existing law) with respect to the Series A Bonds (see Appendix D hereto).

In the event the foregoing conditions are not satisfied, the Series A Bonds will not be issued and the Special Trustee will, instead, apply the amounts available from the Series A Special Escrow Fund to redeem the Outstanding Series A Special Obligation Bonds on the Series A Crossover Date.

If the Series A Bonds have been authenticated and delivered to the Special Trustee on the Series A Crossover Date and if interest on the Series A Special Obligation Bonds to the Series A Crossover Date shall have been paid or provision shall have been made for the payment of such interest, then the Series A Special Obligation Bonds will cease to accrue interest and shall no longer be considered Outstanding under the Series A Special Obligation Bond Indenture, and the pledge, covenants and agreements and other obligations of the Authority, and all rights (except the right to receive interest due on the Series A Special Obligation Bonds to the Series A Crossover Date and to receive the Series A Bonds in exchange for the Series A Special Obligation Bonds) granted by the Series A Special Obligation Bond Indenture to the Owners of the Series A Special Obligation Bonds shall be discharged and satisfied.

*Procedures Relating to Exchange of Series A Special Obligation Bonds for Series A Bonds.* The Special Trustee shall give notice, on June 1, 1995 or as promptly thereafter as practicable, in the manner described above under the caption "Description of the Series A Crossover Bonds — Notice of Redemption," that, on the Series A Crossover Date, the Series A Special Obligation Bonds are (i) exchangeable for Series A Bonds or (ii) subject to redemption.

If, on the Series A Crossover Date, the Series A Bonds, registered in the names of the Owners of the Outstanding Series A Special Obligation Bonds whose names appear on the registry books maintained for the Authority as of June 20, 1995, have been authenticated and delivered to the Special Trustee, each Owner of an Outstanding Series A Special Obligation Bond will be entitled to receive in exchange for such Series A Special Obligation Bond a Series A Bond in the same principal amount as such Series A Special Obligation Bond. Such Series A Bond shall be dated and bear interest from July 1, 1995, mature on the same date and bear interest at the same rate as the Owner's Series A Special Obligation Bond, be redeemable at the election of the Authority at the same times, in the same amounts and at the same redemption prices as the Owner's Series A Special Obligation Bond, and in all other respects shall be consistent with the provisions of the Eleventh Supplemental Indenture applicable to Series A Bonds of such maturity.

Upon surrender by an Owner of an Outstanding Series A Special Obligation Bond, the Special Trustee shall deliver to such person the Series A Bond to which such person is entitled. The Special Trustee shall deliver such Series A Bond to such person or such person's duly authorized attorney either at the office or offices specified in the notice given by the Special Trustee on June 1, 1995, or, at such person's written direction given upon surrender of such person's Series A Special Obligation Bond, by first-class mail, postage prepaid, to such person at the address stated in such direction, or, if no address is stated therein, at the address appearing on the registry books maintained for the Authority at the close of business on June 20, 1995.

All Series A Bonds held by the Special Trustee sixty days after the Series A Crossover Date shall be delivered to the Trustee as soon thereafter as is practicable and such Series A Bonds shall be held by the Trustee, as custodian and not as trustee, for the persons entitled thereto. The Trustee shall deliver each such Series A Bond to the person entitled thereto, upon surrender of such person's Series A Special Obligation Bond.

#### Security and Sources of Payment Prior to the Series A Crossover Date

*Pledge Effected by the Series A Special Obligation Bond Indenture.* The Series A Special Obligation Bond Indenture provides that the Series A Special Obligation Bonds shall be direct and special obligations of the Authority payable solely from and secured solely by the moneys and Series A Eligible Investments on deposit in the Series A Special Escrow Fund, subject only to the provisions of the Series A Special Obligation Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series A Special Obligation Bond Indenture. The Series A Special Obligation Bonds shall not be, nor be deemed to be, Bonds and shall not be payable from and shall have no lien or charge on or pledge of the security for the Bonds under the Bond Indenture (including, without limitation, payments by the Project Participants under the Power Sales Contracts).

The Series A Special Obligation Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority), any member of the Authority or any Project Participant and neither the faith and credit nor the taxing power of any of the foregoing (including the Authority) is pledged for the payment of the Series A Special Obligation Bonds. The Series A Special Obligation Bonds shall never constitute debt or indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or statutes of the State of California, and shall not constitute nor give rise to a pecuniary liability of the Authority or a charge against its general credit. The Authority has no taxing power.

See "Summaries of Certain Documents — Summary of Certain Provisions of the Series A Special Obligation Bond Indenture" in Appendix B hereto.

*The Series A Special Escrow Fund; Series A Eligible Investments.* At the written request of the Authority, the Special Trustee has the power to sell, transfer, request the redemption or otherwise dispose of some or all of the Series A Eligible Investments in the Series A Special Escrow Fund and to substitute other Series A Eligible Investments therefor subject to the provisions of the Series A Special Obligation Bond Indenture. The Special Trustee may effect the foregoing only if, among other things: (i) the substitution of Series A Eligible Investments for the substituted Series A Eligible Investments occurs simultaneously; (ii) the amounts of and dates on which the anticipated transfers from the Series A Special Escrow Fund (A) to the paying agents for the payment of the interest on the Series A Special Obligation Bonds on and prior to the Series A Crossover Date, and (B) (1) to the paying agents for the redemption price of the Series A Special Obligation Bonds, or (2) to the Trustee for the payment of the principal of and applicable redemption prices on the Series A Refunded Bonds, as applicable, on the Series A Crossover Date will not be diminished or postponed thereby; and (iii) the Special Trustee shall receive from an independent certified public accountant a certification that, immediately after such transaction, the principal of and interest on the Series A Eligible Investments in the Series A Special Escrow Fund will, together with other moneys available for such purpose, be sufficient to pay, when due, (1) on July 1, 1995, (A) the redemption price of the Series A Refunded Bonds if the Series A Bonds are delivered on the Series A Crossover Date or (B) the principal and applicable redemption premiums on the Series A Special Obligation Bonds if the Series A Bonds are not delivered on the Series A Crossover Date, as applicable, and (2) the interest on the Series A Special Obligation Bonds on and prior to July 1, 1995.



## DESCRIPTION OF THE SERIES B CROSSOVER BONDS

### General

The Series B Crossover Bonds when initially issued will be registered in the name of Cede & Co., as registered owner and nominee of DTC. So long as DTC, or its nominee Cede & Co., is the registered owner of all the Series B Crossover Bonds, all payments of principal of, Redemption Price, if applicable, and interest on the Series B Crossover Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants (as hereinafter defined) will be the responsibility of DTC. Disbursement of such payments to the Beneficial Owners (as hereinafter defined) of the Series B Crossover Bonds will be the responsibility of the DTC Participants as more fully described herein. See "Book-Entry Only System."

*Prior to the Series B Crossover Date.* The Series B Special Obligation Bonds are to be issued in the aggregate principal amount of \$63,415,000 will be dated January 1, 1992, will bear interest from that date as described herein, at the rates set forth on the inside front cover of this Official Statement, payable semi-annually on January 1 and July 1 of each year, commencing July 1, 1992, and will mature on July 1 in the years and in the principal amounts set forth with respect to the Series B Special Obligation Bonds on the inside front cover of this Official Statement.

The Series B Special Obligation Bonds will be issued as fully registered bonds in denominations of \$5,000 principal amount or any integral multiple thereof.

The principal and redemption price of the Series B Special Obligation Bonds shall be payable at the principal corporate trust offices of First Interstate Bank of California, Los Angeles, California, as Special Trustee and Paying Agent. Interest on the Series B Special Obligation Bonds is payable by check mailed to the registered owners thereof as of the applicable record date at the addresses shown on the registration books of the Authority kept for that purpose at the principal corporate trust office of the Special Trustee acting as Series B Special Obligation Bond Registrar.

*On and After the Series B Crossover Date.* Unless certain conditions are not satisfied (see "Description of the Series B Bonds — Exchange for Series B Bonds"), the Series B Bonds will be authenticated and delivered on July 1, 1996 in the aggregate principal amount of \$63,415,000, will be dated July 1, 1996, will bear interest from that date as described herein payable semi-annually on January 1 and July 1 of each year, commencing January 1, 1997, and will mature on July 1 in the years and in the principal amounts set forth with respect to the Series B Special Obligation Bonds on the inside front cover of this Official Statement. The Series B Bonds maturing on a particular date shall be issued in the same principal amounts, bear interest at the same rate and have redemption provisions the same as the Series B Special Obligation Bonds maturing on such date.

The Series B Bonds will be fully registered bonds in denominations of \$5,000 principal amount or any integral multiple thereof.

The principal and redemption price of the Series B Bonds will be payable at the principal corporate trust office of First Interstate Bank of California, Los Angeles, California as Trustee and Paying Agent. Interest on the Series B Bonds will be payable by check or draft of the Trustee, as Paying Agent, mailed to the registered owners thereof at the addresses shown on the registration books of the Authority kept for that purpose at the principal corporate trust office of the Trustee, as Bond Registrar.

### Redemption Provisions

On July 1, 1996, the Outstanding Series B Special Obligation Bonds will be either (a) exchangeable for Series B Bonds or (b) if the Series B Bonds are not delivered on the Series B Crossover Date, redeemed in whole at par on the Series B Crossover Date, together with interest to the Series B Crossover Date.

**Series B Optional Redemption.** The Series B Bonds maturing on and after July 1, 2003 are subject to redemption prior to maturity at the option of the Authority on and after July 1, 2002, in whole or in part at any time, at the following redemption prices, plus accrued interest to the date of redemption.

<u>Redemption Period (Dates Inclusive)</u>	<u>Redemption Price</u>
July 1, 2002 to June 30, 2003 .....	102%
July 1, 2003 to June 30, 2004 .....	101
July 1, 2004 and thereafter .....	100

If less than all of the Series B Bonds are to be so redeemed, the Authority may select the maturity or maturities to be redeemed. If less than all of the Series B Bonds of any maturity are to be redeemed, the particular Bonds or portions of the Bonds of such maturity to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate. The portion of any Series B Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof, and in selecting portions of such Bonds for redemption the Trustee will treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond by \$5,000.

#### **Notice of Redemption**

The Series B Special Obligation Bond Indenture requires the Special Trustee to give notice of any redemption of the Series B Special Obligation Bonds by mail. Failure to mail notice to any one or more of the respective Owners of any of the Series B Special Obligation Bonds designated for redemption will affect the validity of the proceedings for redemption only with respect to the Owner or Owners to whom such notice was not mailed. See "Summaries of Certain Documents — Summary of Certain Provisions of the Series B Special Obligation Bond Indenture — Notice of Redemption" in Appendix B hereto.

The Bond Indenture requires the Trustee to give notice of any redemption of the Series B Bonds by publication and by mail. Failure to mail notice, or any defect in such mailed notice, however, will not affect the validity of the proceedings for redemption of any Series B Bond. See "Summaries of Certain Documents — Summary of Certain Provisions of the Bond Indenture — Notice of Redemption" in Appendix B hereto.

#### **Interchangeability**

**Prior to the Series B Crossover Date.** Prior to the Series B Crossover Date, the Series B Special Obligation Bonds, upon surrender thereof at the principal corporate trust office of the Special Trustee, as Bond Registrar with a written instrument of transfer satisfactory to the Special Trustee, as Bond Registrar, duly executed by the Owner or his duly authorized attorney, may be exchanged for an equal aggregate principal amount of Series B Special Obligation Bonds of the same maturity and of any other authorized denominations.

In all cases in which the privilege of exchanging or transferring the Series B Special Obligation Bonds is exercised, the Authority shall execute and the Special Trustee shall authenticate and deliver Series B Special Obligation Bonds in accordance with the provisions of the Series B Special Obligation Bond Indenture. For every such exchange or transfer of the Series B Special Obligation Bonds, the Authority or the Special Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, but may impose no other charge therefor. Neither the Authority nor the Special Trustee, as Bond Registrar shall be required to transfer or exchange any Series B Special Obligation Bond (a) for a period of 20 days next preceding an interest payment date or (b) from and including June 20, 1996 to and including the Series B Crossover Date. Notwithstanding the foregoing, any exchange of a Series B Special Obligation Bond for a Series B Bond which does not involve a transfer of such Bond shall be made by the Special

Trustee without the imposition of any charge whatsoever by the Authority or the Special Trustee to the Owner.

*On and after the Series B Crossover Date.* On and after the Series B Crossover Date, the Series B Bonds, upon surrender thereof at the principal corporate trust office of the Trustee, as Bond Registrar with a written instrument of transfer satisfactory to the Trustee, as Bond Registrar, duly executed by the registered owner or his duly authorized attorney, may be exchanged for an equal aggregate principal amount of Series B Bonds of the same maturity and of any other authorized denominations.

In all cases in which the privilege of exchanging or transferring the Series B Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver Series B Bonds in accordance with the provisions of the Bond Indenture. For every such exchange or transfer of the Series B Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, but may impose no other charge therefor. Neither the Authority nor the Bond Registrar shall be required to transfer or exchange any Series B Bond (a) for a period of 20 days next preceding an interest payment date or next preceding any selection of Series B Bonds to be redeemed or thereafter until after the first publication or mailing of any notice of redemption or (b) if such Series B Bond has been called for redemption.

#### **Exchange for Series B Bonds**

On the Series B Crossover Date, the Outstanding Series B Special Obligation Bonds will be either exchangeable for Series B Bonds or, if the Series B Bonds have not been authenticated and delivered on such date, redeemed as a whole at par.

The Authority has covenanted in the Twelfth Supplemental Indenture that (i) if on May 15, 1996 the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Bond Indenture and there is on deposit in the Debt Service Reserve Account an amount at least equal to the Debt Service Reserve Requirement (calculated giving effect to the issuance of the Series B Bonds), the Authority will direct the Trustee to publish notice of the redemption of the Series B Refunded Bonds on the Series B Crossover Date and (ii) such directions shall be revoked if, and only if after such directions have been given and prior to June 1, 1996, an Event of Default (as defined in the Bond Indenture) has occurred and is continuing under the Bond Indenture or the Debt Service Reserve Requirement (calculated as above) shall not be satisfied.

When the Authority has directed the Trustee to publish notice of redemption of the Series B Refunded Bonds as discussed above, the Trustee shall authenticate and deliver the Series B Bonds to the Special Trustee on the Series B Crossover Date against payment by the Special Trustee to the Trustee, from the Series B Special Escrow Fund, of an amount equal to the redemption price of the Series B Refunded Bonds on the Series B Crossover Date.

The authentication and delivery of the Series B Bonds on the Series B Crossover Date will not require further action by the Authority, but is subject to the additional conditions that (A) the amount on deposit in the Debt Service Reserve Account on the Series B Crossover Date is at least equal to the Debt Service Reserve Requirement (calculated giving effect to the issuance of the Series B Bonds) and (B) the Trustee shall have received (i) a certificate of an Authorized Authority Representative, dated the Series B Crossover Date, stating that no Event of Default has occurred and is continuing under the Bond Indenture and (ii) an Opinion of Counsel, dated the Series B Crossover Date, to the effect that, upon such authentication and delivery, the Series B Bonds have been duly and validly authorized and issued and are valid and binding obligations of the Authority and as to the validity of the pledge under the Bond Indenture. The approving opinion which Bond Counsel proposes to render upon the delivery of the Series B Special Obligation Bonds will contain an opinion (under existing law) with respect to the Series B Bonds (see Appendix D hereto).

In the event the foregoing conditions are not satisfied, the Series B Bonds will not be issued and the Special Trustee will, instead, apply the amounts available from the Series B Special Escrow Fund to redeem the Outstanding Series B Special Obligation Bonds on the Series B Crossover Date.

If the Series B Bonds have been authenticated and delivered to the Special Trustee on the Series B Crossover Date and if interest on the Series B Special Obligation Bonds to the Series B Crossover Date shall have been paid or provision shall have been made for the payment of such interest, then the Series B Special Obligation Bonds will cease to accrue interest and shall no longer be considered Outstanding under the Series B Special Obligation Bond Indenture, and the pledge, covenants and agreements and other obligations of the Authority, and all rights (except the right to receive interest due on the Series B Special Obligation Bonds to the Series B Crossover Date and to receive the Series B Bonds in exchange for the Series B Special Obligation Bonds) granted by the Series B Special Obligation Bond Indenture to the Owners of the Series B Special Obligation Bonds shall be discharged and satisfied.

*Procedures Relating to Exchange of Series B Special Obligation Bonds for Series B Bonds.* The Special Trustee shall give notice, on June 1, 1996 or as promptly thereafter as practicable, in the manner described above under the caption "Description of the Series B Crossover Bonds — Notice of Redemption," that, on the Series B Crossover Date, the Series B Special Obligation Bonds are (i) exchangeable for Series B Bonds or (ii) subject to redemption.

If, on the Series B Crossover Date, the Series B Bonds, registered in the names of the Owners of the Outstanding Series B Special Obligation Bonds whose names appear on the registry books maintained for the Authority as of June 20, 1996, have been authenticated and delivered to the Special Trustee, each Owner of an Outstanding Series B Special Obligation Bond will be entitled to receive in exchange for such Series B Special Obligation Bond a Series B Bond in the same principal amount as such Series B Special Obligation Bond. Such Series B Bond shall be dated and bear interest from July 1, 1996, mature on the same date and bear interest at the same rate as the Owner's Series B Special Obligation Bond, be redeemable at the election of the Authority at the same times, in the same amounts and at the same redemption prices as the Owner's Series B Special Obligation Bond, and in all other respects shall be consistent with the provisions of the Twelfth Supplemental Indenture applicable to Series B Bonds of such maturity.

Upon surrender by an Owner of an Outstanding Series B Special Obligation Bond, the Special Trustee shall deliver to such person the Series B Bond to which such person is entitled. The Special Trustee shall deliver such Series B Bond to such person or such person's duly authorized attorney either at the office or offices specified in the notice given by the Special Trustee on June 1, 1996, or, at such person's written direction given upon surrender of such person's Series B Special Obligation Bond, by first-class mail, postage prepaid, to such person at the address stated in such direction, or, if no address is stated therein, at the address appearing on the registry books maintained for the Authority at the close of business on June 20, 1996.

All Series B Bonds held by the Special Trustee sixty days after the Series B Crossover Date shall be delivered to the Trustee as soon thereafter as is practicable and such Series B Bonds shall be held by the Trustee, as custodian and not as trustee, for the persons entitled thereto. The Trustee shall deliver each such Series B Bond to the person entitled thereto, upon surrender of such person's Series B Special Obligation Bond.

#### **Security and Sources of Payment Prior to the Series B Crossover Date**

*Pledge Effected by the Series B Special Obligation Bond Indenture.* The Series B Special Obligation Bond Indenture provides that the Series B Special Obligation Bonds shall be direct and special obligations of the Authority payable solely from and secured solely by the moneys and Series B Eligible Investments on deposit in the Series B Special Escrow Fund, subject only to the provisions of the Series B Special Obligation Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series B Special Obligation Bond Indenture. The

Series B Special Obligation Bonds shall not be, nor be deemed to be, Bonds and shall not be payable from and shall have no lien or charge on or pledge of the security for the Bonds under the Bond Indenture (including, without limitation, payments by the Project Participants under the Power Sales Contracts).

The Series B Special Obligation Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority), any member of the Authority or any Project Participant and neither the faith and credit nor the taxing power of any of the foregoing (including the Authority) is pledged for the payment of the Series B Special Obligation Bonds. The Series B Special Obligation Bonds shall never constitute debt or indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or statutes of the State of California, and shall not constitute nor give rise to a pecuniary liability of the Authority or a charge against its general credit. The Authority has no taxing power.

See "Summaries of Certain Documents — Summary of Certain Provisions of the Series B Special Obligation Bond Indenture" in Appendix B hereto.

*The Series B Special Escrow Fund; Series B Eligible Investments.* At the written request of the Authority, the Special Trustee has the power to sell, transfer, request the redemption or otherwise dispose of some or all of the Series B Eligible Investments in the Series B Special Escrow Fund and to substitute other Series B Eligible Investments therefor subject to the provisions of the Series B Special Obligation Bond Indenture. The Special Trustee may effect the foregoing only if, among other things: (i) the substitution of Series B Eligible Investments for the substituted Series B Eligible Investments occurs simultaneously; (ii) the amounts of and dates on which the anticipated transfers from the Series B Special Escrow Fund (A) to the paying agents for the payment of the interest on the Series B Special Obligation Bonds on and prior to the Series B Crossover Date, and (B) (1) to the paying agents for the redemption price of the Series B Special Obligation Bonds, or (2) to the Trustee for the payment of the principal of and applicable redemption prices on the Series B Refunded Bonds, as applicable, on the Series B Crossover Date will not be diminished or postponed thereby; and (iii) the Special Trustee shall receive from an independent certified public accountant a certification that, immediately after such transaction, the principal of and interest on the Series B Eligible Investments in the Series B Special Escrow Fund will, together with other moneys available for such purpose, be sufficient to pay, when due, (1) on July 1, 1996 (A) the redemption price of the Series B Refunded Bonds if the Series B Bonds are delivered on the Series B Crossover Date or (B) the principal and applicable redemption premiums on the Series B Special Obligation Bonds if the Series B Bonds are not delivered on the Series B Crossover Date, as applicable, and (2) the interest on the Series B Special Obligation Bonds on and prior to July 1, 1996.

## DESCRIPTION OF THE SERIES C BONDS

### General

The Series C Bonds when initially issued will be registered in the name of Cede & Co., as registered owner and nominee of DTC. So long as DTC, or its nominee Cede & Co., is the registered owner of all of the Series C Bonds, all payments of principal of, Redemption Price, if applicable, and interest on the Series C Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants (as hereinafter defined) will be the responsibility of DTC. Disbursement of such payments to the Beneficial Owners (as hereinafter defined) of the Series C Bonds will be the responsibility of the DTC Participants as more fully described herein. See "Book-Entry Only System."

The Series C Bonds are to be issued in the aggregate principal amount of \$59,800,000, will be dated January 1, 1992 will bear interest at the rates per annum set forth on the inside front cover of this Official Statement and will mature on July 1 in the years and in the principal amounts set forth on the inside front cover of this Official Statement. Interest on the Series C Bonds will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 1992.

The Series C Bonds will be issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

The principal of and premium, if any, on the Series C Bonds are payable at the principal corporate trust office of First Interstate Bank of California, Los Angeles, California, Trustee and Paying Agent. Semiannual interest on the Series C Bonds will be payable by check or draft mailed to the registered owner thereof as of the applicable record date at such owner's address as shown on the registration books of the Authority kept for that purpose at the corporate trust office of the Trustee, acting as Bond Registrar. The record date for the Series C Bonds is the close of business on the 15th day of the calendar month immediately preceding the interest payment date.

The Series C Bonds will rank equally as to security and payment with the Authority's other outstanding Bonds. See "The Authority's Refunding Plan" herein and Appendix C hereto.

#### Optional Redemption

The Series C Bonds maturing on July 1 in each of the years 2003 through 2006 are subject to redemption prior to maturity at the option of the Authority on and after July 1, 2002, in whole or in part at any time, at the following redemption prices, plus accrued interest to the date of redemption:

<u>Period During Which Redeemed</u> <u>(both dates inclusive)</u>	<u>Redemption</u> <u>Prices</u>
July 1, 2002 to June 30, 2003 .....	102%
July 1, 2003 to June 30, 2004 .....	101
July 1, 2004 and thereafter .....	100

The Series C Bonds maturing on July 1, 2017 shall also be subject to redemption prior to maturity at the option of the Authority as a whole or in part, at any time on or after July 1, 2002, at par plus accrued interest to the redemption date.

The Series C Bonds maturing on July 1 in each of the years 2007, 2008, 2009, 2010 and 2016 are not subject to optional redemption prior to maturity.

If less than all of the Series C Bonds are to be so redeemed, the Authority may select the maturity or maturities to be redeemed. If less than all of the Series C Bonds of any maturity are to be redeemed, the particular Series C Bonds or portion of Series C Bonds of such maturity to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate. The portion of any registered Series C Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof, and in selecting portions of such Bonds for redemption the Trustee will treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond by \$5,000.

### **Mandatory Redemption**

The Series C Bonds maturing on July 1, 2016 will be subject to mandatory redemption prior to maturity at the redemption prices set forth below plus interest accrued to the redemption date on July 1, 2011 and on each July 1 thereafter to maturity, in the years specified:

#### **Series C Bonds Maturing July 1, 2016**

<u>Year</u>	<u>Principal Amount</u>	<u>Redemption Price</u>	<u>Redemption Amount</u>
2011 .....	\$ 685,000	72.803%	\$ 498,700.55
2012 .....	640,000	77.574	496,473.60
2013 .....	600,000	82.659	495,954.00
2014 .....	565,000	88.076	497,629.40
2015 .....	530,000	93.849	497,399.70
2016 (final maturity) .....	13,855,000	100.000	13,855,000.00

Giving effect to the mandatory redemption schedule set forth above, the average life of the Series C Bonds maturing on July 1, 2016 would be approximately 23 years and 10 months, calculated from the date of such Series C Bonds.

### **Notice of Redemption**

The Bond Indenture requires the Trustee to give notice of any redemption of the Series C Bonds by publication and, in the case of registered Series C Bonds, by mail. Failure to mail notice, or any defect in such mailed notice, however, will not affect the validity of the proceedings for redemption of any Series C Bond. See "Summaries of Certain Documents — Summary of Certain Provisions of the Bond Indenture — Notice of Redemption" in Appendix B hereto.

### **Interchangeability**

The Series C Bonds may be exchanged and transferred as provided in the Bond Indenture. See "Summaries of Certain Documents — Summary of Certain Provisions of the Bond Indenture — Interchangeability" in Appendix B hereto.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **Pledge Effected by the Bond Indenture**

The Bond Indenture provides that the Bonds shall be special, limited obligations of the Authority payable solely from and secured solely by (i) the proceeds of the sale of Bonds, (ii) all revenues, income, rents and receipts derived or to be derived by the Authority from or attributable to the ownership and operation of the Authority Interest, the proceeds of any insurance covering business interruption loss relating to the Authority Interest and interest on all moneys or securities (other than in the Construction Fund) held pursuant to the Bond Indenture and required to be paid into the Revenue Fund ("Revenues"), and (iii) all funds established by the Bond Indenture (excluding the Decommissioning Account in the Reserve and Contingency Fund); subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture (including application of the moneys on deposit in the Escrow Fund). The Series C Bonds, and the Series A Bonds and Series B Bonds, if and when authenticated and delivered on their respective Crossover Dates, will rank equally as to security and payment with the Authority's other Outstanding Bonds.

The Bonds are not obligations of the State of California, any public agency thereof (other than the Authority), any member of the Authority or any Project Participant and neither the faith and credit nor the taxing power of any of the foregoing (including the Authority) is pledged for the payment of

the Bonds. The Bonds shall never constitute debt or indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or statutes of the State of California, and shall not constitute nor give rise to a pecuniary liability of the Authority, or a charge against its general credit. The Authority has no taxing power.

See "Summaries of Certain Documents — Summary of Certain Provisions of the Bond Indenture" in Appendix B hereto for further discussion of certain of the terms and provisions of the Bond Indenture.

#### Power Sales Contracts

Each Power Sales Contract between the Authority and a Project Participant constitutes an obligation of the parties until the terms of all of the Power Sales Contracts expire on October 31, 2030 or such later date as all Bonds and the interest thereon shall have been paid in full or adequate provision for such payment shall have been made. As long as any Bonds issued under the Bond Indenture are Outstanding or until provision has been made for the payment of any Bonds Outstanding in accordance with the Bond Indenture, the Power Sales Contracts may not be terminated or amended in any manner which will reduce the amount of, or extend the time for, the payments which are pledged as security for the Bonds or which will impair or adversely affect the rights of the holders of the Bonds.

The payment obligations under the Power Sales Contracts constitute operating expenses of the respective Project Participants, payable solely from their electric system revenues.

Each Project Participant has covenanted in its Power Sales Contract to establish, maintain and collect rates and charges for the electric service it furnishes sufficient to provide revenues which, together with its available electric system reserves, are adequate to enable it to pay the Authority all amounts payable under its Power Sales Contract and to pay all other amounts payable from, and all liens on and lawful charges against, its electric system revenues.

Payments are to be made by the Project Participants on a "take or pay" basis, that is, whether or not the Authority Interest or any part thereof, is operating or operable (or has been completed), or its output is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatever.

A failure of a Project Participant to make payments when due under its Power Sales Contract may result in larger payments being made by the other Project Participants in subsequent periods for the purpose of enabling the Authority to pay operating expenses, debt service and other costs of the Authority Interest and to maintain required reserves therefor. To the extent the amount to be paid by the nonpaying Project Participant is not offset by revenues from sales of power derived by the Authority in respect of such non-paying Project Participant's Project Entitlement Share, such non-payment may result in deficits in funds under the Bond Indenture. In such event, the Authority would be required to amend, in accordance with the Power Sales Contracts and the Bond Indenture, the Annual Budget to provide increases in subsequent billings to all Project Participants, including the non-paying Project Participant, equal to the amount of such deficiency. Such increased billings are not conditioned upon any transfer of the non-paying Project Participant's Project Entitlement Share to the other Project Participants. Amounts thereafter collected from such non-paying Project Participant shall be credited against the next billing of such other Project Participants as shall be appropriate. In the event, however, of a termination of the Project and a resultant default by the Authority under the Bond Indenture, each Project Participant would, under its Power Sales Contract, be severally obligated to pay only its respective Project Entitlement Share of the debt service on the Bonds (including fees and expenses of the Trustee and Paying Agents) and other fixed costs.

The Power Sales Contracts provide that the obligations of the Project Participants under the respective Power Sales Contracts are several and not joint. During each Power Supply Year, each Project Participant is obligated to pay its share of Monthly Power Costs, which consist of all of the



Authority's costs resulting from the ownership, operation and maintenance of, and renewals and replacements to, the Authority Interest, to the extent not paid from the proceeds of Bonds or from Notes or other evidences of indebtedness issued in anticipation of the issuance of Bonds. Such Monthly Power Costs, which consist of a minimum cost component and a variable cost component, are to be billed monthly.

The minimum cost component will be billed each month for the then current month based on the estimates contained in the Annual Budget prepared by the Authority prior to the beginning of each Power Supply Year, as such Annual Budget may be amended during such year. For each month, the minimum cost component includes:

(1) The amounts which the Bond Indenture requires the Authority to pay or deposit during such month into funds or accounts for: debt service on the Bonds or reserve requirements for the Bonds; and the payment of interest on Notes or other evidences of indebtedness issued in anticipation of the issuance of Bonds; and

(2) One-twelfth of: the amount which the Authority is required under the Bond Indenture to pay or deposit during the then current Power Supply Year into any other fund or account established by the Bond Indenture, including any amount needed to eliminate a deficiency in any such other fund whether or not resulting from a default in payments by any Project Participant of amounts due under any Power Sales Contract; the costs of producing and delivering capacity and energy from the Authority Interest during the then current Power Supply Year, including ordinary operation and maintenance costs, costs of water, overhead and certain fixed costs of fuel for the Authority Interest; and the amount necessary during the then current Power Supply Year to pay or provide reserves for all taxes which the Authority is required to pay with respect to the Authority Interest.

The variable cost component will be billed each month for the immediately preceding month. The variable cost component of Monthly Power Costs consists of: (i) all costs of fuel not included in the minimum cost component and (ii) the Authority's cost of transmission under the Transmission Agreement.

The Bond Indenture requires the Authority, quarterly, to review its estimates set forth in the then current Annual Budget and in the event such estimates do not substantially correspond with actual Revenues, Authority Operating Expenses or other requirements, to adopt an amended Annual Budget for the remainder of the Power Supply Year. The Authority is also required to adopt such an amended Annual Budget if there are at any time during the year extraordinary receipts or payments of unusual costs.

The amount of Monthly Power Costs to be paid by each Project Participant for any month shall be the sum of (i) its Project Entitlement Share times the minimum cost component for such month and (ii) the percentage of the energy delivered from the Authority Interest to it during such month times the variable cost component.

Within 120 days after the end of each Power Supply Year, the Authority will submit to each Project Participant a statement of the actual amounts payable under the Power Sales Contracts for such year and any adjustments to such amounts for any prior year, based on the annual audit required by the Power Sales Contracts. If for any Power Supply Year the actual amounts payable under the Power Sales Contract exceed the amount which the Project Participants have been billed, the Project Participants shall promptly pay the amount of such excess to the Authority; if such amounts are less than the amounts billed, the Authority will credit the excess against the Project Participants' next monthly payment.

In the event of a default or inability to perform by a Project Participant under its Power Sales Contract, the Authority shall proceed to enforce the Project Participant's covenants or obligations thereunder, or seek damages for the breach thereof, by action at law or equity. The Power Sales Contracts also provide that if a payment due under the Power Sales Contract remains unpaid when due, the Authority shall, upon 120 days' written notice to the Project Participant, discontinue the

delivery of capacity and energy to, and the use of the Authority Interest facilities by, such Project Participant while the default continues. Except as a result of a transfer of the defaulting Project Participant's rights to delivery of capacity and energy and the use of the Authority Interest facilities, the discontinuance of delivery of capacity and energy to and the use of the Authority Interest facilities by a defaulting Project Participant by the Authority will not reduce the obligation of such Project Participant to make payments under its Power Sales Contract. See "Summaries of Certain Documents — Summary of Certain Provisions of the Power Sales Contracts" in Appendix B hereto for a discussion of certain additional provisions of the Power Sales Contracts.

#### **Authority Rate Covenant**

Pursuant to the Bond Indenture, the Authority has covenanted to at all times establish and collect rates and charges with respect to the Authority Interest to provide Revenues at least sufficient, together with other available funds, for the payment each Fiscal Year of the sum of: (i) Authority Operating Expenses, (ii) Aggregate Debt Service, (iii) all other required deposits to any funds under the Bond Indenture and (iv) all other charges or liens payable out of Revenues.

#### **Budgeting**

The Power Sales Contracts require the Authority to adopt an Annual Budget not less than 30 days prior to the beginning of each Power Supply Year. Each such Annual Budget will set forth a detailed estimate of the Monthly Power Costs and all Revenues, income or other funds to be applied to such costs, for and applicable to such Power Supply Year. See "Security and Sources of Payment for the Bonds — Power Sales Contracts." The Bond Indenture requires the Authority, following the end of each quarter of each Power Supply Year, to review its estimates set forth in the Annual Budget for such Power Supply Year and in the event such estimates do not substantially correspond with actual Revenues, Authority Operating Expenses or other requirements, adopt an amended Annual Budget. The Authority shall also adopt an amended Annual Budget, in accordance with the Power Sales Contracts, if there are at any time during the year extraordinary receipts or payment of unusual costs. The Authority may also at any time, in accordance with the provisions of the Power Sales Contracts, adopt an amended Annual Budget for the remainder of the then current Power Supply Year.

#### **Flow of Funds**

The Bond Indenture establishes the following funds and accounts (each of which is held by the Trustee): Construction Fund, Revenue Fund, Operating Fund, Debt Service Fund (including the Debt Service Account and Debt Service Reserve Account), Reserve and Contingency Fund (including the Renewal and Replacement Account, Decommissioning Account and Reserve Account), General Reserve Fund, 1985 Refunding Series A Bonds Escrow Fund, 1985 Refunding Series B Bonds Escrow Fund, 1986 Refunding Series A Bonds Escrow Fund, 1986 Refunding Series B Bonds Escrow Fund, 1987 Refunding Series A Bonds Escrow Fund, 1989 Refunding Series A Bonds Escrow Fund and the Series C Escrow Fund.

Pursuant to the Bond Indenture, all Revenues received are to be deposited promptly in the Revenue Fund. Amounts in the Revenue Fund are to be paid monthly to the following funds in the following order of priority:

- (1) To the Operating Fund, a sum which, together with any amount in the Operating Fund not set aside as reserves, equals the total moneys appropriated for Authority Operating Expenses in the Annual Budget for the then current month.
- (2) To the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund, the respective amounts required so that the balances in such accounts (excluding, in the case of the Debt Service Account, the amount set aside therein from the proceeds of Bonds or otherwise for payment of interest on Bonds in excess of the amount to be applied to pay interest accrued and unpaid and to accrue on Bonds to the last day of the then current calendar month)

equal the Accrued Aggregate Debt Service and the Debt Service Reserve Requirement, respectively, as of the end of the then current month. The Trustee will apply amounts in the Debt Service Account to the payment of principal of, redemption premium, if any, and interest on the Bonds.

(3) To the Bond Anticipation Note Fund, the amount, if any, required so that the balance in said Fund in excess of the amount thereof shall equal all interest accrued and unpaid and to accrue on outstanding Bond Anticipation Notes to the end of the then current calendar month. The Trustee will apply amounts in the Bond Anticipation Note Fund to the payment of interest on Bond Anticipation Notes in accordance with the provisions of the resolution, agreement or contract relating to the issuance of such Bond Anticipation Notes.

(4) To the Reserve and Contingency Fund, for credit to the Renewal and Replacement Account, the Decommissioning Account and the Reserve Account, the respective amounts provided for such purposes for the then current month in the current Annual Budget.

(5) To the General Reserve Fund, the balance if any, in the Revenue Fund.

For a more detailed discussion of the application of moneys deposited in the various funds and accounts, see "Summary of Certain Provisions of the Bond Indenture — Application of Revenues" in Appendix B hereto.

#### **Debt Service Reserve Account**

Moneys already on deposit in the Debt Service Reserve Account will be sufficient to satisfy the Debt Service Reserve Requirement at the time of issuance of the Series C Bonds. If the Series A and Series B Bonds are authenticated and delivered, moneys already on deposit in the Debt Service Reserve Account will be sufficient to satisfy the Debt Service Reserve Requirement at the time of such authentication and delivery. For the definition of Debt Service Reserve Requirement, see "Summary of Certain Provisions of the Bond Indenture — Debt Service Reserve Requirement and Certain Other Definitions Pertaining to the Issuance of Bonds" in Appendix B hereto. Should the amount on deposit in the Debt Service Reserve Account fall below the Debt Service Reserve Requirement, such deficit is to be cured by application of funds from amounts in the General Reserve Fund, the Reserve Account in the Reserve and Contingency Fund, the Renewal and Replacement Account in the Reserve and Contingency Fund, and the Bond Anticipation Note Fund, and from the first available Revenues (after payments to the Operating Fund and Debt Service Account required by the Bond Indenture), in that order.

#### **Additional and Refunding Bonds**

The Authority may issue additional Bonds for the purpose of financing the costs of acquisition and construction of the Authority Interest on the terms and conditions specified in the Bond Indenture. Any additional Bonds, including the Lender Bonds (as defined in the Bond Indenture), will rank equally as to security and payment with the Outstanding Bonds and the Series A, B and C Bonds except that certain Lender Bonds will not have any interest in, lien on or pledge of moneys on deposit in the Debt Service Reserve Account. The Bond Indenture also provides for the issuance of refunding Bonds to refund Outstanding Bonds, in certain circumstances. The Project Participants have authorized the issuance of refunding Bonds by the Authority at such times as the Board of Directors determines. See "Summaries of Certain Documents — Summary of Certain Provisions of the Bond Indenture — Certain Requirements of and Conditions to Issuance of Bonds," "Summaries of Certain Documents — Summary of Certain Provisions of the Bond Indenture — Additional Bonds" and "Summaries of Certain Documents — Summary of Certain Provisions of the Bond Indenture — Refunding Bonds" in Appendix B hereto.

## BOOK-ENTRY ONLY SYSTEM

DTC will act as securities depository for the Crossover Bonds and the Series C Bonds. The ownership of one fully registered Series A Crossover Bond for each maturity, one fully registered Series B Crossover Bond for each maturity and one fully registered Series C Bond for each maturity, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of which (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

The DTC Participants shall receive a credit balance in the records of DTC. The ownership interest of each actual purchaser of each Crossover Bond or Series C Bond (each, a "Beneficial Owner") will be recorded through the records of the DTC Participant. Each Beneficial Owner is to receive a written confirmation of purchase providing details of the Crossover Bond or Series C Bond acquired. Transfers of ownership interests in the Crossover Bonds and Series C Bonds are to be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Crossover Bonds or Series C Bonds except as specifically provided in the respective Indenture in the event participation in the DTC book-entry system is discontinued.

So long as Cede & Co. is the registered owner of the Crossover Bonds and Series C Bonds, as a nominee of DTC, references herein to the bondowners or owners of Crossover Bonds and Series C Bonds shall mean Cede & Co. (which shall be the registered owner of the Crossover Bonds and Series C Bonds as shown on the registry books of the Authority kept for that purpose at the principal corporate trust office of the Special Trustee or the principal corporate trust office of the Trustee, as the case may be, acting as Bond Registrar) and shall not mean the Beneficial Owners of the Crossover Bonds or Series C Bonds.

The Authority, the Special Trustee, the Trustee and the Fiduciaries will recognize DTC or its nominee as the registered owner of the Crossover Bonds and Series C Bonds for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to DTC Participants and by DTC Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Payments of principal of, redemption price, if applicable, and interest on the Crossover Bonds and Series C Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Crossover Bonds and Series C Bonds. Upon receipt of any such payments, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Authority, the Special Trustee, the Trustee or the Fiduciaries, subject to any statutory and regulatory requirements as may be in effect from time to time.

The book-entry system with DTC shall be discontinued with respect to the respective bonds if (a) DTC determines not to continue to act as securities depository for the Crossover Bonds or the Series C Bonds, or (b) the Authority has advised DTC that it does not wish DTC to continue as

securities depository. If the Authority replaces DTC, or the existing successor securities depository, with another qualified securities depository, a fully registered Series A Crossover Bond for each maturity, a fully registered Series B Crossover Bond for each maturity or a fully registered Series C Bond for each maturity, registered in the name of the successor or its nominee, shall be prepared, consistent with the respective Indenture. If the Authority fails to locate another qualified securities depository to replace DTC, or the existing successor securities depository, the Special Trustee or the Trustee, as applicable, will act as the payment agent and the Authority shall execute and the Special Trustee or the Trustee, as applicable, shall authenticate and deliver Series A Crossover Bond certificates ("replacement Series A Crossover Bonds"), Series B Crossover Bond certificates ("replacement Series B Crossover Bonds") or Series C Bond certificates (the "replacement Series C Bonds"), as applicable, to the Beneficial Owners of the respective Bonds. Interest on the Series A Crossover Bonds, Series B Crossover Bonds and Series C Bonds represented by replacement Series A Crossover Bonds, replacement Series B Crossover Bonds and replacement Series C Bonds, respectively, shall be payable by check or draft of the Trustee mailed by first-class mail, postage prepaid, to each Owner of such replacement Bond at the address of such Owner as it appears at the close of business on the relevant record date in the registry books maintained by the Special Trustee or Trustee, as applicable, as Bond Registrar. The principal of and Redemption Price, if applicable on the Series A Crossover Bonds, Series B Crossover Bonds and Series C Bonds represented by replacement Series A Crossover Bonds, replacement Series B Crossover Bonds and replacement Series C Bonds, respectively, shall be payable upon presentation of such Series A Crossover Bonds, Series B Crossover Bonds and Series C Bonds at the principal corporate trust office of the Special Trustee or the Trustee, as applicable. Series A Crossover Bonds, Series B Crossover Bonds and replacement Series C Bonds represented by replacement Series A Crossover Bonds, replacement Series B Crossover Bonds and replacement Series C Bonds will be transferable only by presentation and surrender to the Special Trustee or Trustee, as applicable, together with an assignment duly executed by the Owner of such replacement Bonds or by his representative in the form satisfactory to the Special Trustee or Trustee, as applicable, and containing information required by the Special Trustee or Trustee, as applicable, in order to effect such transfer.

The book-entry system may be discontinued upon 60 days prior notice from DTC, or the existing successor securities depository, to the Authority.

Neither the Authority nor any Fiduciary will have any responsibility or obligation to DTC Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant; (ii) any notice that is permitted or required to be given to Owners under the respective Indentures; (iii) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Crossover Bonds or Series C Bonds; (iv) the payment by DTC or any DTC Participant of any amount with respect to the principal of, redemption price, if applicable, or interest due on the Crossover Bonds or Series C Bonds; or (v) any consent given or other action taken by DTC as Owner. The rules applicable to DTC are on file with the Securities and Exchange Commission, and the procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Crossover Bonds and Series C Bonds, payment of principal, redemption price, if any, and interest on the Crossover Bonds and Series C Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds with other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

## BOND INSURANCE

AMBAC Indemnity Corporation ("AMBAC Indemnity"), has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Crossover Bonds and the Series C Bonds, effective as of the date of issuance of the Series A Special Obligation Bonds, Series B Special Obligation Bonds and Series C Bonds. A form of the Municipal Bond Insurance Policy is attached hereto as Appendix F. The information relating to AMBAC Indemnity contained below has been furnished by AMBAC Indemnity. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Under the terms of the Municipal Bond Insurance Policy, AMBAC Indemnity will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Crossover Bonds and the Series C Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). AMBAC Indemnity will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one (1) business day next following the date on which AMBAC Indemnity shall have received notice of Nonpayment from the Trustee or the Special Trustee, as the case may be. The insurance will extend for the term of the Crossover Bonds and the Series C Bonds and, once issued, cannot be cancelled by AMBAC Indemnity.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. It will not insure payment on acceleration, as a result of a call for redemption (other than sinking fund redemption) or as a result of any other advancement of maturity, nor will it insure the payment of any redemption, prepayment or acceleration premium or any risk other than Nonpayment. In the event of any acceleration of the principal of the Crossover Bonds or the Series C Bonds, the payments insured will be made at such times and in such amounts as would have been made had there not been an acceleration.

The Municipal Bond Insurance Policy will not insure against nonpayment of principal or interest caused by the insolvency or negligence of any trustee or paying agent, if any, or the Insurance Trustee. If the Crossover Bonds or the Series C Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Crossover Bonds or the Series C Bonds, AMBAC Indemnity will remain obligated to pay principal of and interest on outstanding Crossover Bonds and the Series C Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event the Trustee has notice that any payment of principal of or interest on a Crossover Bond or a Series C Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of Crossover Bonds or Series C Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Crossover Bonds or Series C Bonds to be registered in the name of AMBAC Indemnity. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the Crossover Bond or Series C Bond or right to payment of principal or interest on such bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

In cases where the Crossover Bonds or the Series C Bonds are issuable in book entry form, the Insurance Trustee shall disburse principal and interest to a Bondholder only upon evidence satisfactory to the Insurance Trustee and AMBAC Indemnity that the ownership interest of the Bondholder in the right to payment of such principal and interest has been effectively transferred to AMBAC Indemnity on the books maintained for such purpose. AMBAC Indemnity shall be fully subrogated to all of the Bondholders' rights to payment to the extent of the insurance disbursements so made.

AMBAC Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC Indemnity under policy provisions substantially identical to those contained in the Municipal Bond Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Crossover Bonds or Series C Bonds.

AMBAC Indemnity Corporation is a Wisconsin-domiciled stock insurance company, regulated by the Insurance Department of the State of Wisconsin, and licensed to do business in 50 states and the District of Columbia, with admitted assets (unaudited) of approximately \$1,300,000,000 and statutory capital (unaudited) of approximately \$784,000,000 as of September 30, 1991. Statutory capital consists of AMBAC Indemnity's statutory contingency reserve and policyholders' surplus. AMBAC Indemnity is a wholly-owned subsidiary of AMBAC Inc. The principal shareholder of AMBAC Inc. is Citicorp Financial Guaranty Holdings, Inc. ("Holdings"), a financial holding company and itself a wholly-owned subsidiary of Citibank, N.A. ("Citibank") which is, in turn, a wholly-owned subsidiary of Citicorp. Holdings currently owns 49.7% of the total equity of AMBAC Inc., with a right to control 20% of the voting power of AMBAC Inc. until such time as Citicorp, including its affiliates, reduces its equity ownership to less than 25% of AMBAC Inc. (at which time the shares owned by it become non-voting).

On January 22, 1992, AMBAC Inc. registered for sale with the Securities and Exchange Commission the remaining shares of its stock owned by Holdings. If the sale is completed, neither Citicorp nor Citibank will own, directly or indirectly, an equity interest in AMBAC Inc.

Both Standard & Poor's Corporation and Moody's Investors Service, Inc. have reaffirmed that the sale by Holdings of its remaining equity interest in AMBAC Inc. does not affect AMBAC Indemnity's triple-A claims-paying ability ratings. Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

AMBAC Indemnity has entered into pro rata reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

In the event that AMBAC Indemnity were to become insolvent, any claims arising under the Municipal Bond Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

## **SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

### **Formation and Membership**

The Authority, a joint powers agency and a public entity organized under the laws of the State of California, was created pursuant to the Act and the Joint Powers Agreement, for the purpose of the planning, financing, development, acquisition, construction, operation and maintenance of projects for

the generation or transmission of electric energy. The Joint Powers Agreement has a term expiring in 2030.

### Organization and Management

The Authority is governed by a Board of Directors which consists of one representative for each of the members. The current representatives are listed on the inside cover of this Official Statement. The management of the Authority is under the direction of its Executive Director, Linda M. Lazzerino, who serves at the pleasure of the Board of Directors. Prior to her appointment as Executive Director, Ms. Lazzerino served as Federal Affairs Officer and Attorney and previously as Attorney for the Platte River Power Authority. Prior to her position with the Platte River Power Authority, Ms. Lazzerino served as Attorney for the Tri-State Generation and Transmission Association, Inc. and the Colorado Department of Regulatory Agencies, among others.

The other officers of the Authority also serve at the pleasure of the Board of Directors. The President of the Authority is Ronald V. Stassi, who has been the General Manager of Public Services for the City of Burbank since 1988. Bill D. Carnahan, the Vice President of the Authority, has been the Public Utilities Director for the City of Riverside since 1986. Eldon A. Cotton, the Secretary of the Authority, has been employed by the Department since 1965 and has served as the Assistant General Manager — Power of the Department since November 28, 1988. George R. Spencer, the Assistant Secretary of the Authority, has been employed by the Department as an engineer since 1965. Mr. Spencer has held the title of Engineering Supervisor since 1980.

With respect to any matter involving the Authority Interest to be decided by the Board of Directors, each Director is entitled to cast votes weighted according to the size of the entitlement to the Authority Interest of the Project Participant represented by such Director in addition to the vote each Director is entitled to cast as a member of the Authority. See "Introduction — Cost and Entitlement Shares". All such matters involving the Authority Interest must be decided by at least 80% of the votes cast, and no such vote may be taken unless there shall be present at the meeting Directors entitled to cast more than 50% of the votes relative to such matter.

The Authority has entered into the Agency Agreement pursuant to which the Department, as agent, represents, and undertakes certain activities on behalf of, the Authority in connection with the Authority's acquisition, construction, operation and maintenance of the Authority Interest. The Agency Agreement gives the Agent the responsibility of (a) undertaking those activities necessary (i) to secure regulatory approvals to allow the Authority to acquire the Authority Interest, (ii) to determine the cost of acquisition, construction, operation and maintenance of the Authority Interest, (iii) to formulate arrangements for the transmission of Authority Interest output to the Project Participants, (iv) to formulate the financing program and develop financing documents and (v) to construct, operate and maintain the Authority Interest, and (b) representing the Authority with respect to matters arising under or in connection with the Project Agreements or the construction, operation and maintenance of the Authority Interest.

Further information concerning the Authority may be obtained from the Executive Director, Southern California Public Power Authority, 200 South Los Robles Avenue, Suite 155, Pasadena, California 91101.

### Other Activities of the Authority

*Southern Transmission System.* The Authority has entered in agreements providing for (i) the making of payments-in-aid of construction by the Authority to Intermountain Power Agency with respect to a  $\pm$  500 kV DC transmission line from the coal-fired, steam-electric generation station and switchyard located near Lynndyl, in Millard County, Utah, to Adelanto, California, approximately 490 miles in length, together with an AC/DC converter station at each end (the "Southern Transmission System"), (ii) the acquisition of the entitlements to the capability of such System previously held by the Department and the California cities of Anaheim, Riverside, Burbank, Glendale and Pasadena (the



"Southern Transmission System Participants") and (iii) the sale by the Authority of transmission service on the Southern Transmission System to the Southern Transmission System Participants. As of July 1, 1991, the Authority had outstanding \$1,174,165,000 principal amount of its bonds, including refunding bonds, to finance the making of payments-in-aid of construction with respect to the Southern Transmission System. Such bonds are payable from payments to be made by the Southern Transmission System Participants under transmission service contracts (on the basis of transmission service shares). The Southern Transmission System is complete and in operation and the Authority does not anticipate issuing additional bonds with respect to the Southern Transmission System except for refunding bonds which may be issued from time to time to reduce debt service costs.

*Mead-Phoenix Transmission Project.* In 1982, the Authority executed agreements pursuant to which the Authority, Salt River Project, M-S-R Public Power Agency, and the Western Area Power Administration ("Western") studied the feasibility of constructing, owning and operating the Mead-Phoenix Transmission Project. As a result of such feasibility study, the development participants decided to undertake further development work for a 500-kV AC transmission line, convertible to DC at a future date. The Mead-Phoenix Transmission Project would be constructed between the proposed Marketplace Substation, a substation to be constructed in the Boulder City, Nevada area, and Westwing Substation, a substation in the Phoenix, Arizona area. Under an agreement which became effective on December 17, 1991, the Authority, members of the Authority, Salt River Project, Western, M-S-R Public Power Agency, Arizona Public Service Company and Tucson Electric Power Company have committed to undertake the construction of this project. This undertaking is subject to the prior negotiation of certain interconnection agreements and the meeting of certain other preconditions. The most recent estimate of the construction cost for this project is approximately \$334 million. The Authority has agreed with Anaheim, Azusa, Banning, Burbank, Colton, Glendale, the Department, Pasadena and Riverside to acquire on their behalves and provide financing for approximately 19.14% of this project. Vernon has agreed to acquire and finance independently approximately 2.7% of this project. Salt River Project will be the construction manager for this project, and Salt River Project and Western will be responsible for operation of this Project. If the Mead-Phoenix Transmission Project is undertaken, the Authority would finance its interest from the proceeds of long-term bonds secured by payments to be made by the participants on a "take or pay" basis under transmission service contracts. See "Southern California Public Power Authority — Other Activities of the Authority — Multiple Project Revenue Bonds." It is estimated that this facility, if built, would be in service in the mid-1990's.

*Mead-Adelanto Transmission Project.* In connection with the Mead-Phoenix Transmission Project, certain members of the Authority and other utilities are studying the feasibility and projected costs of the construction and operation of the Mead-Adelanto Transmission Project, a proposed 500-kV DC transmission line from the proposed Marketplace Substation, a substation to be constructed near Boulder City, Nevada, to the Adelanto AC Switchyard near Adelanto, California. Under an agreement which became effective on December 17, 1991, the Authority, members of the Authority, Western and M-S-R Public Power Agency have committed to undertake the construction of this project. This undertaking is subject to the prior negotiation of certain interconnection agreements and the meeting of certain other preconditions. The most recent estimate of the construction cost for this project is approximately \$269 million. The Authority has agreed with Anaheim, Azusa, Banning, Burbank, Colton, Glendale, the Department, Pasadena and Riverside to acquire on their behalves and provide financing for approximately 67.9% of this project. Vernon has agreed to acquire and finance independently 6.25% of this project. The Department will be the construction manager for this project, and will also be responsible for its operation. If the Mead-Adelanto Transmission Project is undertaken, the Authority would finance its interest from the proceeds of long-term bonds secured by payments to be made by the participants on a "take or pay" basis under transmission service contracts. See "Southern California Public Power Authority — Other Activities of the Authority — Multiple Project Revenue Bonds." It is estimated that this facility, if built, would be in service in the mid-1990's.

*Adelanto-Lugo Transmission Project.* In connection with the Mead-Adelanto Transmission Project, certain members of the Authority and other utilities are considering the construction and operation of the Adelanto-Lugo Transmission Project, a proposed 500-kV AC transmission line from the Adelanto

AC Switchyard near Adelanto, California to the Lugo Substation of Edison near Victorville, California. The Adelanto-Lugo Transmission Project would be 15 to 20 miles in length with a planned capacity of approximately 1,600 MW. It is anticipated that, if constructed, the Adelanto-Lugo Transmission Project would be placed in service in the mid-1990's. It is also anticipated that, to the extent its members participate in and the Authority undertakes this project, the Authority will own and finance a portion of the project on behalf of its participating members (other than Vernon), who would purchase transmission service from the Authority.

*Hoover Upgrading Project.* Modern developments in insulation technology have made it possible to "uprate" the nameplate capacity of existing generators. The Hoover Upgrading Project consists principally of the uprating of the capacity of the 17 existing generating units at the hydroelectric power plant of the Hoover Dam, located approximately 25 miles from Las Vegas, Nevada. The cities of Anaheim, Azusa, Banning, Burbank, Colton, Glendale, Pasadena, Riverside and Vernon have obtained entitlements totaling 127 MW of capacity and approximately 143,000 megawatt-hours ("MWh") of allocated energy annually from the Hoover Upgrading Project. In 1987, to reflect these entitlements, these cities entered into contracts with the United States Bureau of Reclamation (the "Bureau"), providing for the advancement of funds for the construction and with Western for the purchase of power from the Hoover Upgrading Project. Subsequently, the cities of Anaheim, Riverside, Burbank, Azusa, Colton and Banning (the "Hoover Participants") entered into assignment agreements with the Authority to assign their entitlements in return for the Authority's agreement to provide funds to the Bureau. The Authority has issued and has outstanding \$41,600,000 principal amount of its bonds (including refunding bonds) to fund the Hoover Participants' share of funds to be advanced to the Bureau. Based on Western's allocations and contemplated assignment agreements, the Authority's proportionate share of the total capacity of the Hoover uprating program is approximately 94 MW and additional energy allocation. The Hoover Participants and the Authority have executed power sales contracts under which the Hoover Participants have agreed to make monthly payments on a "take or pay" basis in exchange for their shares of the Authority's proportionate share of Hoover capacity and allocated energy (the "Hoover Entitlements"). A portion of the Hoover Entitlements has been made available since June 1987 at the Mead Substation. Transmission from Mead Substation is provided to Burbank by the Department and to the remaining Hoover Participants by Edison. The Hoover Entitlements vary as each of the 17 Hoover units is uprated. As of December 31, 1991, 13 units had been uprated. The full Hoover Entitlements are expected to be available by the end of 1992.

*Utah-Nevada Transmission Project.* Members of the Authority, together with several electric utilities providing service in Utah and Nevada, are considering constructing, owning and operating an electric transmission project to include facilities to be located in Utah and Nevada. This project, if undertaken and built, would be in operation in the late-1990's. It is anticipated that, to the extent its members participate in and the Authority undertakes this project, the Authority will own and finance a portion of the project on behalf of its participating members, who would purchase transmission service or capability of the project from the Authority. As of December 31, 1991, this Project is on hold pending resolution of land use for transmission right-of-way in the Sunrise Mountain Wilderness Study Area, north of Las Vegas, Nevada.

*Multiple Project Revenue Bonds.* In January 1990, the Authority issued \$647,750,000 of its Multiple Project Revenue Bonds for the purposes of funding electric and transmission projects undertaken by the Authority. It is the Authority's intent that as a project progresses the Authority members will designate their interest in these transmission projects and the necessary contracts will be executed to allow the Multiple Project Bond proceeds to be used for these projects with take-or-pay contracts put in place for the Authority members. At its December 1991 regular meeting, the Board of Directors directed the Authority's staff to prepare for Multiple Project Revenue Bonds proceeds to be used to finance the estimated costs of construction and related costs of the proposed Mead-Phoenix Transmission Project and the proposed Mead-Adelanto Transmission Project.

## THE PROJECT AND THE ANPP TRANSMISSION SYSTEM

### General Description

PVNGS consists of three essentially identical nuclear electric generating units. Units 1, 2 and 3 achieved firm operation on January 27, 1986, September 18, 1986, and January 19, 1988, respectively. PVNGS is located on an approximately 4,000-acre site about 50 miles west of Phoenix, Arizona. Each unit, designed for a 40-year life, has a licensed rating of 3,817 megawatts thermal and a nominal rating of 1,270 MW. During construction APS calculated the net maximum dependable capacity of each unit at 1,221 MW. Currently, each unit's output has exceeded that capacity and, depending on weather and unit conditions, has also exceeded the nominal rating of 1,270 MW. A unit rating will be determined in the future based on performance data.

Using the nominal rating of 1,270 MW and an estimated annual capacity factor of 70 percent, PVNGS has a total generating capacity of 3,810 MW and an annual output of 23.4 million MWh. This estimated output was exceeded in Fiscal Year 1990-91 when PVNGS produced 28.8 million MWh.

The nuclear steam supply system for each unit, supplied by Combustion Engineering Inc., is a pressurized water reactor system whose major components are the nuclear reactor, two steam generators and four reactor coolant pumps. The tandem-compound turbine generators were supplied by the General Electric Company. The electrical output from the generators is connected to the main step up transformers which increase the voltage to 525 kV AC for interconnection into the ANPP Transmission System. The main condensers, supplied by the Westinghouse Corporation, are cooled by processed water effluent circulated through mechanical draft cooling towers. The processed water effluent comes from the water reclamation facility, or its storage reservoir, which treats sewage effluent purchased primarily from the City of Phoenix. The sewage effluent is piped to PVNGS from the 91st Avenue Sewage treatment plant in Phoenix. With three PVNGS units in operation, processed water effluent consumption is approximately 50,000 gallons a minute. Blow-down from the cooling towers is piped to the on-site evaporation ponds with a portion recycled to the water reclamation facility. Blow-down from other waste streams including miscellaneous non-radioactive water wastes are also directed to the evaporation ponds. Thus, there are no off-site liquid discharges.

The three units share common facilities, including the water reclamation facility, make-up water storage reservoir, domestic water system, demineralized water system, sanitary waste treatment facility, evaporation ponds, laundry and decontamination facility, administration building, guardhouse, security facilities, service warehouse building, switchyard and maintenance-support buildings.

APS is the Construction Manager and Operating Agent of PVNGS and the Westwing 525 kV Switchyard. The high-voltage switchyard portion of the Project was constructed and is being managed by Salt River Project.

Pursuant to the Participation Agreement and the Assignment Agreement, the utilities listed in the following table currently have the indicated interests in the Project. See "Availability of Operating Funds and Available Information Concerning Other Owners of Palo Verde Nuclear Generating Station."

	<u>Current Interests</u>
Arizona Public Service Company .....	29.10%
Salt River Project Agricultural Improvement and Power District .....	17.49
Southern California Edison Company .....	15.80
El Paso Electric Company .....	15.80
Public Service Company of New Mexico .....	10.20
Southern California Public Power Authority .....	5.91
Department of Water and Power of The City of Los Angeles .....	5.70
Total .....	100.00%

In connection with financing of the Project, APS, PNM and El Paso have entered into several sale and leaseback transactions involving certain portions of their respective ownership interests in the Project.

The ANPP High Voltage Switchyard consists of a breaker-and-a-half scheme which comprises the termination facilities for the transmission lines, generator step-up transformers and auxiliaries, including, but not limited to, the high voltage busses, structures, power circuit breakers, disconnect switches, control building, switchyard auxiliary, protection systems and fencing.

The ANPP Transmission System consists of the facilities listed below, along with associated rights-of-way:

- Palo Verde — Westwing 525 kV Transmission Lines Nos. 1 and 2
- Palo Verde — Kyrene 525 kV Transmission Line
- Westwing 525 kV Switchyard expansion
- Kyrene 230 kV Switchyard expansion
- Second Kyrene 230 kV Switchyard
- Kyrene 525/230 kV Switchyard
- Microwave Communication System

Construction of the major components of the ANPP Transmission System is complete and the system is operational.

#### **Construction Costs and Financing Requirements**

Based on information provided to it and the Department by APS and Salt River Project, the Authority believes that the payments required for the acquisition and construction of the Authority's Interest in the Project and the ANPP Transmission System have been completed, except for approximately \$14,722,000 of payments projected as of September 30, 1991 to be required for remaining major capital projects which were not included in the original scope of PVNGS but were required to satisfy regulatory or operational requirements. The financing required for all such payments has been completed.

#### **Funds for Decommissioning PVNGS**

As required by the Participation Agreement, the co-owner utilities of PVNGS have created external accounts for the decommissioning of PVNGS at the end of its life. The amounts accumulated in the external accounts are reported to the co-owner utilities annually or more frequently, if requested by any co-owner utility.

The market value of the Authority's external accounts for decommissioning was approximately \$44,975,000 at June 30, 1991. Based on the 1989 estimate of decommissioning costs of TLG Engineering, and the Authority's assumptions as to annual cost escalation (6%) and investment yield (6.83%), the Authority projects that it has fully funded its share of the amount required for decommissioning of PVNGS. The Authority anticipates receiving a new estimate of decommissioning costs every three years, with the next expected in mid-1992.

#### **Transmission Arrangements**

Pursuant to the Transmission Agreement, dated as of August 14, 1981, as amended, between the Authority and Salt River Project (the "Transmission Agreement"), the Authority has purchased the right to use 6.55% of the capability of the ANPP Transmission System which will be utilized by Salt River Project for delivery of power and energy associated with the Authority Interest, excluding the Project Entitlement of the Imperial Irrigation District (the "District"). The output of the Authority Interest, with the exception of the District's Project Entitlement, is received by Salt River Project at the transmission side of the high voltage bus of the ANPP High Voltage Switchyard. Salt River Project makes available to the Authority an equivalent amount of power and energy at a combination of the

Navajo Switchyard, the Eldorado Substation or the Mead Substation (the "Project Interconnection Point"). The Navajo Switchyard is located at the Navajo Generating Station in northern Arizona. The Eldorado and Mead substations are located at the southern tip of Nevada, south of Lake Mead, near the Mohave Generating Station.

The Department is transmitting its Project Entitlement from the Project Interconnection Point utilizing its own transmission system. Pursuant to the terms and conditions of the Palo Verde Nuclear Generating Station Transmission Service Agreements between the Department and the other Project Participants, with the exception of the District, the Department is providing transmission service for each such Project Participant's Project Entitlement between the Project Interconnection Point and each Project Participant's Point of Interconnection.

The District has acquired an ownership interest in the Palo Verde to Imperial Valley portion of the APS/San Diego Gas & Electric Company 525 kV Interconnection Project ("Southwest Powerlink") as a permanent means of transmitting its Project Entitlement. This project was completed in June 1984. The District completed the new 230 kV interconnection between the Southwest Powerlink and the District system in December 1984.

The proposed Mead-Phoenix Transmission Project, although not required for transmission of the Authority Interest, would allow the Authority members to operate more efficiently. In the event that the Mead-Phoenix Transmission Project is constructed, pursuant to the Transmission Agreement, Salt River Project will transmit, as necessary, the Authority Interest power and energy, with the exception of the District's Project Entitlement, to the Authority at Westwing Substation. See "Southern California Public Power Authority — Other Activities of the Authority — Mead-Phoenix Transmission Project."

#### Permits, Licenses and Approvals

Units 1, 2 and 3 have each received a 40-year Full-Power Operating License from the NRC. APS has stated that all necessary permits, licenses and approvals have been secured.

#### Operating Experience

Unit 1 began commercial operation in January 1986. The unit operation has improved significantly during the third fuel cycle which began June 28, 1990, when compared to previous cycles. Unit 1 is expected to fully expend the current core of 500 Effective Full Power Days, thereby achieving the design reactor production factor ("RPF") of 90% during the third fuel cycle. The unit is scheduled to be shut down on February 15, 1992 for a scheduled 70-day third refueling outage.

Unit 2 began commercial operation in September 1986. During its third fuel cycle, from July 14, 1990 to October 17, 1991, the unit achieved an RPF of 94%. The unit returned to service on January 9, 1992, completing its third scheduled refueling outage.

Unit 3 began commercial operation in January 1988. The unit is currently in its third fuel cycle, which began May 30, 1991. The unit is expected to meet the cycle RPF design of 86%, which is scheduled to end September 15, 1992.

#### Operation and Maintenance

APS is the Operating Agent of PVNGS.

PVNGS experienced significant regulatory, technical, and organizational challenges in 1989 and 1990. These challenges resulted from equipment failures, personnel errors, and managerial difficulties encountered during the shutdown of Units 1 and 3 on March 5, 1989 and March 3, 1989, respectively. Although public safety was not threatened in either shutdown, the NRC considered the problems encountered during the shutdown to be serious enough that the NRC required APS to obtain NRC's approval before Units 1 and 3 were restarted. Added to the challenges were the requirements to refuel

the units, since they were near the end of their fuel cycle periods when the shutdown occurred, and to continue the operation of Unit 2.

To meet the challenges and return Units 1 and 3 to service, APS made significant organizational, equipment, and procedural changes. The PVNGS organization was completely revamped. APS recruited a new management team, led by a new Executive Vice President in charge of PVNGS, who joined the team in May 1989. Several experienced nuclear operations professionals were recruited from other nuclear plants and nuclear engineering and construction companies. All personnel were given clear lines of communication to upper management and definition of responsibilities. Key personnel were held accountable for their functions. Engineering, training, maintenance, radiation protection, and plant chemistry were centralized. Operations personnel training was intensified and made a high priority requirement. Equipment that did not work properly during the shutdown of Units 1 and 3 was either replaced or upgraded. Testing of equipment critical to the safe shutdown of the unit was standardized. Several performance improvement programs were initiated. A five-year business plan was developed which emphasized safety, power production, cost reduction, and excellence.

After reviewing the measures taken by APS, the NRC allowed Units 1 and 3 to return to service on July 5, 1990, and January 21, 1990, respectively.

The NRC periodically evaluates the Project through the Systematic Assessment of Licensee Performance ("SALP") Report. The latest SALP ratings for the period of November 1989 through November 1990, indicate improved plant operations over the previous evaluation period of November 1988 through October 1989. The average SALP rating improved from a 2.4 average (on a scale of 3 to 1, with 1 being the highest) in October 1989 to a 1.9 average in November 1990.

The improvements cited by the latest SALP ratings were in the areas of maintenance, emergency preparedness, engineering, and quality control. In addition, an improving trend was noted in the areas of plant operations and security.

#### Operating Statistics

Operating statistics, demonstrating the performance of all three units, are shown in the following table. As the table illustrates, the performance of Unit 1 since commercial operation date is below industry average and Units 2 and 3 have performed at about average.

The performance of all three units, however, has been well above average for the recent 12-month period from October 1990 through September 1991.

On a longer-term basis, the goal of APS is to achieve a three-year average capability factor of 80% for all three Palo Verde units.

**Comparison of Selected Operating Statistics,  
with Statistics Reported by the  
National Electric Reliability Council (1)**

	<u>Cumulative (2)</u>	<u>Latest 12-months</u>	<u>NERC (3)</u>
<b>Net Energy Generated (MWh) (4)</b>			—
Unit 1 .....	31,237,727	9,482,211	
Unit 2 .....	36,417,697	10,530,645	
Unit 3 .....	26,321,888	8,009,536	
<b>Service Factor (%) (5)</b>			70.5
Unit 1 .....	52.7	87.6	
Unit 2 .....	68.8	97.2	
Unit 3 .....	66.7	75.7	
<b>Equivalent Availability Factor (%) (6)</b>			66.6
Unit 1 .....	50.7	85.6	
Unit 2 .....	65.6	95.2	
Unit 3 .....	63.7	72.3	
<b>Capacity Factor (%) (7)</b>			64.2
Unit 1 .....	51.4	88.7	
Unit 2 .....	67.6	98.5	
Unit 3 .....	65.9	74.9	
<b>Forced Outage Rate (%) (8)</b>			12.6
Unit 1 .....	21.3	1.5	
Unit 2 .....	7.4	2.8	
Unit 3 .....	8.4	5.3	

(1) All data actual through September 1991.

(2) Cumulative data since commercial operation date:

Unit 1 — January 27, 1986.

Unit 2 — September 18, 1986.

Unit 3 — January 19, 1988.

(3) Based on operating record of 35 nuclear units using pressurized water reactors, 1,000+ MWe size. Represents average operating performance during the five-year period 1986-1990.

(4) The Net Energy Generated is the power available for delivery to the ANPP Switchyard.

(5) The Service Factor is the percentage of time in a specified time period a unit was "on line" producing power.

(6) The Equivalent Availability Factor is the percentage of time in a specified time period a unit was available to produce power, adjusted for derating of unit capacity during the period the unit was available.

(7) The Capacity Factor is the actual net energy generation during a specified time period expressed as a percentage of net energy generation which would have been produced had the unit operated at Maximum Net Dependable Capacity throughout the period.

(8) The Forced Outage Rate is the percentage of time that a unit was forced to be out of service during a period when the unit otherwise would have been connected to the electric system. This period excludes those hours when the unit was scheduled to be out of service, e.g., refueling outages and periods of planned maintenance.

# **Authority's Interest Annual Cost of Energy from PVNGS**

The following table shows the actual (unaudited) 1991, budgeted 1992 and projected 1993 annual cost of energy for the Authority's Interest at the high voltage bus of the ANPP High Voltage Switchyard. The budgeted and projected amounts are based on certain assumptions made by the Department, as the Authority's agent. To the extent that actual future conditions vary from those assumed in preparing the budget and projections, the actual results will vary from those set forth herein.

## **Palo Verde Nuclear Generating Station Authority's Cost of Energy (dollars in thousands)**

	Fiscal Year Ending June 30		
	1991	1992	1993
Debt Service .....	\$ 86,098	\$ 86,290	\$ 85,943
Operation and Maintenance .....	19,483	23,964	23,715
Administrative and General .....	4,461	5,134	5,647
Insurance .....	740	1,152	1,267
Nuclear Fuel .....	10,442	8,343	7,938
Renewals and Replacements.....	5,598	2,890	2,955
Taxes .....	11,251	10,626	11,688
Subtotal Project.....	\$138,073	\$138,399	\$139,153
Less: Interest Earnings.....	11,838	10,788	10,249
Total Project .....	\$126,235	\$127,611	\$128,904
Total Project Unit Cost (Mills/KWH) .....	78.60	86.52	83.81
Total ANPP Transmission System Rights .....	\$ 1,990	\$ 1,721	\$ 1,702
Total ANPP Transmission System Rights Unit Cost (Mills/KWH) .....	1.24	1.17	1.11
Total Cost of Power to Authority .....	\$128,225	\$129,332	\$130,606
Energy Delivered (000 MWH) .....	1,606	1,475	1,538
Total Average Unit Cost (Mills/KWH) .....	79.84	87.68	84.92



## THE PROJECT PARTICIPANTS

### General

The Project Participants, each of which has executed a Power Sales Contract with the Authority, are the Department, the District, the City of Riverside, the City of Vernon, the City of Burbank, the City of Glendale, the City of Pasadena, the City of Azusa, the City of Banning and the City of Colton. Although a member of the Authority, the City of Anaheim is not a Project Participant. Each of the Project Participants owns and operates an electric system for the distribution of electric energy to its retail customers. This section briefly describes the Project Participants. For additional information about the Project Participants and their respective electric systems, see Appendix A hereto.

### Historical Operations

The following tables summarize certain historical operating statistics of the Department and the other Project Participants' electric systems, respectively. See Appendix A hereto for more detailed information.

#### Historical Number of Customers, Energy Sales and Operating Revenues for the Department

Fiscal Year Ending June 30	Average Number of Customers	% Increase (1)	Energy Sales (MWh)	% Increase (1)	Peak Demand (MW)	% Increase (1)	Operating Revenues (\$000)	% Increase (1)	Revenues per kWh (Mills)	% Increase (1)
1987 .....	1,275,920	—	20,540	—	4,744	—	1,403,441	—	68.33	—
1988 .....	1,304,603	2.25	21,106	2.76	4,822	1.64	1,570,028	11.87	74.39	8.87
1989 .....	1,325,275	1.61	21,898	3.75	4,774	(1.00)	1,716,321	9.32	78.38	5.36
1990 .....	1,341,103	1.19	21,764	(0.61)	5,312	11.27	1,849,893	7.78	85.00	8.45
1991 .....	1,357,785	1.24	21,870	0.49	5,274	(0.72)	1,811,955	(2.05)	82.85	(2.53)
Compound Annual Growth Rate 1987-1991 .....		1.57%		1.58%		2.68%		6.60%		4.93%

(1) Over previous year.

#### Historical Number of Customers, Energy Sales and Operating Revenues for All Project Participants Excluding the Department

Fiscal Year Ending June 30	Number of Customers (1)	% Increase (2)	Energy Sales (MWh) (1), (3)	% Increase (2)	Peak Demand (MW) (1), (4)	% Increase (2)	Operating Revenues (1) (\$000)	% Increase (2)	Operating Revenues per kWh (1) (Mills)	% Increase (2)
1987 .....	351,612	—	7,023,253	—	1,697.1	—	489,911	—	69.76	—
1988 .....	362,938	3.22	7,409,443	5.50	1,764.4	3.97	555,047	13.30	74.91	7.39
1989 .....	375,047	3.34	7,941,257	7.18	1,892.3	7.25	628,681	13.27	79.17	5.68
1990 .....	386,011	2.92	8,207,503	3.35	2,085.3	10.20	659,742	4.94	80.38	1.54
1991 (5) .....	391,356	1.38	7,782,779	(5.17)	1,996.8	(4.24)	647,383	(1.87)	83.18	3.48
Compound Annual Growth Rate 1987-1991 .....		2.71%		2.60%		4.15%		7.22%		4.50%

(1) District data has been adjusted, on an average annual basis, from calendar year to year ending June 30.

(2) Over previous year.

(3) Excludes Bonneville Power Administration exchange obligation.

(4) Non-Coincidental.

(5) Preliminary, unaudited data.

## **The Department**

The Department, the largest municipal utility in the United States, is a separate proprietary agency of The City of Los Angeles, controlling its own funds and with full responsibility for meeting the water and electric requirements of The City of Los Angeles. It provides water and electricity services almost entirely within the boundaries of The City of Los Angeles, which encompasses some 465 square miles, to a population of approximately 3.5 million.

Administration of the Department is under the direction of a five-member Board of Water and Power Commissioners. The Board of Water and Power Commissioners fixes the Department's electric rates, subject to the approval of the City Council, by ordinance. The Department's rates are not regulated by any California state agency and are not subject to approval by any Federal agency, but the Department is subject to certain ratemaking provisions of the Federal Public Utility Regulatory Policies Act of 1978.

The Department's maximum net hourly peak demand, 5,312 MW, occurred in June 1990. The power supply of the Department consists primarily of its own generating resources, part of which are located within the Los Angeles Basin, and its 491 MW entitlement from the Hoover Power Plant. As of June 30, 1991, the Department had a net dependable system capability of 7,522 MW, which is owned or operated generation. Steam electric generating capability was equal to 74% of the system's total net capability and owned or operated hydroelectric generating capacity accounted for 26% of such capability. Purchases are made on a day to day or week to week basis that will alter these percentages. The Department estimates that its capital expenditures for power generating and distribution facilities for the five-year period which began July 1, 1991 will total approximately \$2.7 billion.

## **Imperial Irrigation District**

The District is a publicly-owned water and power utility located in southern California. The gross area served by the District is approximately 6,471 square miles in Imperial County and the Coachella Valley of Riverside County. The power supply of the District consists of hydroelectric units on the All-American Canal and oil- and gas-fired generating facilities, as well as purchases of capacity and energy from other sources. In the twelve months ended June 30, 1991, the District experienced a peak demand of approximately 519 MW, generated 683,895 MWh and purchased 1,482,111 MWh.

Administration of the District is under the direction of a five-member Board of Directors. Electric rates are set by the Board of Directors after a series of public hearings and presentations to the city councils of the cities located within the District's service area. The District's electric rates are not subject to regulation by any California state agency and are not subject to approval by any Federal agency, but the District is subject to certain rate making provisions of the Public Utility Regulatory Policies Act of 1978.

## **Cities of Riverside, Vernon, Azusa, Banning and Colton**

The cities of Riverside, Vernon, Azusa, Banning and Colton each are municipal corporations existing under the laws of the State of California; each owning and operating electric public utilities for their respective citizens, providing electric service to virtually all of the electric customers within the respective city limits, which together encompass a total of approximately 128 square miles. The principal facilities of the cities' electric systems are sub-transmission and distribution lines aggregating approximately 1,619 circuit miles of transmission lines, and for the City of Riverside, 782 circuit miles of street lighting distribution lines, as of June 30, 1991.

Electric rates for the City of Riverside are established by the Riverside Board of Public Utilities, subject to approval of the Riverside City Council. Electric rates for the other cities are established by the respective city councils. None of these electric rates are subject to regulation by any California state agency. The cities of Riverside and Vernon (because of the magnitude of their energy sales) are subject to certain rate making provisions of the Public Utility Regulatory Policies Act of 1978.

Riverside, Azusa, Banning and Colton operate their respective electric systems and obtain their bulk power supply in accordance with provisions of their respective 1990 Integrated Operations Agreements ("IOA"), which each city has executed with Edison. Each IOA provides, among other things, that the requirements of each city's electric system will be met by generating resources in which each such city has a contractual or ownership interest and, to the extent required, by wholesale purchases from Edison.

The City of Riverside has a 1.79% ownership interest, approximately 38.49 MW, in the San Onofre Nuclear Generating Station, Units 2 and 3 ("San Onofre"). San Onofre Unit 2 commenced commercial operation in October 1983 and Unit 3 commenced commercial operation in April 1984.

At this time the cities of Riverside, Vernon, Azusa, Banning and Colton receive power and energy from their respective Project Entitlements in Unit 1, Unit 2 and Unit 3, Hoover Entitlements and short term firm purchases and purchase interruptible energy from other utilities and governmental agencies when it is available at an economically attractive price and transmission is available. The City of Riverside also has a 7.61% generation entitlement share in IPP (121.87 MW). The City of Riverside has entered into a power sales agreement with Deseret Generation Transmission Co-operative ("Deseret") pursuant to which the City of Riverside has agreed to purchase 46.69 MW, plus losses which are to be determined between IPP and the Mona 345-kV bus, of firm capacity and associated energy. Riverside's contract also provides Deseret with first rights to supply the City of Riverside with certain economy and replacement energy. The City of Riverside has entered into a Firm Peaking Capacity Sale/Exchange Agreement with the Bonneville Power Administration pursuant to which Riverside purchases 23 MW of capacity during the summer and 16 MW of capacity during the winter. This agreement was executed on June 15, 1990 and will remain in effect for twenty (20) years. The City of Vernon receives power and energy from its diesel units and a recently installed gas turbine.

The City of Banning has issued \$2,570,000 of Certificates of Participation to fund the Banning Hydroelectric Project that generates approximately 829 kW and up to 1,260 MWh annually.

#### **Cities of Burbank, Glendale and Pasadena**

The cities of Burbank, Glendale and Pasadena are each municipal corporations existing under the laws of the State of California, owning and operating electric public utilities providing electric service to virtually all of the electric customers within their respective city limits.

Electric rates for each city are fixed by its City Council and are not subject to regulation by any California state agency. Each city is subject to certain ratemaking provisions of the Public Utility Regulatory Policies Act of 1978.

Burbank, Glendale and Pasadena supply electricity to their respective electric systems through a combination of oil- and gas-fired generating facilities located in the Los Angeles Basin, 34 MW of hydroelectric generation at the Hoover Power Plant and purchases from the Bonneville Power Administration and other utilities in the Northwest and Southwest. In the twelve months ended June 30, 1991, the three cities generated an aggregate of 647,625 MWh of energy and purchased an aggregate of 2,689,454 MWh.

#### **Other Projects of the Project Participants**

*Intermountain Power Project.* In 1977, several Utah municipalities organized the Intermountain Power Agency ("IPA"), a political subdivision of the State of Utah. The purpose of IPA is to provide for the financing, constructing and operation of the Intermountain Power Project ("IPP"). IPP consists of (a) a two unit, 1,600 MW net coal-fired, steam-electric generation station located near Lynndyl, Utah; (b) the Southern Transmission System; (c) two 50-mile 345 kV AC transmission lines from the generation station to a switchyard near Mona, Utah and a 230 kV AC transmission line from the generation station to a switchyard near Ely, Nevada; and (d) a railcar service center.

In 1980, the Department and the cities of Anaheim, Burbank, Glendale, Pasadena and Riverside (the "California IPP Purchasers") each entered into a power sales contract with IPA which obligates each such Purchaser to purchase, on a "take or pay" basis, a percentage share of IPP capacity and energy. The Department and the cities of Burbank, Glendale and Pasadena also entered into an Excess Power Sales Agreement, also on a "take or pay" basis, with the Utah municipal and cooperative IPP purchasers, pursuant to which IPP generation entitlement projected to be surplus to such Utah purchasers' needs will be made available to the Department and the cities of Burbank, Glendale and Pasadena. In early 1983, each IPP Purchaser entered into amendments to its power sales contract and the Excess Power Sales Agreement. All California IPP Purchasers except Glendale also entered into Lay-off Power Purchase Contracts (the "Lay-off Contracts") with IPA and Utah Power & Light Company ("UP&L") through which UP&L assigned portions of its entitlement to IPP capacity and energy to such Purchasers.

The IPP generation entitlement of each of the California IPP Purchasers resulting from the power sales contracts, as amended, and the Lay-off Contracts is shown in the following table:

	Percentage Share	Generating Capability (kW)
Los Angeles Department of Water and Power .....	44.617%	713,872
City of Anaheim .....	13.225	211,600
City of Riverside .....	7.617	121,872
City of Pasadena .....	4.409	70,544
City of Burbank .....	3.371	53,936
City of Glendale .....	1.704	27,264
Total .....	74.943%	1,199,088

The California IPP Purchasers receive, pursuant to the power sales contracts, as amended, and the Lay-off Contracts, approximately 1,169 MW of capacity and, assuming both IPP generating units operate at a 70% plant factor, 7,170,458 MWh of energy annually, after losses, at the Adelanto point of delivery. The amounts of generating capability that will be available pursuant to the Excess Power Sales Agreement, as amended, will vary in accordance with the provisions of that Agreement. Presently, and through March 24, 1999, according to the most recent forecasts furnished pursuant to terms of the Excess Power Sales Agreement, as amended, the quantities of capacity and energy that will be available at the Adelanto point of delivery are approximately 328 MW and, assuming a 70% plant factor, approximately 2,011,296 MWh annually.

The Department has executed agreements to provide transmission service from the Adelanto Converter Station as necessary to enable the other five California IPP Purchasers to accept delivery of their shares of IPP generation.

Construction of IPP is essentially complete. Both generating units at IPP have been in commercial operation since May 1, 1987. Despite the occurrence of operating problems normally expected in a new generating facility and certain abnormal conditions, IPP has to date operated with a high degree of availability.

*Southern Transmission System.* Certain of the Project Participants have entitlements in the Southern Transmission System. See "Southern California Public Power Authority — Other Activities of the Authority" for a discussion of this project.

*White Pine Power Project.* Certain of the Project Participants propose to participate in the White Pine Power Project. See the caption "The Department of Water and Power of The City of Los Angeles — Power System Additions — White Pine Power Project" in Appendix A hereto.

*Hoover Upgrading Project.* The cities of Anaheim, Riverside, Burbank, Azusa, Colton and Banning have allocations of capacity and associated energy from the Hoover Upgrading Project. See "Southern California Public Power Authority — Other Activities of the Authority" for a discussion of this project.

*Mead-Phoenix Transmission Project.* Certain of the Project Participants have entitlements in the Authority's interest in the Mead-Phoenix Transmission Project. See "Southern California Public Power Authority — Other Activities of the Authority" for a discussion of this proposed project.

*Mead-Adelanto Transmission Project.* Certain of the Project Participants have entitlements in the Authority's interest in the Mead-Adelanto Transmission Project. See "Southern California Public Power Authority — Other Activities of the Authority" for a discussion of this proposed project.

*Adelanto-Lugo Transmission Project.* Certain of the Project Participants propose to participate in the Adelanto-Lugo Transmission Project. See "Southern California Public Power Authority — Other Activities of the Authority" for a discussion of this proposed project.

*Devers-Palo Verde #2 Transmission Line.* Certain of the Project Participants propose to participate in the Devers-Palo Verde #2 Transmission Line. See the caption "The Department of Water and Power of The City of Los Angeles — Power System Additions — Devers-Palo Verde #2 Transmission Line" in Appendix A hereto.

*California-Oregon Transmission Project.* The cities of Riverside, Vernon, Azusa, Banning and Colton executed a Memorandum of Understanding, dated as of December 19, 1984, which authorizes these cities, along with other utilities and governmental agencies located in California, to study the construction of the California-Oregon Transmission Project ("COTP"). Such Project relates to possible alternative methods of developing additional 500 kV AC transmission facilities between California and the Pacific Northwest. Certain COTP Participants, including the City of Vernon, have determined to construct the COTP Transmission Facilities. Construction has commenced and is well under way. The cities of Riverside, Azusa, Banning and Colton have determined not to proceed with participation in the acquisition, construction and ownership of the COTP.

*Sylmar Expansion Project.* The Department and the cities of Burbank, Glendale and Pasadena are participants in the Sylmar Expansion Project ("SEP") which is an 1,100 MW expansion of the terminal capacity at the existing AC/DC converter station which is located at Sylmar, California. This Project will increase the capacity of the Pacific Northwest-Southwest DC Intertie ("Intertie") from 2,000 MW to 3,100 MW. The Department is the project manager for the southern terminal of the Intertie and is responsible for the construction of the SEP. The Bonneville Power Administration is the project manager for the northern terminal and is responsible for a similar expansion at the northern converter station of the Intertie in Oregon. The cost of the SEP was approximately \$145,400,000 and the SEP was put in service in April 1989. Each participant is providing its own funding for its share of the SEP.

For a discussion of other projects under consideration by the Department, see "The Department of Water and Power of The City of Los Angeles — Power System Additions" in Appendix A hereto.

#### **AVAILABILITY OF OPERATING FUNDS AND AVAILABLE INFORMATION CONCERNING OTHER OWNERS OF PALO VERDE NUCLEAR GENERATING STATION**

Continued operation of the Project is dependent upon, among other things, the owners making timely payment of their respective payment obligations under the Participation Agreement. The capability of the owners to provide such payment is dependent upon their continued ability to generate the necessary funds from internal or external sources. If an owner defaults in the performance of its obligations under the Participation Agreement, the Participation Agreement provides that the non-defaulting owners shall (in proportion to their Generation Entitlement Shares) remedy the default, either by advancing the necessary funds and/or commencing to render the necessary performance. See "Summaries of Certain Documents — Summary of Certain Provisions of the Participation Agreement — Defaults and Covenants" in Appendix B hereto.

On January 8, 1992, El Paso Electric Company filed for protection under Chapter 11 of the Federal Bankruptcy Act. Since making its Chapter 11 filing, El Paso Electric Company has not made payments regarding certain of its obligations (including certain payments of costs of the Project). The Authority is unable to predict (i) the impact the Chapter 11 proceedings will have on El Paso Electric Company's performance of its obligations under the Participation Agreement, or (ii) what costs will be incurred

by the Authority and the other owners of the Project if El Paso Electric Company fails to perform obligations under the Participation Agreement.

Information concerning other owners of the Project is available from a number of sources.

APS, Edison, El Paso Electric Company and Public Service Company of New Mexico, respectively, are subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith file reports and other information with the SEC, which can be inspected and copied at the offices of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C.; Room 1204, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois; 14th Floor, 75 Park Place, New York, New York; and Suite 500 East, 5757 Wilshire Boulevard, Los Angeles, California. Copies of such material can also be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office at 450 Fifth Street, N.W., Washington, D.C. 20549. Certain securities of APS and Edison, respectively, are listed on the New York and Pacific Stock Exchanges. Reports, proxy material and other information concerning APS and Edison can be inspected at the respective offices of these exchanges located on the 7th Floor, 20 Broad Street, New York, New York, and on the 2nd Floor, Listings Department, 115 Sansome Street, San Francisco, California. Information regarding Edison, which is also listed on the American Exchange, may also be obtained at the offices of the American Exchange at 86 Trinity Place, New York, New York. Information regarding Public Service Company of New Mexico, which is listed on the New York Stock Exchange, may be obtained at said Exchange's offices listed above.

Copies of the most recent official statement and annual report of the Department may be obtained from Ronald L. Flodine, Department of Water and Power, 333 South Beaudry, 18th Floor, Los Angeles, California 90012.

Copies of the most recent official statement and annual report of Salt River Project may be obtained from Mark B. Bonsall, Associate General Manager of Financial Information and Planning Services, Box 52025, Phoenix, Arizona 85072-2025.

#### LETTER OF THE DEPARTMENT

As stated in the letter of the Department attached hereto as Appendix E, based upon, among other things, the Department's studies and analyses which have included projections with respect to, among other things, the estimated cost of power from the Authority Interest, the estimated cost and availability of oil and natural gas, future load growth in The City of Los Angeles, and the estimated future electric system revenue requirements, all as estimated by the Department, the Department is of the opinion that:

1. The Department's share of the output from the Authority Interest will, over time, be economically beneficial to the Department in displacing base load oil- and natural gas-fired generation in the Los Angeles basin;
2. The projected cost of power to the Department from its share of the Authority Interest makes such power economically attractive in the long term to the Department when compared with the projected price levels of oil and natural gas and with the projected cost of power from other alternative resources which may be available to the Department; and
3. For the period through June 30, 1996, the Department's electric system revenues will be sufficient to enable it to pay the Authority all amounts payable under the Department's Power Sales Contract and to pay all other amounts payable from, and all liens on and lawful charges against, the Department's power system revenues.

#### CERTAIN FACTORS AFFECTING THE UTILITY INDUSTRY AND TAKE OR PAY POWER SUPPLY AGREEMENTS

The electric utility industry has experienced and is experiencing various problems, including the effect of inflation on the cost of construction and operation of utility facilities, the fluctuating costs and

uncertain availability of fuel, particularly fossil fuels, compliance with new legislation, the uncertain availability and increased cost of capital, cancellation of projects and related contractual litigation, and environmental regulations, licensing procedures, litigation and other factors which may delay the construction and increase the cost of new facilities, the cost of power or limit use of, or necessitate costly modifications to, existing facilities.

Federal energy legislation enacted in 1978 authorizes the President to allocate coal supplies in the event of an energy supply interruption or fuel supply shortage, authorizes the Federal Energy Regulatory Commission to order mandatory interconnection and wheeling and to review automatic rate adjustment clauses and directs state regulatory authorities and nonregulated utilities to consider certain standards for rate design and other utility procedures. The Authority is unable to determine the effect such legislation may have on its operations and those of the Project Participants.

In June 1983, the Supreme Court of the State of Washington held invalid the "take or pay" participation agreements between the Washington Public Power Supply System (the "Supply System"), a joint action power agency, and certain State of Washington public entities relating to two terminated nuclear generating projects of the Supply System. The Court held that those public entities lacked statutory authority under Washington law to enter into such participation agreements. Following the Court's decisions, the Superior Court of King County, Washington held unenforceable the "take or pay" participation agreements entered into between the Supply System and the 88 participants in the two terminated nuclear generating projects. The Superior Court's decision was affirmed by the Supreme Court of the State of Washington. A petition seeking review of that decision was denied by the United States Supreme Court. In March 1984, the Supreme Court of the State of Oregon unanimously reversed a lower court decision and upheld the authority of Oregon public entities to enter into the "take or pay" participation agreements. Additionally, the Supreme Court of the State of Idaho in September 1983 held that the "take or pay" participation agreements entered into between the five Idaho cities and the Supply System are void because the Idaho cities failed to comply with a constitutional provision requiring voter approval before incurring indebtedness or liability exceeding a certain amount.

Notwithstanding the foregoing litigation and decisions, the Authority believes that the Power Sales Contracts are valid, binding and enforceable obligations of the Project Participants. Mudge Rose Guthrie Alexander & Ferdon, Bond Counsel, are of the opinion that none of these decisions affect the validity of the Power Sales Contracts. See the proposed form of the opinion of Bond Counsel attached hereto as Appendix D.

## LITIGATION

At the time of delivery of the Series A Special Obligation Bonds, the Series B Special Obligation Bonds and the Series C Bonds, an appropriate officer of the Authority will certify that there is no litigation or other proceeding pending or, to the knowledge of the Authority, threatened in any court, agency or other administrative body (either state or Federal) restraining or enjoining the issuance, sale or delivery of the Crossover Bonds and the Series C Bonds or the collection of Revenues, or in any way questioning or affecting (i) the proceedings under which the Crossover Bonds and the Series C Bonds are to be issued, (ii) the validity of any provision of the Crossover Bonds, the Series C Bonds, the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture or the Bond Indenture, (iii) the pledge by the Authority under the Bond Indenture, (iv) the validity or enforceability of the Power Sales Contracts, (v) the legal existence of the Authority or the title to office of the present officials of the Authority, or (vi) the authority of the Authority to own and operate the Authority Interest.

### Project-Related Litigation

A summons served on APS in early 1986 required all water claimants in the Lower Gila River Watershed in Arizona to assert any claims to water on or before January 20, 1987, in an action entitled *In Re the General Adjudication of All Right to Use Water in the Gila River System and Source*, pending in

the Maricopa County Superior Court. The Project is located within the geographic area subject to the summons, and the right of the Project participants, including the Authority, to the use of groundwater and effluent at the Project is potentially at issue in this action. APS, as project manager for the Project, filed claims challenging the jurisdiction of the court over the Project participants' groundwater rights and their contractual rights to effluent relating to the Project, and alternatively, seeking confirmation of such rights. No trial date has been set in the proceeding.

On June 29, 1990, a new Arizona tax law was enacted, effective as of December 31, 1989, which provided for an additional property tax on mines and utilities. On December 20, 1990, the Palo Verde owners, including the Authority, filed a lawsuit in the Arizona Tax Court, a division of the Maricopa County Superior Court, against the Arizona Department of Revenue, the Treasurer of the State of Arizona, and various Arizona counties, claiming, among other things, that portions of the new tax law are unconstitutional. The Authority cannot currently predict the outcome of this matter.

Legal proceedings relating to water rights and certain other matters (*Tumbling T Ranches, et al. v. City of Phoenix, et al.*; *Arizona Public Service Co., et al. v. Long, et al.*; *Long, et al. v. Salt River Project, et al.*; and *City of Phoenix et al. v. John F. Long*) have been settled or favorably terminated with respect to the Project participants. An action filed by the participants in the Project against Combustion Engineering Incorporated for breach of contract and the cross-complaint by Combustion Engineering Inc. for monetary damages has also been resolved.

For a description of the legal proceedings relating to *Salt River Pima-Maricopa Indian Community v. United States et al.*, see "Project Participants — The Department of Water and Power of The City of Los Angeles — Litigation" in Appendix A hereto.

#### FEDERAL AND STATE INCOME TAXES

The Internal Revenue Code of 1986, as amended ("the Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Crossover Bonds and the Series C Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Crossover Bonds and the Series C Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Crossover Bonds and the Series C Bonds. These requirements include, but are not limited to, provisions which prescribe yield and other limits within which the proceeds of the Crossover Bonds and the Series C Bonds are to be invested and require, under certain circumstances, that certain investment earnings on the foregoing be rebated on a periodic basis to the Treasury Department of the United States of America. The Authority has covenanted in the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture, the Eleventh Supplemental Indenture of Trust, the Twelfth Supplemental Indenture of Trust and the Thirteenth Supplemental Indenture of Trust to comply with each applicable requirement of the Code necessary to maintain the exclusion of the interest on the Crossover Bonds and the Series C Bonds from gross income for Federal income tax purposes.

In the opinion of Mudge Rose Guthrie Alexander & Ferdon, Bond Counsel, under existing law, interest on the Crossover Bonds and the Series C Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Crossover Bonds and the Series C Bonds is excluded from gross income for Federal income tax purposes. Bond Counsel is also of the opinion that the Crossover Bonds and the Series C Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code and, therefore, interest on the Crossover Bonds and the Series C Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code.

Bond Counsel is further of the opinion that the difference between the principal amount of the Crossover Bonds and the Series C Bonds maturing on July 1, 1999 through July 1, 2005, and the Series C Bonds maturing on July 1, 2007 through July 1, 2017 (collectively, the "Discount Bonds") and the



initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on any Series C Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.

However, interest on the Crossover Bonds and the Series C Bonds owned by corporations will be taken into account: (1) in determining the alternative minimum tax imposed by Section 55 of the Code on 75 percent of the excess of adjusted current earnings over alternative minimum taxable income (determined without regard to this adjustment and the alternative tax net operating loss deduction); (2) in calculating the environmental tax equal to 0.12 percent of a corporation's modified alternative minimum taxable income in excess of a certain amount (generally \$2 million) imposed by Section 59A of the Code; and (3) in determining the foreign branch profits tax imposed on the effectively connected earnings and profits (with adjustments) of United States branches of foreign corporations by Section 884 of the Code.

Bond Counsel is further of the opinion that, under current law, (1) a holder of a Series A Special Obligation Bond who exchanges such Series A Special Obligation Bond for a Series A Bond on or after July 1, 1995 will not, solely as a result of such exchange, recognize any gain or loss on such exchange for Federal income tax purposes and (ii) a holder of a Series B Special Obligation Bond who exchanges such Series B Special Obligation Bond for a Series B Bond on or after July 1, 1996 will not, solely as a result of such exchange, recognize any gain or loss on such exchange for Federal income tax purposes.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Crossover Bonds and the Series C Bonds may affect the tax status of interest on the Crossover Bonds and the Series C Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Crossover Bonds and the Series C Bonds from gross income for Federal income tax purposes.

Although Bond Counsel has rendered an opinion that interest on the Crossover Bonds and the Series C Bonds is excluded from gross income for Federal income tax purposes, a Bondholder's Federal tax liability may otherwise be affected by the ownership or disposition of the Crossover Bonds and the Series C Bonds. The nature and extent of these other tax consequences will depend upon the Bondholder's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Crossover Bonds and the Series C Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Crossover Bonds and the Series C Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Crossover Bonds and the Series C Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Crossover Bonds and the Series C Bonds, (iii) interest on the Crossover Bonds and the Series C Bonds earned by some corporations could be subject to the environmental tax imposed by Section 59A of the Code, (iv) interest on the Crossover Bonds and the Series C Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (v) passive investment income, including interest on the Crossover Bonds and the Series C Bonds, may be subject to Federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (vi) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Crossover Bonds and

the Series C Bonds. Bond Counsel has expressed no opinion regarding any such other tax consequences.

### UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Series A Special Obligation Bonds, the Series B Special Obligation Bonds and the Series C Bonds from the Authority at an aggregate Underwriters' discount of \$938,650.66 from the respective initial public offering prices set forth on the inside front cover of this Official Statement and to make a bona fide public offering of the Series A Special Obligation Bonds, the Series B Special Obligation Bonds and the Series C Bonds at not in excess of the respective public offering prices, plus accrued interest. The Underwriters will be obligated to purchase all the Series A Special Obligation Bonds, the Series B Special Obligation Bonds and the Series C Bonds if any of the Series A Special Obligation Bonds, the Series B Special Obligation Bonds or the Series C Bonds are purchased.

The Series A Special Obligation Bonds, the Series B Special Obligation Bonds and the Series C Bonds may be offered and sold to certain dealers (including Underwriters and other dealers depositing such Bonds into investment trusts) at prices lower than the respective public offering prices, and the public offering prices may be changed, from time to time, by the Underwriters.

### CERTAIN LEGAL MATTERS

Certain legal matters in connection with the authorization and issuance of the Crossover Bonds and the Series C Bonds are subject to the approval of Mudge Rose Guthrie Alexander & Ferdon, Los Angeles, California, Bond Counsel. The form of opinion Bond Counsel proposes to render with respect to the Crossover Bonds and the Series C Bonds is attached as Appendix D hereto. Copies of such opinion will be provided to the original purchasers without charge. Certain legal matters with respect to the Authority will be passed upon by its special counsel, Rourke & Woodruff, a Professional Corporation, Orange, California. Certain legal matters will be passed upon for the Underwriters by O'Melveny & Myers, Counsel to the Underwriters.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of, among other things, (i) the mathematical computations of the adequacy of the principal of and interest on the Series A Eligible Investments to be held in the Series A Special Escrow Fund to pay when due interest on the Series A Special Obligation Bonds to and including the Series A Crossover Date and to pay, on the Series A Crossover Date, the redemption price of the Series A Refunded Bonds or, if the Series A Bonds are not delivered, the redemption price of the Series A Special Obligation Bonds, as the case may be, (ii) the mathematical computations of the adequacy of the principal of and interest on the Series B Eligible Investments to be held in the Series B Special Escrow Fund to pay when due interest on the Series B Special Obligation Bonds to the Series B Crossover Date and to pay, on the Series B Crossover Date, the redemption price of the Series B Refunded Bonds or, if the Series B Bonds are not delivered, the redemption price of the Series B Special Obligation Bonds, as the case may be, (iii) the mathematical computations of the adequacy of the principal of and interest on the Government Obligations to be held in the Series C Escrow Fund to pay when due the principal of and interest on the Series C Refunded Bonds, (iv) certain mathematical computations supporting the conclusion that the Crossover Bonds and the Series C Bonds are not "arbitrage bonds" under the Code will be verified by Ernst & Young, independent certified public accountants.

## MISCELLANEOUS

During the initial offering period for the Crossover Bonds and the Series C Bonds, copies of the Authority's audited financial statements for the year ended June 30, 1991 may be obtained upon written request from the Executive Director of the Authority, 200 South Los Robles Avenue, Suite 155, Pasadena, California 91101, and copies of the forms of the Power Sales Contracts, the Bond Indenture, the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture, the Participation Agreement, the Agency Agreement, and the Transmission Agreement may be obtained upon written request from The First Boston Corporation, Park Avenue Plaza, 37th Floor, New York, New York 10055, Attention: Public Finance Department Division.

## SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

By: /s/ Ronald V. Stassi  
President

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## THE PROJECT PARTICIPANTS

*The information contained in this Appendix has been furnished to the Authority by the respective Project Participants. This Appendix presents information as of the respective dates set forth herein. Neither the Authority nor any Project Participant makes any representations regarding the accuracy of this information subsequent to such dates.*

### THE DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS ANGELES

The Department of Water and Power of The City of Los Angeles (the "Department") is a separate proprietary agency controlling its own funds with full responsibility for meeting the water and electric requirements of its service area. There follows certain information concerning the Department prepared by the Department for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the Department's business, operations and financial position. A copy of the most recent annual report and the most recent official statement prepared by the Department for the issuance of securities for its power system may be obtained from: Ronald L. Flodine, Department of Water and Power, 333 South Beaudry, 18th Floor, Los Angeles, California 90012.

#### Organization

The Department, the largest municipal utility in the United States, exists under and by virtue of the Charter of The City of Los Angeles adopted in January 1925, as amended. It provides water and electric services almost entirely within the boundaries of The City of Los Angeles, which encompasses some 465 square miles, to a population of approximately 3.5 million. The electric properties and operations of the Department are referred to herein as the "Power System."

Administration of the Department is under the direction of a five-member Board of Water and Power Commissioners (the "Board"), traditionally selected from among prominent business, professional and civic leaders in the City. They are appointed for terms of five years each by the Mayor and confirmed by the City Council. The members of the Board serve without compensation except for an attendance fee of fifty dollars each for each Board meeting they attend, not to exceed two hundred fifty dollars in any calendar month. Certain matters regarding the administration of the Department also require the approval of the City Council.

The management and operation of the Department is under the direction of the General Manager and Chief Engineer. The Power System is directed by the Assistant General Manager — Power. External affairs are under the guidance of the Assistant General Manager — External and Organizational Services. Financial affairs are under the guidance of the Chief Financial Officer, and legal counsel is provided by the City Attorney and the Chief Assistant City Attorney for Water and Power.

On June 4, 1991, the electorate of the City approved an amendment to the City Charter that makes all actions of City commissions and boards, including the Board, subject to review by the City Council. Section 32.3 of the City Charter provides that actions of City commissions and boards shall become final at the expiration of the next five meeting days of the Council during which the City Council has convened in regular session, unless the City Council acts within that time by a two-thirds vote to bring such commission or board action before it for consideration. If the City Council asserts such jurisdiction, such action shall not be deemed final or approved and the City Council has the same authority to act on the matter by majority vote as that originally held by the board or commission. The City Charter provision further provides that unless the City Council acts on a matter within twenty-one (21) days after voting to bring the matter for review, the commission's or board's action on the matter will be final.

The personnel functions of the Department are conducted in accordance with the civil service system established by the Los Angeles City Charter which is applicable to almost all Department employees. Under this system, appointments are made on the basis of merit through competitive examinations and civil service procedures. The position of General Manager and Chief Engineer and a few other management positions are specifically exempted from the classified civil service under provisions of the Charter.

Wages and salaries paid all Department employees are fixed by the City Council. In accordance with a State Act (the Meyers-Milias-Brown Act) and a conforming Los Angeles City Ordinance (the Employee Relations ordinance) fourteen bargaining units covering approximately 11,200 persons, or 94% of all Department employees, have been established since 1975. Six labor or professional organizations represent the employees' bargaining units. In the bargaining process, memoranda of understanding are developed which set forth wages, hours, overtime and other terms and conditions of employment. After appropriate approval by the City Council, the memoranda are binding upon the Department, City Council and the respective employees' unions and organizations. Memoranda of Understanding have been entered into with approximately 99% of bargaining unit employees extending through September 30, 1992. Negotiations are currently in progress to reach new memoranda of understanding with the remaining 1% of bargaining unit employees.

In cooperation with its employees, a funded retirement, disability and death benefit insurance plan is maintained by the Department which is amended from time to time with respect to benefits and to reflect appropriate actuarial standards. Funding is by both Department and employee contributions and is designed to meet all accrued retirement plan costs. Department contributions are determined on the basis of the entry-age normal-cost funding method, i.e., a determination of the level contribution rate which, if contributed on behalf of all new employees from the dates of employment to the dates of separation from service, will be adequate to provide for all of their benefits, taking into account earnings and employee contributions. Total past service liability is being funded over a 30-year period which began in 1972. The Charter requires a general survey and actuarial report of the plan at least once every five years, and the Department conducts an actuarial study annually, or whenever there is a change in plan benefits. See Note G under the caption "The Department of Water and Power of The City of Los Angeles — Financial."

### The Power System

The Power System, which was authorized by an amendment to the City Charter in 1911, began distributing electrical energy in 1916 and generating its own power in 1917. A significant addition to the Power System occurred in 1922 when the distribution facilities of the Southern California Edison Company ("Edison") within the City were purchased. However, not until 1937, when the generation and distribution properties of the Los Angeles Gas and Electric Corporation were acquired, did the Power System become the sole distributor of electric power in Los Angeles. The Power System is the nation's largest municipal electric utility.

As of September 30, 1991, the Power System had a net dependable system capability of 7,522 megawatts ("MW"). Steam electric generating capacity is equal to 74% of the System's total net capability, and owned hydroelectric generating capacity accounted for 26% of such capability. The portion of the hydroelectric generating capability that can be depended upon for carrying system load is determined by water flow conditions and system load characteristics. The Power System's depreciated properties are valued at approximately \$4 billion as of September 30, 1991.

*Steam Generation:* There has been a notable expansion in steam powered generation under a continuous, long-range program of planning and construction. The Power System's largest generating facility is the Haynes Generating Station with a total plant capacity of 1,570 MW, situated in the City of Long Beach, California. The Haynes Generating Station represents 21% of the Power System's overall capability.

Three additional fossil-fueled plants generate a total of 1,606 MW: the Valley Generating Station in the San Fernando Valley, the Harbor Generating Station in Wilmington and the Scattergood Generating Station situated near El Segundo.

The Department shares ownership in two coal-fueled generating stations, Mohave in Southern Nevada and Navajo in Northern Arizona. The Department's share of Mohave is 20% and amounts to 316 MW of capacity. The Department's share of Navajo is 21.2% which amounts to 477 MW capacity. Additionally, the Department has a generation entitlement share in the Intermountain Power Project ("IPP") in Utah, which, together with the contractual arrangements, amounts to 1,068 MW. See "The Project Participants — Other Projects of the Project Participants" in the Official Statement.

The Department obtained its 5.7% (217 MW) interest in the Palo Verde Nuclear Generating Station ("PVNGS"), Units 1, 2 and 3 on January 29, 1986 when PVNGS Unit 1 attained commercial operation. PVNGS Unit 2 attained commercial operation on September 18, 1986 and Unit 3 reached commercial operation on January 19, 1988. The Department also has a 3.96% (151 MW) generation entitlement share of PVNGS through the Southern California Public Power Authority (the "Authority") ownership interest of 5.91%. See "The Project and the ANPP Transmission System" in the Official Statement.

Natural gas, supplied by the Southern California Gas Company ("SoCal"), is used as fuel for the Department's Los Angeles Basin steam plants whenever available and economical. Low-sulfur, low-ash residual oil is burned when gas is not used.

*Hydroelectric Generation:* The Department's major sources of hydroelectric capacity are the Castaic Power Plant, the Hoover Power Plant, the Owens Gorge Power Plants and smaller plants connected to Los Angeles' reservoirs north of the City. Castaic Power Plant is a hydroelectric pumped storage facility and provides 1,247 MW of peaking capability. The Department's generation entitlement from the Hoover Power Plant of 491 MW is coupled with a fixed annual energy allocation and is used primarily for peaking. The Owens Gorge Power Plants constitute Haiwee, Cottonwood, Division Creek, Big Pine, Pleasant Valley, Upper Gorge, Middle Gorge and Control Gorge Power Plants with an aggregate total capacity of 119 MW under average hydro conditions. The generation from the Owens Gorge Power Plants depends on the stream flow requirements of the Los Angeles-Owens River Aqueduct System. The smaller plants near Los Angeles constitute San Francisquito, San Fernando, Foothill, Franklin and Sawtelle Power Plants with an aggregate total capacity of 81 MW under average hydro conditions.

*Purchased Capability:* The Department purchases capacity and energy from Bonneville Power Administration ("BPA") and other Pacific Northwest utilities to be delivered over the Pacific DC Intertie  $\pm 500$ -kV high-voltage DC line ("Intertie"). These purchases are used by the Department during on-peak hours in conjunction with other resources for economic system operation. In addition, purchases of economy energy are made from utilities in Nevada, Arizona, New Mexico, and Colorado.

The Department has consummated a long term purchase from Utah Power & Light ("UP&L") consisting of an amount of capacity and energy equal to the amount of capacity and energy available to UP&L from its remaining four percent entitlement of IPP. The Department will pay costs associated with UP&L's entitlement in IPP, but the Department has not been assigned UP&L's entitlement rights.

The Department has executed an agreement with The Montana Power Company ("Montana") which will provide the Department with 105 MW of capacity and associated energy at the Nevada-Oregon border for delivery on the Intertie for 21 years. The Department will pay Montana costs associated with the Colstrip Project, however, the Department will not have an ownership right in Colstrip.

### System Capability and Power Production

Power Source	Type of Unit	Number of Units	Net Capability (MW)	% of Total Net Capability	Production in gWh(1) Twelve Months Ended June 30				Production in gWh Twelve Months Ended September 30, 1991
					1988	1989	1990	1991	
Haynes .....	Oil/Gas	6	1,570	20.9					
Scattergood .....	Oil/Gas	3	803	10.7					
Valley .....	Oil/Gas	4	493	6.5					
Harbor .....	Oil/Gas	7	310	4.1					
Subtotal .....		<u>20</u>	<u>3,176</u>	<u>42.2</u>	6,179 (25.2%)	6,326 (24.8%)	6,047 (23.9%)	4,023 (15.2%)	3,566 (14.4%)
Navajo .....	Coal	3	477	6.3					
Mohave .....	Coal	2	316	4.2					
IPP(2)(3) .....	Coal	2	1,068	14.2					
Colstrip(3) .....	Coal	—	105	1.4					
Bonanza(3) .....	Coal	—	74	1.0					
Subtotal .....		<u>7</u>	<u>2,040</u>	<u>27.1</u>	12,981 (52.9%)	12,239 (48.0%)	14,562 (57.5%)	13,693 (51.8%)	13,569 (54.7%)
PVNGS(4) .....	Nuclear	3	368	4.9					
Subtotal .....		<u>3</u>	<u>368</u>	<u>4.9</u>	1,659 (6.8%)	1,785 (7.0%)	837 (3.3%)	2,621 (9.9%)	2,703 (10.9%)
Castaic(5) .....	Hydro	7	1,247	16.6					
Hoover(D) .....	Hydro	—	491	6.5					
Owens Gorge, Owens Valley and Aqueduct .....	Hydro	<u>22</u>	<u>200</u>	<u>2.7</u>					
Subtotal(6) .....		<u>29</u>	<u>1,938</u>	<u>25.8</u>	1,801 (7.3%)	1,780 (7.0%)	1,388 (5.5%)	2,407 (9.1%)	1,346 (5.4%)
Purchases .....					1,706 (7.0%)	2,873 (11.2%)	1,907 (7.5%)	3,057 (11.5%)	2,951 (11.9%)
Cogeneration .....					119 (0.5%)	173 (0.7%)	392 (1.5%)	389 (1.5%)	386 (1.6%)
Miscellaneous energy receipts .....					80 (0.3%)	329 (1.3%)	205 (0.8%)	256 (1.0%)	267 (1.1%)
Total .....		<u>59</u>	<u>7,522</u>	<u>100.0</u>	<u>24,525</u> (100.0%)	<u>25,505</u> (100.0%)	<u>25,338</u> (100.0%)	<u>26,446</u> (100.0%)	<u>24,788</u> (100.0%)

- (1) One Gigawatt-Hour ("gWh") equals one million kWh.
- (2) IPP capability includes the Department's entitlement of 714 MW plus contractual purchase of 290 MW. The Department also purchase 64 MW of capacity from Utah.
- (3) This resource is a long-term firm purchase.
- (4) Includes Department's ownership interest of 217 MW and long-term firm purchase through the Authority of 151 MW.
- (5) Castaic capability includes the State of California's contractual entitlement of up to 214 MW, with 59 MW transferred to the State during 1991, plus Edison's Supplier's Settlement entitlement of 200 MW except for a six-week period during the summer.
- (6) Subtotal of hydro production does not include 445 gWh transferred to the State.

**Transmission and Distribution.** Electricity from the Department's hydroelectric and steam power sources is delivered to customers over a complex, reliable transmission and distribution system. To deliver energy from generating plants to the customers, the Department owns and/or operates approximately 18,380 miles of alternating current transmission and distribution circuits operating at voltages ranging from 120 to 500,000 volts.



In addition to utilizing its transmission system for its resources located in other states, the Department transmits energy for others through its system when surplus transmission capacity is available. As the operating agent of the Intertie, IPP Southern Transmission System and Navajo-McCullough Line, the Department transmits energy for the co-owners or participants of these facilities.

#### Power System Loads

The annual rate of growth of both system peak demand and net energy for load, the net system energy generated and purchased for Power System customers, averaged 2.5% for the period 1980-1990.

The December 1990 load forecast, for the period through 2010, is summarized in the following table. The projected rate of growth reflects a reduced rate of population growth within the City, the expected impact of higher consumer costs, and the implementation of demand-side management measures over the next twenty years. The following table also shows the projected generating capacity in megawatts of the Power System through 2010.

Summary of Projected Power Resources and System Loads

Calendar Year	System Peak Demand		System Net Energy for Load		Load Factor	Resources (MW)
	MW	Growth Rate(1)	gWh	Growth Rate(1)		
1990 .....	5,312	—	24,968	—	53.7%	7,459
1995 .....	5,757	1.6%	26,332	1.1%	52.2%	8,028
2000 .....	6,359	2.0%	29,228	2.1%	52.5%	8,444
2005 .....	6,892	1.6%	32,507	2.2%	53.8%	8,887
2010 .....	7,474	1.6%	36,234	2.2%	55.3%	9,246

(1) Five-Year Compounded Annual Growth Rate.

#### Capital Additions and Financing Requirements

The Department's program of planning and construction to satisfy current power requirements and to meet future needs is continually being reviewed, updated and extended. Current estimates indicate that the Department will invest approximately \$2.7 billion in power generation and distribution facilities in the five-year period which began July 1, 1991. Following is a summary of the currently projected Power System capital program for the fiscal years ending June 30, 1992 through 1996 and the projected external financing requirements over the period.

Summary of Power System Capital Program and External Financing Requirements  
(Millions of Dollars)

Fiscal Year Ending June 30	Capital Program (1)	External Financing
1992 .....	\$ 462	\$ 260
1993 .....	586	305
1994 .....	504	260
1995 .....	513	285
1996 .....	554	305
Total .....	<u>\$2,619</u>	<u>\$1,415</u>

(1) Net of reimbursements.

Major components of the capital program over the 1991-92 through 1995-96 period include the following:

- Transmission system improvements related to required base load generation additions totaling approximately \$84 million.
- Continuing additions and improvements to generation system facilities totaling approximately \$640 million.
- Load-related distribution system ongoing additions and betterments totaling approximately \$1,055 million.
- General facilities additions and improvements estimated to be \$427 million.
- Environmental, safety and communications additions and betterments totaling approximately \$92 million.

#### Power System Additions

The Power System has adequate peaking capacity to satisfy its needs in the short-term. It faces a need, however, in the long-term for additional generation capacity to replace existing gas- and oil-fueled units as they reach the ends of their useful operating lives, to replace generating capacity that may be recaptured by other utilities in accordance with contractual arrangements upon termination of contractual rights for the use thereof and to meet the load growth presently expected. Consequently, the Department is engaged in or studying the following projects to provide additional capacity:

*White Pine Power Project:* The Department, in cooperation with White Pine County, Nevada, the California municipalities of Anaheim, Burbank, Glendale, Pasadena, Riverside, and several Nevada utilities, has conducted studies to establish the feasibility of, and proceed with the licensing activities necessary for constructing a coal-fueled generating station near Ely, Nevada. This project would have a capability of approximately 1,500 MW. It is contemplated that White Pine County would own all, or a major portion of, and finance this project through bonds issued by White Pine County which would be secured by power sales contracts entered into with the various purchasers of power from the project. The project participants entered into agreements with White Pine County in the Fall of 1980 for the purpose of conducting a feasibility study. The Department's entitlement percentage share for the feasibility study is approximately 39%. White Pine County issued notes in the principal amount of \$19,929,000 for such purposes, all but \$500,000 principal amount of which have been prepaid. The remaining \$500,000 note matures December 31, 1992 and will be payable from the proceeds of long-term bonds to be issued by White Pine County or from payments by the participants under such agreements on the basis of entitlement shares. The present estimated commercial operation dates for the two 750 MW generating units, if built, are in the late-1990's.

*Geothermal:* In September 1981, the Department bid for and acquired leases from the Bureau of Land Management to develop the geothermal potential on three parcels in the Coso Known Geothermal Resource Area ("KGRA"). The Coso KGRA is located approximately 40 miles south of Lone Pine, in the Owens Valley. Three exploratory wells were drilled during the first half of 1985 to obtain information to assess the quality and viability of the resource. Two of the wells are successful and the third well is used for reinjection. The probable reserves on the Department's leases are currently estimated to be in the 150 to 250 MW range. In April 1990, a request for proposal was issued to solicit proposals from firms interested in developing the leases for the Department. Proposals were received in July 1990 and a short list of three companies was determined. Contract negotiations are in progress.

*Cogeneration:* Cogeneration projects totaling 250 MW nameplate capacity are currently in operation within the Department's service area. Some of these projects are selling excess electric energy to the Department under negotiated agreements. An additional estimated 40 MW of cogenera-

tion are currently in active development and are expected to be operational by 1993 and another 385 MW are contemplated by independent power producers.

*Devers-Palo Verde #2 Transmission Line:* The Department, the Imperial Irrigation District and the cities of Riverside, Vernon, Burbank, Glendale, Pasadena, Azusa, Banning and Colton along with the Southern California Edison Company ("Edison"), as project manager, have undertaken studies to explore the feasibility of constructing a 500-kV, 1200 MW AC transmission line. This proposed Devers-Palo Verde #2 ("DPV2") transmission line, if built, will parallel the existing Devers-Palo Verde #1 ("DPV1") transmission line from the PVNGS to Edison's Devers Substation, which is located west of Desert Hot Springs, California. The Department's participation rights in the proposed project total 30.7%, with an estimated total cost to the participants of \$251 million. Edison originally scheduled this project for completion in June 1993. The project is currently on hold, however, pending further review of the need of the participants for the project.

On December 8, 1988, the California Public Utilities Commission ("CPUC") granted Edison a Certificate of Public Convenience and Necessity for this project with the provision that if the proposed Edison-San Diego Gas & Electric Company merger was still pending as of January 1, 1990, Edison would not commence construction of DPV2 but would petition the CPUC for reevaluation of DPV2 in the context of the then-current status of the proposed merger. Edison responded to the CPUC and received approval to construct DPV2 for completion in June 1993 if \$34 million of revenue enhancements can be generated between 1993 and 1997. As of this date, Edison has been unable to procure such revenue enhancements and may need to reschedule the in-service date to June 1997.

The Department has an agreement with Edison which has been accepted by the Federal Energy Regulatory Commission ("FERC") and a subsequent amendment to the agreement which has been accepted by FERC whereby the Department has the right to construct DPV2. The amendment allows the Department to exercise this right if Edison fails to commence construction before June 1, 1990. In addition, the amendment provides the Department with transmission rights on DPV1 beginning June 1, 1990. The transmission rights continue until the earliest of (1) the in-service date of DPV2, (2) the in-service date of any other transmission line connecting Palo Verde and Edison's Devers Substation in which the Department has obtained either an ownership share or entitlement to transmission service, (3) the date the DPV1 transmission line is permanently removed from service, or (4) four years after Edison has transferred all rights-of-way and necessary documents for the Department to construct DPV2. As of December 31, 1991, the Department had not exercised its contractual right to construct DPV2.

*Mead-Phoenix Transmission Project:* In 1982, the Authority executed agreements pursuant to which the Authority, Salt River Project, M-S-R Public Power Agency ("M-S-R"), and the Western Area Power Administration ("Western") studied the feasibility of constructing, owning and operating the Mead-Phoenix Transmission Project. As a result of this feasibility study, the development participants decided to undertake further development work for a 500-kV AC transmission line, convertible to DC at a future date. The Mead-Phoenix Transmission Project would be constructed between the Marketplace substation in the Boulder City, Nevada area and the Westwing substation in the Phoenix, Arizona area. Under an agreement which became effective on December 17, 1991, the Authority, members of the Authority, Salt River Project, Western, M-S-R, Arizona Public Service Company and Tucson Electric Power Company have committed to undertake the construction of this project. This undertaking is subject to the prior negotiation of certain interconnection agreements and the meeting of certain other preconditions. The most recent estimate of the construction cost for this project is approximately \$334 million. The Authority has agreed with Anaheim, Azusa, Banning, Burbank, Colton, Glendale, the Department, Pasadena and Riverside to acquire on their behalves and provide financing for approximately 19.14% of this project. Vernon has agreed to acquire the finance independently approximately 2.7% of this project. It is anticipated that Salt River Project will be the construction manager for this project, and that Salt River Project and Western will be responsible for operation of this project. If the Mead-Phoenix Transmission Project is undertaken, the Authority would finance its interest from the proceeds of long-term bonds secured by payments to be made by

the participants on a "take or pay" basis under transmission service contracts. It is anticipated that this facility, if built, would be in service in the mid-1990's.

*Mead-Adelanto Transmission Project:* In connection with the Mead-Phoenix Transmission Project, certain members of the Authority, Salt River Project, M-S-R and Western are studying the feasibility and projected costs of the construction and operation of the Mead-Adelanto Transmission Project, a proposed 500-kV DC transmission line from the Mead Substation near Boulder City, Nevada to a substation near Adelanto, California. The proposed participants anticipate that, if constructed, the transmission line could be put into service in the mid-1990's. Under an agreement which became effective on December 17, 1991, the Authority, members of the Authority, Western and M-S-R have committed to undertake the construction of this project. This undertaking is subject to the prior negotiation of certain interconnection agreements and the meeting of certain other preconditions. The most recent estimate of the construction cost for this project is approximately \$269 million. The Authority has agreed with Anaheim, Azusa, Banning, Burbank, Colton, Glendale, the Department, Pasadena and Riverside to acquire on their behalves and provide financing for approximately 67.9% of this project. Vernon has agreed to acquire and finance independently 6.25% of this project. It is anticipated that the Department will be the construction manager for this project, and that it will also be responsible for its operations.

*Utah-Nevada Transmission Project:* Members of the Authority, together with several electric utilities providing service in Utah and Nevada, are considering constructing, owning and operating an electric transmission project to include facilities to be located in Utah and Nevada. The participants in this project are studying the feasibility of constructing a 500-kV AC transmission line from Delta, Utah, in the vicinity of IPP, to the Boulder City, Nevada area. The total project rating is estimated to be 1,100 MW. This project, if undertaken and built, would be in operation in the mid-1990s. It is anticipated that, to the extent its members participate in and the Authority undertakes this project, the Authority will own and finance a portion of the project on behalf of its participating members, who would purchase transmission service or capability of the project from the Authority.

*Long-Term Power Purchase:* The Department is currently purchasing 74 MW and is in the process of negotiating a long-term purchase with Deseret Generation & Transmission Co-Operative ("Deseret") for an additional 200 MW of capacity and associated energy from Deseret's Bonanza Power Plant ("Bonanza"). The delivery of energy is contingent upon completion of the Utah-Nevada Transmission Project. The Department will pay Deseret's costs associated with Bonanza, but will not have an ownership right in Bonanza.

### **Fuel Supply**

The Department's Los Angeles Basin normal oil and gas requirements are estimated to range between 44 and 55 billion equivalent cubic feet of natural gas per year during the period 1992 to 1997. Natural gas is expected to be available to supply close to 100% of these requirements during that period. Intrastate natural gas transportation services are currently supplied to the Department by SoCal, 18% of which is supplied on a take-or-pay basis with the balance on a curtailable basis at the lowest priority level. The Department has developed a natural gas purchasing program to obtain its natural gas from independent spot market suppliers.

Long-term fuel oil requirements are expected to be minimal, although gas transportation and supply curtailments may change the Department's plan in this regard.

The Department, as Operating Agent, manages the coal supplies for IPP. Fuel requirements for IPP range from 4.2 to 5.0 million tons per year. The Department manages six long-term coal supply agreements providing approximately 80% of IPP's coal requirements, and spot market coal supply agreements providing the balance (20%). In addition, the Department manages three rail transportation service agreements providing transportation for approximately 90% of the coal delivered to IPP, the balance being delivered by truck under contract to the coal suppliers.

## Water

Water required for steam plant operations is secured from a number of sources. Three Los Angeles Basin steam plants, Harbor, Scattergood and Haynes, utilize the waters of the Pacific Ocean for power plant cooling purposes. A fourth Basin plant, the Valley Generating Station, utilizes groundwater pumped from the San Fernando Valley. The California Supreme Court has upheld the rights of The City of Los Angeles to the native waters of the San Fernando Basin, and to certain other contested water rights.

The Mohave and Navajo Generating Stations utilize water taken from the Colorado River for cooling purposes. The Navajo plant extracts water from Lake Powell, which was created by the construction of the Glen Canyon Dam. The rights to use such waters from the river rest upon the Colorado River compact, the decree of the U.S. Supreme Court in the case of *Arizona v. California*, and upon contracts entered into pursuant to the rights granted by such compact and decree. Certain small Indian tribes have announced claims to additional waters of the Colorado River beyond those granted in the decree, and the Navajo Indian Nation has indicated it will make substantial claims to the waters of the river. In December 1978, the United States and several Indian tribes along the Colorado River asked the United States Supreme Court to reopen the case of *Arizona v. California* to hear their claims of additional water rights over and beyond those previously granted. A Special Master was appointed to hear those claims, and on March 18, 1982 rendered a decision in favor of the Indian tribes. On March 30, 1983, the Supreme Court issued its decision which rejected to a large extent the Master's recommendations that the tribes be awarded additional water rights. However, the court deferred certain claims to be determined by a lower Federal court at a future time. Although the tribes may ultimately prevail on their claims in the future, the Department is confident that these pending matters, even if determined adversely to the Department, do not pose a threat to the operation of the generating stations.

## Electric Rates

The Board is obligated by the City Charter and each Final Resolution under which the Department has issued revenue bonds or notes, to establish electric rates and collect charges in an amount sufficient to service the Department's Power System indebtedness and to meet its expenses of operation and maintenance. Rates require approval of the City Council by ordinance, but are not regulated by the Public Utilities Commission of California or by any other state agency.

Although its rates are not subject to approval by any Federal agency, the Department is subject to certain ratemaking provisions of the Public Utility Regulatory Policies Act of 1978. The Department is operating in compliance with such Act. A new rate ordinance which provides Low Income Residential Rate ("LIRR") for qualifying low income households in Los Angeles, a Low Income Subsidy Account to collect revenue required to provide LIRR, and re-aligned rates for general service customers continuing the unbundling begun in 1988 became effective on January 2, 1991. On January 14, 1992 the City Council approved a 7% power rate increase which will take effect by ordinance on February 14, 1992.

The Power System's electric rates ordinance contains an energy cost adjustment, under which the cost to the Department of fuel for generation of electric energy and purchased energy costs are recovered by direct adjustment to customers' bills.

## Emergency Energy Curtailment Plan and Conservation

In 1973 the City Council enacted an Emergency Energy Curtailment Plan which mandated certain designated electricity conservation measures. The implementation of this plan was suspended in 1974 when the Department's fuel situation improved. However, the plan remains as part of the Municipal Code for possible future use. In addition, a revised and supplemented Plan, redesignated the Emergency Energy and Capacity Curtailment Plan of The City of Los Angeles, became effective on June 16, 1981.

The City Charter authorizes the Department to engage in and finance activities related to the conservation of electricity and water.

#### **Conservation and Energy Efficiency**

The Department is pursuing conservation and energy efficiency ("C/EE") as a means of deferring the need to acquire costly new generating facilities, improving the value of electric service to customers and minimizing negative environmental impacts.

By early 1992, the Department intends to offer all residential and commercial customers a broad range of incentive programs and services that will encourage the installation of C/EE measures and equipment in both new and existing buildings.

During the fiscal year ended June 30, 1991, the C/EE budget was increased by \$9.5 million (total \$19 million), in order to supplement staffing levels and facilitate program development. The C/EE budget for the fiscal year ending June 30, 1992 is \$34 million. The current Power System Resource Plan shows approximately 600MW of C/EE "Resource" acquired by the year 2000.

## Operating Statistics

The Department's service area consists of Los Angeles City, where over 1.3 million customers are now served, and certain areas of Inyo and Mono counties in California, where over 4,500 customers are served. For the twelve months ended September 30, 1991, approximately 27% of the total energy sales were to residential customers, 70% to commercial and industrial customers, and the remainder to miscellaneous minor classifications. Revenues from the two major customer classes were approximately 29% and 69%, respectively.

Operating Statistics	Twelve Months ended September 30, 1991 (2)	Fiscal Year Ended June 30,				
		1991	1990	1989	1988	1987
Net Energy for Load (Thousands of MWh) .....	24,008	24,485	24,503	24,021	23,702	22,793
Net Hourly Peak Demand (MW) .....	4,838	5,274	5,312	4,991	4,922	4,744
Annual Load Factor (%) .....	56.7	53.0	52.7	53.3	54.8	54.8
Electric Energy Generation, Purchases and Interchanges (Thousands of MWh) Generation(1) .....	21,570	23,133	22,834	22,130	21,475	18,784
Purchases .....	2,951	3,057	2,299	3,046	2,589	4,322
Miscellaneous Energy Receipts .....	267	256	205	329	461	-0-
Total Energy Production .....	24,788	26,446	25,338	25,505	24,525	23,106
Less:						
Miscellaneous Energy Deliveries .....	347	363	200	328	151	93
Losses and System Uses .....	2,778	4,060	3,345	3,287	3,364	2,678
On-System Sales .....	21,663	22,023	21,793	21,890	21,010	20,335
Sales of Energy (Thousands of MWh)						
Residential .....	5,784	6,022	5,856	5,881	5,617	5,469
Commercial and Industrial .....	15,205	15,213	14,996	15,103	14,847	14,258
All Other .....	591	635	912	914	642	813
Total .....	21,580	21,870	21,764	21,898	21,106	20,540
Number of Customers — (Average) (in thousands):						
Residential .....	1,168	1,166	1,152	1,135	1,117	1,093
Commercial and Industrial .....	192	192	190	187	185	180
All Other .....	3	3	3	3	3	3
Total .....	1,363	1,361	1,345	1,325	1,305	1,276
Operating Revenue (in thousands):						
Residential .....	506,305	526,860	519,339	484,591	430,696	388,730
Commercial and Industrial .....	1,197,996	1,216,664	1,251,296	1,162,027	1,085,557	963,151
Street Lighting and Other .....	40,395	42,560	54,505	53,522	39,698	38,183
Total .....	1,744,696	1,786,084	1,825,140	1,700,140	1,555,951	1,390,064
Miscellaneous Revenue .....	25,757	25,871	24,753	16,181	14,077	13,377
Total .....	\$1,770,453	\$1,811,955	\$1,849,893	\$1,716,321	\$1,570,028	\$1,403,441
Average Revenue per kWh Sold:						
Residential .....	8.75¢	8.75¢	8.87¢	8.24¢	7.67¢	7.11¢
Commercial and Industrial .....	7.88¢	8.00¢	8.34¢	7.69¢	7.31¢	6.76¢
Average Annual MWh Use per Residential Customer .....	5	5	5	5	5	5

(1) Not including energy generated at Hoover Power Plant for use, and for the use of the United States Bureau of Reclamation and the cities of Boulder City, Burbank, Glendale and Pasadena.

(2) Unaudited.

## Environmental and Regulatory Factors

Environmental considerations and regulatory restrictions relative to the operation of the Power System's existing facilities, and to the location, design and construction of new facilities, may adversely affect the adequacy of electric service in the future.

The South Coast Air Quality Management District ("SCAQMD") has adopted an Emergency Episode Plan (the "Plan") which defines three so-called air quality Emergency Episode Stages and requires the Department to submit a plan demonstrating measures it will take during Stage I, Stage II and Stage III episodes. The Plan requires the Department to burn natural gas to the extent available, instead of fuel oil, during Stage I Episodes. During a Stage II or Stage III Episode, the Department must also reduce generation in power plants within the Los Angeles Basin by shifting generation to plants outside the basin to the extent consistent with health, safety and welfare. The Basin has never experienced a Stage III Episode.

In July 1991, the SCAQMD amended Rule 1135 increasing its stringency and its impact on the power system. The emission limits of Rule 1135 will be stepped down yearly until the final limit of 0.15 pounds per net megawatt hour is reached in the year 2000. To comply, all of the Department's Los Angeles basin boilers will likely be either repowered as combined cycles or retrofitted with nitrogen oxides ("NOx") control systems. Many of the projects will involve costly selective catalytic reduction technology. The estimated capital cost of the retrofit program, which will peak in the mid 1990's, is roughly \$240 million. Construction is underway to repower the Harbor Generating Station as combined cycle units for an estimated cost of \$216 million. The Valley Generating Station may be repowered between year 1997 and year 2000 for a probable cost of about \$500 million. The repowered stations will have the benefit of large fuel savings through state-of-the-art efficiency and will be equipped with the best available control technology.

*Haynes Generating Station Flue Gas Recirculation Project:* As a part of its Rule 1135 compliance plan, the Department has modified the Haynes Generating Station Unit 3. The Unit was retrofitted with a flue gas recirculation system for NOx control. The project cost was about \$10 million. The project is essentially completed.

*Haynes Generating Station Selective Catalytic Reduction ("SCR") Project:* The Department plans to start construction of two NOx SCR systems for Haynes Generating Station Units 1 and 2 in August 1992 and August 1993, respectively. These systems are being built as part of the Department's Rule 1135 compliance plan. Haynes Unit 1 SCR is expected to be in service in June 1993 and Haynes Unit 2 SCR is expected to be in service in June 1994.

*Harbor Generating Station Repowering Project:* The Department is proceeding with plans to repower the existing steam generating units at the Harbor Generating Station with a 240 MW repowering project that is scheduled to be in-service by late 1993. The Harbor Generating Station, completed in 1949, was the Department's first gas- and oil-fueled generating station constructed in the Los Angeles basin and is currently the oldest and least efficient facility of the Department's electrical system. The repower project will include state-of-the-art emission control equipment which will improve air quality in the basin and the project will provide electrical system stability for the southern portion of Los Angeles.

*Carbon Dioxide Reductions:* In November 1990, the Department began a detailed investigation of its emissions of carbon dioxide and methods to reduce these emissions. In May 1991, the Department announced a program designed to reduce carbon dioxide emissions by 10% by the year 2000 and by 20% by the year 2010 at a cost of \$12 million per year. This program incorporates a number of new and existing elements.

*Clean Air Act Amendments:* In November 1990, President Bush signed the federal Clean Air Act Amendments of 1990 (the "CAA Amendments") into law which are the first revisions of the nation's air pollution laws in 13 years. The CAA Amendments address such long-standing issues as attainment of federal ambient air standards, acid rain control, air toxics, visibility, creation of a permit program



and changes in enforcement authority. In general, the CAA Amendments do not adversely impact the financial condition of the Department. Presently, the Environmental Protection Agency is in the rulemaking process of implementing the CAA Amendments. The Department is reviewing proposed rules and is working with several utility groups in developing utility positions.

*Air Quality Management Plan:* In July 1991, the SCAQMD and the Southern California Association of Governments adopted an Air Quality Management Plan ("AQMP") designed to achieve all state and federal ambient air quality standards and in addition deals with the global climate change issue, addresses the stratospheric ozone depletion problem, and evaluates air toxics concerns. The AQMP proposes to achieve the above goals by implementing the following concepts: extensive use of clean fuels, rapid introduction of clean vehicles, conservation of natural gas and electricity, reducing emissions from all sources, reducing vehicle miles travelled and trips taken and marketable permits. The Department is participating in SCAQMD rulemaking processes to implement these concepts.

*Air Toxics:* Recently, increased emphasis has been placed on the Department's emissions of toxic air contaminants. This has been brought about by passage of California's Air Toxics "Hot Spots" Information and Assessment Act and of the federal CAA Amendments. As a result, the Department must report its air toxics emissions from certain facilities every two years, and is evaluating the results to be better prepared for future regulations. Relatively little is known about toxic emissions from utility boilers, but existing laws could lead to regulations in the near future.

*Visibility:* The EPA is requiring Navajo to reduce sulfur dioxide emissions based on their findings that Navajo contributes to visibility impairment in the Grand Canyon National Park. The Department has a 20 percent ownership of Navajo. The adopted rule requires a 90 percent reduction in sulfur dioxide emissions by August 1999. The Department's share of the estimated cost of retrofitting Navajo is approximately \$90 million which translates to a 0.5% increase in the average cost of electricity.

*Hazardous Substance Management:* In 1984, the Resource Conservation and Recovery Act and the Toxic Substance Control Act were amended by Congress to be more restrictive on the transportation, use, treatment, storage and disposal of hazardous materials and wastes including actual bans on certain existing hazardous material and waste handling practices. The California Legislature during 1990 and 1991 continued its active support of environmental legislation for the control of hazardous substances. In July 1991, a California Environmental Protection Agency ("CAL-EPA") was created to centralize and improve management of the numerous State environmental programs. As agencies under CAL-EPA, the California State Water Resources Control Board and the State Department of Toxic Substances Control continued their regulatory efforts to control transportation, treatment, storage, and disposal of hazardous substances. The full fiscal impact on Department operations cannot be determined at this time. Additionally, the Department is undertaking several programs that address underground storage tanks, risk management and prevention, above-ground storage tanks, stormwater management, PCB replacement, environmental audits, and site assessment and remediation to comply with California and federal environmental law.

The President, in 1986, signed into law the Superfund Amendments and Reauthorization Act, which amended the Comprehensive Environmental Response Compensation and Liability Act of 1980. These federal Superfund laws are scheduled to be reauthorized in 1993. In addition, current efforts by California and federal agencies to investigate and improve Superfund sites may impact the Department as a result of previous disposal practices. Previously approved disposal methods or sites may become candidates for Superfund classification which may require substantial expenditures by the Department as a participant in the cleanup/remedial action required for the site.

### The Service Area

The City of Los Angeles, encompassing an area of 465 square miles, is served exclusively by the Department. As indicated in the following chart, the population of the service area has risen from 102,479 at the turn of the century to an estimated 3.5 million residents as of January 1, 1991 to become

the second largest city in the United States and the nucleus of the most populous county, Los Angeles County, in the nation.

#### Population Trends

<u>Year</u>	<u>City of Los Angeles</u>	<u>Metropolitan Area (Los Angeles County)</u>
1900 .....	102,479	170,298
1910 .....	319,198	510,131
1920 .....	576,673	936,455
1930 .....	1,238,048	2,208,492
1940 .....	1,504,277	2,785,643
1950 .....	1,970,358	4,151,687
1960 .....	2,481,595	6,042,431
1970 .....	2,809,967	7,040,335
1980 .....	2,968,574	7,477,421
1981 .....	2,994,900	7,562,200
1982 .....	3,011,300	7,630,500
1983 .....	3,064,300	7,761,100
1984 .....	3,105,300	7,861,300
1985 .....	3,173,000	8,027,800
1986 .....	3,251,500	8,246,200
1987 .....	3,315,400	8,418,600
1988 .....	3,361,500	8,555,900
1989 .....	3,399,000	8,652,800
1990 .....	3,485,398	8,769,900
1991 .....	3,536,800	8,988,800

Source: California Department of Finance and United States Bureau of the Census.

Note: For the decennial census years the population is as of April 1 and is from the United States Bureau of the Census while for the years 1981 through 1989 the population is as of January 1 and is from the Department of Finance.

Los Angeles has important production facilities for most major industries. It is the site of the largest industrial concentration in the Western United States, not only serving the local area and the region, but also participating in the national and international markets. In retail sales, Los Angeles ranks second nationally as a city and first as a metropolitan area. With over 810 banks and branches, the Los Angeles Standard Metropolitan Statistical Area is the leading financial center in the Western United States.

#### Insurance

As of March 1, 1986, the Department became self-insured with respect to its liability exposures. On August 14, 1986, the Board approved a \$1.5 million initial funding of the Power Revenue Self-Insurance Fund to pay any liability claims in excess of \$2 million. Liability losses under \$2 million will be paid from operating revenues. The Fund balance has been increased by \$500,000 for each fiscal year since 1987-88. It has been decided that this contribution amount will be continued for the 1991-92 fiscal year. As of September 30, 1991, the Power Revenue Self-Insurance Fund balance was \$3,625,000.

The Department commercially insures its steam generating plants and fuel oil storage facilities in the Los Angeles basin on a replacement cost basis for values up to \$100 million against accidental physical loss or damage caused by fire and certain other related perils. In addition, the Department has coverage for losses to boilers or turbine-generators caused by explosion or similar accidental events.

As a participant in the Mohave Generating Station, the Navajo Generating Station, PVNGS, and associated transmission systems, the Department is a named insured, or additionally named insured, on

various forms of insurance providing protection against loss of property and equipment and for liability claims. The amounts of coverages are established by participating owners and procured by the operating agents.

The Department, as Operating Agent, manages the insurance program for IPP and is included as an additional named insured on various forms of insurance procured for IPP. Property insurance provides the Department with protection relative to its take or pay commitment with IPA.

The Office of the City Attorney, Water and Power Division, defends all actions brought against the Department, prepares settlements, and recommends payment of such settlements and judgments.

#### Litigation

There is no pending litigation relating to the Power System or the Department's operations or business pertaining thereto, except as hereinafter stated.

(1) An action was filed in the United States District Court for the Central District of California in October 1978 on behalf of black personnel against the Department and International Brotherhood of Electrical Workers, ("IBEW"), Local Union No. 18, containing broad general allegations of racial discrimination in employment practices, seeking declaratory, injunctive and "make whole" relief and requesting punitive damages and damages for emotional distress. An amended complaint was filed by the plaintiffs which alleges racial discrimination throughout the government of The City of Los Angeles. In June 1981, the District Court limited the class of plaintiffs to those black craft employees of the Department specifically affected by the alleged discrimination and to those who can show that they have been personally damaged. The case was dismissed as to all other plaintiffs. In February, 1983, the District Court consolidated this case with another class action case (*Anderson, et al. v. Department of Water and Power, et al.*) which also alleges racial and ethnic discrimination by the Department, The City of Los Angeles and the Board of Civil Service Commissioners. The named plaintiffs in the latter class action are draftsmen, engineers, and architects who are challenging promotional testing on a Department-wide basis. Injunctive and monetary relief are sought. In May 1985, the class was certified. In March 1986, the plaintiffs' motion for partial summary judgment was denied. A second such motion was filed in November 1986 and was also denied in January 1987. In July 1988, the plaintiffs dismissed the *Anderson* lawsuit without prejudice, and reduced the scope of the *Worthen* action by means of another amended complaint to a declaratory relief action testing the Department's pay and position advancement procedures among clerical employees. The trial was held in December 1989 and in April 1990, the Court gave judgment for the Department and the other defendants. The plaintiffs have filed a notice of appeal. (*Leon (formerly Worthen) et al. v. Department of Water and Power et al.*)

(2) Several lawsuits have been brought against the Department to prevent the Department from diverting waters from the fresh water streams tributary to Mono Lake, a saline lake. Such diverted waters contribute to the flow of waters used for hydroelectric generation in the Owens Valley power plants. In 1983, the California Supreme Court held that the Department's need for such waters must be balanced against the public trust needs to protect the Mono Basin environmental interests. In the most recent action, an El Dorado Superior Court has issued a preliminary injunction requiring the lake level to be maintained at 6,377 ft. elevation (its 1978 level) until December 1992, when the California State Water Resources Control Board will determine the amounts necessary to protect the public trust interests. Previously, such court ordered that 60,000 acre feet of water be released by the Department into these tributary streams for fish flow purposes. The practical effect of these two court orders is to preclude the export of waters from the Mono Basin to Los Angeles at the present time. (*National Audubon Society v. Department of Water and Power*, the Coordinated Mono Lake cases.)

(3) A new lawsuit was filed in the Mono County Superior Court in April 1991 to have the Department ordered to put water back into the Owens Gorge to reestablish stream flow for

fisheries. Such order if granted would lessen water available for hydroelectric generation. (*People v. DWP and State Water Resources Control Board.*)

(4) The Salt River Pima-Maricopa Indian Community filed an action in November 1982 against the United States, the Secretary of the Interior, Salt River Project, Salt River Valley Water Users Association, a number of water conservation and irrigation districts, the City of Phoenix and other cities in the Greater Phoenix Metropolitan area, and the participants in the PVNGS Project, including the Authority. The action was originally brought only against the United States and the Secretary of the Interior in the United States District Court for the District of Columbia. The United States moved for transfer of the action to the United States District Court for Arizona and the motion was granted. Upon transfer, the Indian Community filed an amended Complaint adding additional parties, including the Department.

The gist of the Complaint is that the Indian Community is entitled to certain water rights in and to the waters of the Salt River, including underground waters, under the Winters doctrine, contracts, court decisions and other Federal law, and that the United States is not requiring Salt River Project to make water available to the Indian Community in accordance with those rights. Among the claims is the claim that Salt River Project delivers water to certain cities, including the City of Phoenix; that these cities pump water from the ground water basin; that the water delivered to and pumped by the cities are subject to claims made by the Indian Community; that the City of Phoenix and the other cities have agreed to sell effluent from the sewage treatment plant of the City to PVNGS for cooling purposes and such effluent is subject to the claims of the Indian Community, and therefore the contract for sale of a portion of the effluent to PVNGS is invalid. The PVNGS participants joined with the other defendants in a motion to dismiss. The Court's judgment, as amended on June 13, 1983, dismissed the entire action as to the Authority, the Department and Arizona Public Service Company ("APS"), among others, but not as to Salt River Project. The Court held that the plaintiff had no standing to challenge the Salt River Project — APS effluent contract. On June 13, 1983, the plaintiff filed a notice of appeal from the Court's judgment. On September 4, 1984, the United States Court of Appeals for the Ninth Circuit reversed the District Court's judgment. The Ninth Circuit held that the plaintiff had standing to challenge the effluent contract and remanded the case to the United States District Court for the District of Arizona. A petition for certiorari to review the Ninth Circuit decision was denied by the United States Supreme Court. In November 1985, the United States and Salt River Project moved for summary judgment on the Indian Community claim that it is entitled to receive project water, alleging such claim is barred by the statute of limitations and laches. The Community's claim seeking the quantification of its water rights have been dismissed by the District Court. The Indian Community has reasserted its quantification rights in other litigation with Salt River Project involving the Gila River which, while not involving the Department as a party, could affect the PVNGS Project cooling water supply. A tentative settlement has been reached between the parties which provides for additional entitlement to water for the Community and requires Congressional approval of fund appropriations. On October 31, 1988, the President signed Federal legislation conforming to the requirements of the proposed settlement. Both Congress and the Arizona State Legislature have appropriated funds for the settlement. This action was dismissed on December 9, 1991. A final release and waiver of water claims by the Indian Community is pending. Salt River Project has reported that in the event of a successful challenge to the validity of the contract for sale of effluent, it believes that alternate sources of cooling water could be obtained. (*Salt River Pima-Maricopa Indian Community v. United States, et al.*)

(5) Commencing with the 1979 rates, during the past eleven years, BPA has increased significantly the price of non-firm electric power and energy sold to its non-regional customers. The Department, together with other California cities, the CPUC and the California Energy Commission (collectively, the "California Parties") has intervened in proceedings before the FERC and challenged the rate-setting methods used by the BPA in determining rate increases. The Parties have also brought actions in the United States District Court and the United States

Court of Appeals for the Ninth Circuit, challenging rulings of FERC and rate-setting methods of BPA for non-firm energy. In various rulings, FERC has ruled that there is no statutory prohibition against discrimination in rate-setting by BPA, that access to BPA transmission lines is not within its jurisdiction and that costs of construction, maintenance and decommissioning Washington Public Power Service nuclear plant could be passed on to the California utilities. In July 1990, the United States Court of Appeals for the Ninth Circuit upheld the legality of the 1983 rates promulgated by the BPA. In each of the rate proceedings, the Department has paid the interim BPA rates and sought refunds based on the various challenges. The rate proceedings and their challenges have now all been concluded in favor of BPA. The only item of litigation remaining is the question of access to BPA transmission lines, which would increase the competition amongst sellers of Pacific Northwest Energy. (*Central Lincoln People's Utility District v. Johnson, et al. and Department of Water and Power, et al. v. BPA.*)

(6) The Department and 85 other small volume generators of hazardous waste have been identified as liable for the cleanup of the Stringfellow Superfund site. Between 1960 and 1969, the Department used the Stringfellow Disposal Facility to dispose of oil, sludge waste, pyranol and other waste materials generated from utility operations. A lawsuit was filed in the United States District Court for the Central District of California by the Environmental Protection Agency ("EPA"), to recover the cost of the cleanup. The EPA is currently investigating options for site remediation. A lawsuit was also brought in the Riverside Superior Court by over 4,000 plaintiffs against the waste disposers for personal injury and property damage in connection with use of the site. The Department has approved payment of \$46,459, in settlement of its portion of the latter lawsuit. Such settlement covers almost all of the plaintiffs. It has now been approved by the court. A petition for a writ challenging the settlement was denied by the United States Court of Appeals and the time for appeal to the Supreme Court has passed. The Federal lawsuit by the EPA has yet to be resolved. (*Penny Newman, et al. v. J.B. Stringfellow, Jr., et al.*)

(7) Other claims and suits arising out of the ownership and operation of the Power System of the Department are pending against the Department for alleged deaths, personal injuries and property damage, and for alleged liabilities arising out of other matters, all of which are of a nature usually incident to the conduct of such a utility business. Until these claims and suits are disposed of, the Department's liability, if any, in these matters cannot be determined. Realistic evaluation of total exposure is complicated by the fact that California courts have adopted the rule of pure comparative negligence.

## Financial

The following Summary of Financial Operations and Summary Balance Sheet have been prepared by the Department based upon audited financial statements and accounting records of the Power System for the fiscal years ended June 30, 1987 through 1991 and unaudited financial statements for the twelve months ended September 30, 1991.

**Power System Summary of Financial Operations**  
(In thousands)

	Twelve Months ended September 30, 1991(1)	Fiscal Year Ended June 30				
		1991	1990	1989	1988	1987
<b>Operating Revenues</b>						
<b>Sales of Electric Energy:</b>						
Residential .....	\$ 506,305	\$ 526,860	\$ 519,339	\$ 484,591	\$ 430,696	\$ 388,730
Commercial and Industrial .....	1,197,996	1,216,664	1,251,296	1,162,027	1,085,557	963,151
Street lighting and other .....	40,395	42,560	54,505	53,522	39,698	38,183
Miscellaneous .....	25,757	25,871	24,753	16,181	14,077	13,377
<b>Total Operating Revenues .....</b>	<b>1,770,453</b>	<b>1,811,955</b>	<b>1,849,893</b>	<b>1,716,321</b>	<b>1,570,028</b>	<b>1,403,441</b>
<b>Operating Expenses</b>						
<b>Production:</b>						
Fuel for generation .....	196,403	211,127	247,592	253,576	228,499	219,944
Purchased power .....	666,995	664,389	647,585	534,462	470,957	355,975
Energy Cost .....	863,398	875,516	895,177	788,038	699,456	575,919
Other Production .....	51,434	52,051	51,420	44,250	41,348	38,279
Transmission and distribution .....	98,528	97,214	96,740	84,576	83,714	75,472
Maintenance .....	168,198	163,910	168,481	148,742	153,062	147,673
General .....	144,642	139,430	134,193	124,627	108,014	89,221
Less — Expenses charged to construction	(27,105)	(26,938)	(23,014)	(19,213)	(14,478)	(12,344)
Customer accounting .....	52,766	52,144	51,391	40,609	34,768	34,979
Customer services .....	14,382	13,845	9,369	8,548	5,806	3,926
Decommissioning costs .....	5,777	6,037	5,530	5,530	4,454	3,119
Taxes on property outside the City .....	18,358	17,513	13,889	12,486	12,343	8,552
Contributions to retirement plan funds .....	94,230	92,674	79,242	91,642	88,215	92,198
Less — Contributions charged to construction .....	(28,059)	(25,377)	(21,028)	(23,131)	(20,511)	(22,323)
<b>Total Operating Expenses (except Depreciation) .....</b>	<b>1,456,549</b>	<b>1,458,019</b>	<b>1,461,390</b>	<b>1,306,704</b>	<b>1,196,191</b>	<b>1,034,671</b>
<b>Operating Income before Depreciation</b>	<b>313,904</b>	<b>353,936</b>	<b>388,503</b>	<b>409,617</b>	<b>373,837</b>	<b>368,770</b>
Allowance for funds used during construction .....	7,853	6,143	2,757	7,268	5,674	7,759
Other Income — net .....	19,215	18,157	16,835	18,257	18,037	19,754
<b>Income before Depreciation and Interest</b>	<b>340,972</b>	<b>378,236</b>	<b>408,095</b>	<b>435,142</b>	<b>397,548</b>	<b>396,283</b>
<b>Debt Service</b>						
Interest .....	140,393	135,221	117,292	109,513	101,669	96,139
Principal .....	53,200	53,180	51,930	53,545	67,916	61,526
<b>Total Debt Service on bonds .....</b>	<b>193,593</b>	<b>188,401</b>	<b>169,222</b>	<b>163,058</b>	<b>169,585</b>	<b>157,665</b>
Balance .....	147,379	189,835	238,873	272,084	227,963	238,618
Transfers to the City .....	92,020	92,494	85,818	78,502	70,182	67,913
<b>Balance Available for Construction ...</b>	<b>55,359</b>	<b>\$ 97,341</b>	<b>\$ 153,055</b>	<b>\$ 193,582</b>	<b>\$ 157,781</b>	<b>\$ 170,705</b>
<b>Depreciation .....</b>	<b>\$ 149,662</b>	<b>\$ 146,153</b>	<b>\$ 133,501</b>	<b>\$ 131,424</b>	<b>\$ 119,550*</b>	<b>\$ 112,510*</b>
<b>Debt Service Coverage .....</b>	<b>1.76</b>	<b>2.01</b>	<b>2.41</b>	<b>2.67</b>	<b>2.34</b>	<b>2.51</b>

\* Restated to segregate decommissioning costs from depreciation.

(1) Unaudited.

Under the provisions of the Charter of The City of Los Angeles, revenues of the Power System are deposited into the Power Revenue Fund. The Fund receives all revenues from the sale of power and all other commodities and services sold, furnished or supplied by the Department through its ownership, operation and management of all properties and facilities constituting the Power System, including all additions and betterments and represents the source of payment, without priority, of all bonded indebtedness of the Power System, the necessary expenses of operating and maintaining the Power System, and all other obligations and indebtedness payable out of such Fund.

### Power System Summary Balance Sheet

	ASSETS					
	September 30, 1991 (unaudited)	June 30, 1991	June 30, 1990	June 30, 1989	June 30, 1988	June 30, 1987
Utility plant, at original cost, less accumulated provision for depreciation and amortization .....	\$4,049,499	\$3,987,193	\$3,744,794	\$3,523,937	\$3,324,924	\$3,133,454
Current assets .....	<u>765,300</u>	<u>772,652</u>	<u>667,137</u>	<u>629,861</u>	<u>579,824</u>	<u>567,353</u>
Total .....	<u>\$4,814,799</u>	<u>\$4,759,845</u>	<u>\$4,411,931</u>	<u>\$4,153,798</u>	<u>\$3,904,748</u>	<u>\$3,700,807</u>
CAPITALIZATION AND LIABILITIES						
Equity .....	\$2,123,944	\$2,116,532	\$2,106,489	\$2,023,669	\$1,890,526	\$1,771,674
Long-term debt, excluding advance refunding bonds and portion due within one year .....	2,087,946	2,091,020	1,797,950	1,602,469	1,554,170	1,408,914
Current liabilities .....	<u>602,909</u>	<u>552,293</u>	<u>507,492</u>	<u>527,660</u>	<u>460,052</u>	<u>520,219</u>
Total .....	<u>\$4,814,799</u>	<u>\$4,759,845</u>	<u>\$4,411,931</u>	<u>\$4,153,798</u>	<u>\$3,904,748</u>	<u>\$3,700,807</u>

Bonded indebtedness payable from the Power Revenue Fund as of September 30, 1991 was comprised of 54 issues of Electric Plant Revenue Bonds. The principal amount of such Electric Plant Revenue Bonds outstanding at September 30, 1991 totalled \$2,157,457,000.

In February and March 1981, the Department issued its first Electric Plant Short-Term Revenue Certificates. At September 30, 1991, \$90,000,000 principal value of such certificates were outstanding.

*Price Waterhouse*

*Simpson & Simpson*

A joint venture

400 South Hope Street  
Los Angeles, CA 90071-2889

Telephone 213 236 3000

Report of Independent Accountants

September 5, 1991

To the Board of Water and Power Commissioners  
Department of Water and Power  
City of Los Angeles

In our opinion, the accompanying balance sheet and the related statements of income, retained income reinvested in the business and of cash flows present fairly, in all material respects, the financial position of the Power System of the Department of Water and Power of the City of Los Angeles at June 30, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1991, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Department's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*Price Waterhouse*  
*Simpson & Simpson*



**LOS ANGELES DEPARTMENT OF WATER AND POWER**  
**POWER SYSTEM**

**STATEMENT OF INCOME**  
(In Thousands)

	Twelve Months ended September 30, 1991 (unaudited)	Year ended June 30		
		1991	1990	1989
<b>Operating Revenues</b>				
Residential .....	\$ 506,305	\$ 526,860	\$ 519,339	\$ 484,591
Commercial and industrial .....	1,197,996	1,216,664	1,251,296	1,162,027
Other .....	66,152	68,431	79,258	69,703
Total operating revenues .....	<u>1,770,453</u>	<u>1,811,955</u>	<u>1,849,893</u>	<u>1,716,321</u>
<b>Operating Expenses</b>				
Fuel for generation .....	196,403	211,127	247,592	253,576
Purchased power .....	666,995	664,389	647,585	534,462
Other operating expenses .....	419,176	412,556	392,202	364,394
Maintenance .....	168,198	163,910	168,481	148,742
Depreciation .....	155,439	152,190	139,031	136,954
Total operating expenses .....	<u>1,606,211</u>	<u>1,604,172</u>	<u>1,594,891</u>	<u>1,438,128</u>
Operating Income .....	164,242	207,783	255,002	278,193
Other Income and Expenses, Net .....	19,215	18,157	16,835	18,257
Income before debt expenses .....	<u>183,457</u>	<u>225,940</u>	<u>271,837</u>	<u>296,450</u>
<b>Debt Expenses</b>				
Interest on debt .....	141,376	136,156	118,128	110,289
Allowance for borrowed funds used during construction .....	(7,853)	(6,143)	(2,757)	(7,268)
Total debt expenses .....	<u>133,523</u>	<u>130,013</u>	<u>115,371</u>	<u>103,021</u>
Net Income .....	<u>\$ 49,934</u>	<u>\$ 95,927</u>	<u>\$ 156,466</u>	<u>\$ 193,429</u>

**STATEMENT OF RETAINED INCOME REINVESTED IN THE BUSINESS**  
(In Thousands)

	Twelve Months ended September 30, 1991 (unaudited)	Year ended June 30		
		1991	1990	1989
Balance at beginning of year .....	\$2,022,336	\$1,971,276	\$1,900,628	\$1,785,701
Net income for the year .....	49,934	95,927	156,466	193,429
	2,072,270	2,067,203	2,057,094	1,979,130
Less — Payments to the reserve fund of the City .....	92,020	92,494	85,818	78,502
Balance at end of year .....	<u>\$1,980,250</u>	<u>\$1,974,709</u>	<u>\$1,971,276</u>	<u>\$1,900,628</u>

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

**LOS ANGELES DEPARTMENT OF WATER AND POWER**  
**POWER SYSTEM**

**BALANCE SHEET**  
**(In Thousands)**

	September 30, 1991 (unaudited)	June 30, 1991	1990
<b>A S S E T S</b>			
Utility Plant, at original cost			
Production .....	\$1,855,264	\$1,850,965	\$1,795,244
Transmission .....	681,668	680,492	659,553
Distribution .....	2,438,097	2,404,479	2,225,202
General .....	459,115	446,484	374,715
	<u>5,434,144</u>	<u>5,382,420</u>	<u>5,054,714</u>
Less — Accumulated depreciation .....	1,721,658	1,688,976	1,574,733
	<u>3,712,486</u>	<u>3,693,444</u>	<u>3,479,981</u>
Construction work in progress .....	324,662	278,947	244,412
Nuclear fuel, at amortized cost .....	12,351	14,802	20,401
Net utility plant .....	<u>4,049,499</u>	<u>3,987,193</u>	<u>3,744,794</u>
Current Assets			
Cash and investments .....	186,059	237,663	125,506
Customer and other accounts receivable, less \$3,600, \$3,600 and \$3,400 allowance for losses .....	205,522	179,038	187,242
Receivable from Intermountain Power Agency .....	12,991	24,634	64,556
Accrued unbilled revenue .....	118,868	91,981	109,911
Materials and supplies, at average cost .....	117,426	115,216	105,063
Fuel inventory .....	106,208	107,226	59,338
Prepayments and other current assets .....	18,226	16,894	15,521
Total current assets .....	<u>765,300</u>	<u>772,652</u>	<u>667,137</u>
Total utility plant and assets .....	<u>\$4,814,799</u>	<u>\$4,759,845</u>	<u>\$4,411,931</u>
<b>CAPITALIZATION AND LIABILITIES</b>			
Capitalization			
Equity			
Retained income reinvested in the business .....	\$1,980,250	\$1,974,709	\$1,971,276
Contributions in aid of construction .....	143,694	141,823	135,213
	<u>2,123,944</u>	<u>2,116,532</u>	<u>2,106,489</u>
Long-term debt .....	2,087,946	2,091,020	1,797,950
Total capitalization .....	<u>4,211,890</u>	<u>4,207,552</u>	<u>3,904,439</u>
Current Liabilities			
Long-term debt due within one year .....	54,450	55,050	53,180
Revenue certificates .....	90,000	90,000	90,000
Accrued interest .....	43,787	38,606	33,069
Accounts payable and accrued expenses .....	227,812	214,259	231,530
Over-recovered energy costs .....	83,330	50,319	19,372
Extension and other deposits .....	8,386	9,255	15,785
Deferred credit — Intermountain Power Agency .....	95,144	94,804	64,556
Total current liabilities .....	<u>602,909</u>	<u>552,293</u>	<u>507,492</u>
Commitments and Contingencies			
Total capitalization and liabilities .....	<u>\$4,814,799</u>	<u>\$4,759,845</u>	<u>\$4,411,931</u>

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

**LOS ANGELES DEPARTMENT OF WATER AND POWER  
POWER SYSTEM**

**STATEMENT OF CASH FLOWS  
(In Thousands)**

	Twelve Months ended September 30, 1991 (unaudited)	Year ended June 30		
		1991	1990	1989
<b>Cash Flows from Operating Activities:</b>				
Net income .....	\$ 49,934	\$ 95,927	\$ 156,466	\$ 193,429
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation .....	155,439	152,190	139,031	136,954
Amortization of nuclear fuel .....	10,722	10,567	3,258	7,527
Allowance for borrowed funds used during construction .....	(7,853)	(6,143)	(2,757)	(7,268)
Changes in current assets and liabilities:				
Customer and other accounts receivable ....	12,070	8,204	(18,158)	(25,774)
Receivable from Intermountain Power Agency .....	51,811	39,922	(14,983)	(49,573)
Accrued unbilled revenue .....	1,602	17,930	(15,335)	(5,794)
Materials and supplies .....	(1,356)	(10,153)	(20,002)	(10,398)
Fuel inventory .....	(23,442)	(47,888)	1,383	(4,598)
Prepayments and other current assets .....	(3,677)	(1,373)	12,142	10,113
Accrued interest .....	2,227	5,537	(3,457)	5,878
Accounts payable and accrued expenses .....	(54,990)	(17,271)	(6,506)	25,656
Over-recovered energy costs .....	32,517	30,947	(28,315)	(9,865)
Extension and other deposits .....	(5,968)	(6,530)	1,877	(2,019)
Deferred credit — Intermountain Power Agency .....	30,342	30,248	14,983	49,573
Net cash provided by operating activities..	<u>249,378</u>	<u>302,114</u>	<u>219,627</u>	<u>313,841</u>
<b>Cash Flows from Financing Activities:</b>				
Sale of revenue bonds .....	247,580	346,673	247,929	99,527
Sale of advance refunding bonds .....	—	—	85,216	—
Amount received from escrow account .....	—	38,007	—	—
Contributions in aid of construction .....	7,614	6,610	12,172	18,216
Reduction of long-term debt .....	(50,653)	(51,733)	(51,198)	(52,843)
Amount deposited in escrow accounts and offset against advance refunding bonds .....	—	—	(85,216)	—
Long-term debt redeemed, including call premiums .....	—	(38,007)	—	—
Payments to the reserve fund of the City .....	(92,494)	(92,494)	(85,818)	(78,502)
Net cash provided by (used in) financing activities .....	<u>112,047</u>	<u>209,056</u>	<u>123,085</u>	<u>(13,602)</u>
<b>Cash Flows from Investing Activities:</b>				
Expenditures for plant and equipment .....	(423,354)	(399,013)	(360,389)	(336,226)
<b>Cash and investments:</b>				
Net increase (decrease) .....	(61,929)	112,157	(17,677)	(35,987)
Beginning of year .....	247,988	125,506	143,183	179,170
End of year .....	<u>\$ 186,059</u>	<u>\$ 237,663</u>	<u>\$ 125,506</u>	<u>\$ 143,183</u>
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid during the year for interest .....	<u>\$ 143,429</u>	<u>\$ 136,656</u>	<u>\$ 126,236</u>	<u>\$ 105,602</u>

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

# LOS ANGELES DEPARTMENT OF WATER AND POWER

## POWER SYSTEM

### NOTES TO FINANCIAL STATEMENTS

(All information relating to the twelve months ended September 30, 1991  
and as of September 30, 1991 is unaudited)

#### NOTE A — Summary of Significant Accounting Policies

*The Department* — The Department of Water and Power of the City of Los Angeles exists under and by virtue of the City Charter enacted in 1925 as a separate proprietary agency of the City. The Power System is responsible for the generation, transmission and distribution of electric power for sale in the City.

*Financial statement presentation* — The financial statements of the Power System are presented in conformity with generally accepted accounting principles. The financial statements are substantially in conformity with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission and the California Public Utilities Commission except for the method of accounting for contributions in aid of construction described below. The Department is not subject to regulations of such commissions.

*Utility Plant* — The cost of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials and allocated indirect charges such as engineering, supervision, transportation and construction equipment, retirement plan contributions, and certain administrative and general expenses. The cost of repairs and minor replacements are charged to appropriate maintenance accounts. The original cost of property retired, plus removal cost, less salvage, is charged to accumulated depreciation.

*Depreciation and decommissioning* — Depreciation expense is computed by the straight-line method for all major projects completed after July 1, 1973 and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to this date is computed by the 5% sinking fund method based on estimated service lives. Depreciation provision as a percentage of average depreciable utility plant in service was 3.0% for the twelve months ended September 30, 1991 and 3.2%, 3.1% and 3.2% for fiscal years 1991, 1990 and 1989, respectively.

Decommissioning of the Palo Verde Nuclear Generating Station, in which the Power System has an ownership interest, is projected to start sometime after 2022. Based upon a study performed by an independent engineering firm, the Department's share of the estimated decommissioning costs is \$44 million in 1989 dollars. Decommissioning costs are charged as part of depreciation expense over the life of the nuclear power plant. A Nuclear Decommissioning Fund has been established and the Power System is setting aside funds for its share of the estimated future decommissioning costs.

*Nuclear fuel* — Nuclear fuel is amortized and charged to Fuel for Generation in the Statement of Income on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the future disposal of spent nuclear fuel.

*Cash and investments* — The Department's cash is deposited with the City Treasurer who invests the funds in securities under the City Treasurer's pooled investment program. Under the program, available funds of the City and its independent operating departments are invested on a combined basis. These investments are valued at cost, which approximates market. At September 30, 1991, June 30, 1991 and 1990, cash and investments include \$22, \$20 and \$16 million, respectively, of restricted balances relating to bond redemption and interest funds, self-insurance fund and nuclear decommissioning fund. In addition, cash and investments at September 30, 1991 and June 30, 1991

(All information relating to the twelve months ended September 30, 1991  
and as of September 30, 1991 is unaudited)

includes \$80 and \$70 million, respectively, relating to the energy cost adjustment stabilization account.

*Fuel inventory* — Coal inventories are stated at average cost. Fuel oil inventories are stated at cost, using the last-in, first-out method.

*Contributions in aid of construction* — Under the provisions of the City Charter, amounts received from customers and others for constructing utility plant are combined with retained income reinvested in the business to represent equity for purposes of computing the Power System's borrowing limits. Accordingly, contributions in aid of construction are shown in the accompanying balance sheet as an equity account and are not offset against utility plant.

*Revenues* — Revenues consist of billings to customers for consumption of electric energy and include amounts resulting from an energy cost adjustment formula designed to permit the full recovery of energy costs. The Department projects these costs to establish the energy cost recovery component of customer billings and any difference between billed and actual energy costs, resulting in over- or under-recovery of energy costs, is adjusted in subsequent billings.

The Power System recognizes energy costs in the period incurred and accrues for estimated energy sold but not yet billed.

The Power System's rates are established by a rate ordinance which is approved by the City Council. The Power System sells electric energy to other Departments of the City at rates provided in the ordinance.

*Debt expenses* — Debt premium, discount and issue expenses are deferred and amortized to expense over the lives of the related issues.

*Allowance for funds used during construction (AFUDC)* — AFUDC represents the cost of borrowed funds used for the construction of utility plant. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of debt expenses. The average AFUDC rates were 7.1%, 7.2%, 7.7% and 7.6% for the twelve months ended September 30, 1991 and fiscal years 1991, 1990 and 1989, respectively.

#### **NOTE B — Receivable and Deferred Credit — Intermountain Power Agency**

As of July 1, 1988, an amendment to an Intermountain Power Agency (IPA) bond resolution provided for the use of surplus construction funds from the Intermountain Power Project. As a member participant of this project, the Department's share of such surplus funds totaled \$155 million through September 30, 1991, of which \$141 million was collected from IPA and \$14 million remained as receivable.

In fiscal 1989, \$60 million of such surplus funds were used as an offset against the purchased power expense. Pursuant to a City Ordinance of January 2, 1991, the Department established an energy cost adjustment stabilization account in which the \$95 million balance of the IPA surplus funds are accumulated. At the discretion of the Department's Chief Accounting Employee, funds may be transferred from this account to stabilize the effect of future purchased power expense on customer billings over a period not to exceed seven years.

#### **NOTE C — Jointly-owned Utility Plant**

The Power System has undivided interests in several electrical generating stations and transmission systems which are jointly-owned with other utilities. Each project participant is responsible for financing its share of construction and operating costs. The following schedule shows the Power

(All information relating to the twelve months ended September 30, 1991  
and as of September 30, 1991 is unaudited)

System's investment in each jointly-owned utility plant as included in the balance sheet at September 30, 1991 (dollar amounts in millions):

Projects	Ownership Interest	Share of Capacity (megawatts)	Plant in Service		Work in Progress
			Cost	Accumulated Depreciation	
Palo Verde Nuclear Generating Station (Note H) .....	5.7%	217	\$ 490	\$ 57	\$16
Navajo Steam Generating Station .....	21.2%	477	187	84	2
Mohave Coal Generating Station .....	20.0%	316	89	35	6
Pacific Intertie DC Transmission System ...	40.0%	1,240	174	20	5
Other transmission systems .....	Various	—	72	18	1
			<u>\$1,012</u>	<u>\$214</u>	<u>\$30</u>

The Power System will incur certain minimum operating costs on the jointly-owned facilities, regardless of the amount of energy generated or the ability to take delivery of its share of energy generated. The proportionate share of these expenses is included in the appropriate categories of operating expenses.

#### NOTE D — Revenue Certificates

At September 30, 1991, June 30, 1991 and 1990, the average interest rate of revenue certificates payable was 4.5%, 4.2% and 5.7% with various maturities of up to 144, 150 and 127 days, respectively.

#### NOTE E — Long-term Debt

Long-term debt outstanding at September 30, 1991 and June 30, 1991, consisted of revenue bonds due serially in varying annual amounts through 2031. Interest rates, which vary among individual maturities, averaged approximately 6.8% at September 30, 1991 and June 30, 1991 and 1990. The revenue bonds generally are callable ten years after issuance. Scheduled annual principal maturities during the five years succeeding June 30, 1991 are \$55, \$56, \$58, \$58 and \$62 million, respectively. Revenue bonds are secured by the future revenues of the Power System.

In prior years, the Department sold advance refunding bonds, the proceeds of which were placed in an irrevocable trust and will be used to redeem bonds currently included within long-term debt at scheduled call dates. Until the bonds to be refunded are called, interest on the advance refunding bonds is payable from interest earned on securities of the United States government purchased out of the proceeds of the sales and held in bank escrow accounts. After the monies in the escrow accounts are applied to redeem the bonds to be called, principally through 1995, interest on the advance refunding bonds will be payable from Power System revenues. The trust account assets and the liability for the refunding bonds are not included in the Department's financial statements. At September 30, 1991 and June 30, 1991, \$95 and \$96 million, respectively, of these trust assets have been offset against advance refunding bonds.

#### NOTE F — Shared Operating Expenses

The Power System shares certain administrative functions with the Department's Water System. Generally, the costs of these functions are allocated on the basis of benefits provided to the Systems.

Operating expenses shared with the Water System were \$289, \$295, \$275 and \$251 million for the twelve months ended September 30, 1991 and fiscal years 1991, 1990 and 1989, respectively, of which \$194, \$200, \$186 and \$166 million were allocated to the Power System.

(All information relating to the twelve months ended September 30, 1991  
and as of September 30, 1991 is unaudited)

**NOTE C — Employee Benefits**

*Retirement, disability and death benefit insurance plan* — The Department has a funded contributory retirement, disability and death benefit insurance plan covering substantially all of its employees. Plan benefits are generally based on years of service, age at retirement and the employees' highest 12 consecutive months of salary before retirement. The Department funds the retirement plan on an entry age normal method as determined by the plan's independent actuary. For funding purposes, prior service costs relating to the plan are amortized generally over a 30-year period ending June 30, 2003. Total fiscal year benefit plan costs for the Power System include the following (amounts in millions):

	1991	1990	1989
Service cost .....	\$ 38	\$ 36	\$ 33
Interest cost .....	148	127	130
Actual return on plan assets .....	(134)	(130)	(194)
Net amortization and deferral .....	34	43	122
Net retirement plan cost .....	86	76	91
Disability and death benefit plan costs and administrative expenses .....	13	13	13
Total benefit plan costs .....	<u>\$ 99</u>	<u>\$ 89</u>	<u>\$ 104</u>

Employee contributions to the plan totaled \$12, \$11 and \$12 million during 1991, 1990 and 1989, respectively. Total covered payroll during 1991, 1990 and 1989 was \$360, \$350 and \$330 million, respectively.

The following schedule reconciles the funded status of the plan with amounts reported in the financial statements (amounts in millions):

	June 30, 1991	June 30, 1990
Actuarial present value of benefit obligations:		
Vested benefits .....	\$1,683	1,532
Non-vested benefits .....	1	1
Accumulated benefit obligation .....	1,684	1,533
Effect of projected future compensation level .....	313	278
Projected benefit obligation .....	1,997	1,811
Plan assets at fair value .....	1,645	1,509
Projected benefit obligation in excess of plan assets .....	352	302
Unrecognized net gain and effects of changes in assumptions .....	(40)	38
Unrecognized net obligation at July 1, 1987 being recognized over 15 years .....	(253)	(277)
Accrued pension liability .....	<u>\$ 59</u>	<u>63</u>

The discount rate used in determining the plan's projected benefit obligation was 8.0% in both 1991 and 1990. The assumed rate of increase in future compensation levels was 6.0% in both 1991 and 1990. The long-term rate of return on plan assets was 8.0% in both 1991 and 1990. Plan assets consist primarily of corporate and government bonds, common stocks, mortgage-backed securities and short-term investments.

*Health Care Cost* — The Department provides certain health care benefits to active employees. The cost to the Power System of providing such benefits to active employees amounted to \$29, \$24 and \$21 million for fiscal years 1991, 1990 and 1989, respectively. In addition, health care and life insurance

(All information relating to the twelve months ended September 30, 1991  
and as of September 30, 1991 is unaudited)

are provided as postretirement benefits to retired employees and their dependents. The cost to the Power System of providing such benefits to retired employees amounted to \$11, \$9 and \$8 million for fiscal years 1991, 1990 and 1989, respectively. The costs of providing these benefits are accounted for on the pay-as-you-go-method.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new statement requires systematic recognition of the costs of postretirement benefits over employees' service periods. The Department is required to implement this statement no later than fiscal year 1994 and does not expect adoption to have a material effect on results of operations.

#### NOTE H — Commitments and Contingencies

*Payments to the reserve fund of the City* — Under the provisions of the City Charter, the Power System transfers funds at its discretion to the reserve fund of the City. Such payments are not in lieu of taxes and are recorded as distributions of retained income. The Department expects to make payments of \$91 million in fiscal year 1992 from the Power System to the reserve fund of the City.

*Long-term purchased power and transmission contracts* — The Department has entered into a number of energy and transmission service contracts which involve substantial commitments. These include an agreement with the Intermountain Power Agency, a Utah State Agency, for purchase of energy from the Intermountain Power Project (IPP) for which the Power System has served as the project manager and operating agent. The Department's total interest in IPP includes a 44.6% "take or pay" obligation and an excess power contract for 18.2% for a total of 62.8%. The Department also has two agreements with the Southern California Public Power Authority (SCPPA), a California Joint Powers Agency, for 67% of SCPPA's 5.9% entitlement to the energy generated at the Palo Verde Nuclear Generating Station and for 59.5% of the capacity of the Southern Transmission System, which transmits energy from IPP in Utah to Southern California. Significant data related to these agreements, which are scheduled to expire from 2022 to 2027, at September 30, 1991 are as follows:

	Total Bonds Outstanding (millions)	Department Share of Capacity (megawatts)
Palo Verde Nuclear Generating Station (through SCPPA) .....	\$1,019	151
Intermountain Power Project .....	4,990	1,004
Southern Transmission System (for IPP power through SCPPA) ..	1,055	1,142

All these agreements require the Power System to make certain minimum payments, which are based upon debt service requirements. While these payments are fixed charges (of approximately \$340 million in each of the next five years), the Department is also required to pay additional amounts (of approximately \$140 million in each of the next five years) for operating and maintenance costs related to actual deliveries of energy under these agreements. Total payments under these contracts were approximately \$450 million, \$530 million and \$440 million in fiscal years 1991, 1990 and 1989, respectively. These aggregate purchased power costs are recovered through the energy cost recovery component of customer billings.

The Department also has a contract through 2017 with the U.S. Department of Energy for the purchase of available energy generated at the Hoover Power Plant. The Department's share of capacity at Hoover is approximately 500 megawatts.

*Nuclear insurance* — As a participant in the Palo Verde Nuclear Generating Station, the Department could be subject to assessment of retrospective insurance premium adjustments in the event of a nuclear incident at Palo Verde or at any other licensed reactor in the United States.



(All information relating to the twelve months ended September 30, 1991  
and as of September 30, 1991 is unaudited)

**Environmental Matters** — Numerous environmental laws and regulations affect the Power System's facilities and operations. Pursuant to recently amended regulations of the South Coast Air Quality Management District, the Power System may be required to burn natural gas to the extent available, instead of fuel oil, and is committed to step down yearly the emission limits of its four steam generating stations in the Los Angeles Basin until the final limit is reached in the year 2000. The stations' boilers will likely be either repowered as combined cycles or retrofitted with NOx control systems that will reduce nitrous oxide emissions. The estimated cost of the retrofit program, which will peak in the mid 1990's, is approximately \$250 million. In addition, construction is in process to repower the Harbor Generating Station for an estimated cost of approximately \$180 million and the Valley Generating Station may be repowered beginning in 1997 for an estimated cost of approximately \$300 million. The above estimates are in 1991 dollars.

**Litigation** — A number of claims and suits are pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, any ultimate liability which may arise from these actions will not materially affect the Power System's financial position as of September 30, 1991.

## IMPERIAL IRRIGATION DISTRICT

There follows certain information concerning the Imperial Irrigation District and its Electric System prepared by the Imperial Irrigation District for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the Electric System's business, operations and financial position. A copy of the most recent Imperial Irrigation District annual report may be obtained from Charles Shreves, Imperial Irrigation District, P. O. Box 937, Imperial, California 92251.

The Imperial Irrigation District is a publicly-owned water and power utility located in southern California. The gross area served by the District is approximately 6,471 square miles in Imperial County and the Coachella Valley of Riverside County. The power supply of the District consists of hydroelectric units on the All-American Canal and oil- and gas-fired generating facilities, as well as purchases of capacity and energy from other sources. In the twelve months ended June 30, 1991, the District experienced a peak demand of 519 MW, generated 683,895 MWh and purchased 1,482,111 MWh.

Administration of the District is under the direction of a five-member elected Board of Directors. Electric rates are set by the Board of Directors after a series of public hearings and presentations to the city councils of the cities located within the District's service area. The District's electric rates are not subject to regulation by any California state agency and are not subject to approval by any Federal agency, but the District is subject to certain ratemaking provisions of the Public Utility Regulatory Policies Act of 1978.

### IMPERIAL IRRIGATION DISTRICT STATISTICS

	Year Ended December 31				Twelve Months Ended June 30, 1991(1)
	1987	1988	1989	1990	
Electric Plant:					
Net Utility Plant .....	\$192,144,623	\$240,043,587	\$259,879,414	\$299,486,180	\$317,622,253
Miles of Lines:					
Transmission .....	1,062	1,180	1,213	1,237	1,249
Distribution .....	3,183	3,214	3,250	3,283	3,299
Bonded Indebtedness .....	\$ 53,650,000	\$ 50,375,000	\$ 46,870,000	\$141,504,485	\$137,459,485
Power Supply (MWh):					
Purchases .....	1,011,198	1,127,202	1,315,610	1,425,458	1,482,111
Generation .....	753,528	781,371	753,795	772,246	683,895
Customers:					
Residential .....	53,321	56,021	58,584	61,611	62,886
Commercial .....	9,699	10,110	10,389	10,789	10,869
Industrial .....	8	11	15	16	16
Other .....	2,333	2,383	2,416	2,449	2,474
Energy Sold (MWh):					
Residential .....	654,473	700,837	748,827	766,634	764,521
Commercial .....	768,927	847,269	946,299	986,979	1,013,527
Industrial .....	6,611	8,272	8,464	6,391	5,360
Other .....	129,117	133,343	14,389	141,961	141,082
Peak Demand (MW) .....	421	455	479	545	519
Summary of Operations:					
Operating Revenues:					
Electric Sales .....	\$101,987,907	\$114,172,457	\$130,954,246	\$132,218,258	130,755,879
Other .....	3,251,900	4,173,236	4,803,418	5,546,487	5,906,320
Total .....	\$105,239,807	\$118,345,693	\$135,757,664	\$137,764,745	136,662,199
Operating Expenses:					
Purchased Power .....	\$ 44,183,895	\$ 48,387,185	\$ 60,852,201	\$ 59,701,222	57,653,274
Generation .....	18,160,602	22,788,037	22,653,480	24,003,850	20,344,502
Transmission and Distribution .....	4,885,137	6,661,405	6,779,534	8,785,537	8,932,379
Other .....	8,705,862	10,524,634	11,789,788	11,295,897	11,664,222
Total .....	\$ 75,935,496	\$ 88,361,261	\$102,075,003	\$103,786,506	98,594,377
Other Income .....	\$ 4,701,054	\$ 3,906,845	\$ 7,329,209	\$ 10,006,547	11,506,342
Net Available for Depreciation and					
Debt Service .....	\$ 34,005,365	\$ 33,891,277	\$ 4,011,870	\$ 43,984,786	49,574,164
Debt Service .....	\$ 7,508,528	\$ 6,755,631	\$ 7,609,961	\$ 16,364,040	21,154,626

(1) Unaudited.

## CITY OF RIVERSIDE

There follows certain information concerning the City of Riverside and its Public Utilities Department, prepared by the city for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the Public Utilities Department's business, operations and financial position. A copy of the Department's most recent annual report may be obtained from Bill D. Carnahan, Director of Utilities, 3900 Main Street, Riverside, California 92522.

The city is a municipal corporation existing under the laws of the State of California, owning and operating an electric public utility for its citizens, providing electric service to virtually all of the electric customers within the city limits, which encompass approximately 76.9 square miles. Excluding its interest in Units 2 and 3 of SONGS, the principal facilities of the city's electric system are subtransmission and distribution lines aggregating approximately 1,149 circuit miles as of June 30, 1991. Electric rates for the city are established by the Riverside Board of Public Utilities subject to approval by the Riverside City Council and are not subject to regulation by any California state agency. The city is subject to certain ratemaking provisions of the Public Utility Regulatory Policies Act of 1978.

The electricity supplied to the city consists of power from its ownership interest in SONGS, entitlement in IPP, PVNGS, the Hoover Upgrading Project, firm purchases from Deseret, the California Department of Water Resources, and BPA, firm power purchases from Edison under a power sales agreement, purchases from Edison under a partial requirements rate schedule and non-firm energy purchases from other utilities. During the fiscal year ended June 30, 1991, the city's electric system generated or purchased a total of 1,554,000 MWh of electricity for delivery to customers throughout the city.

### CITY OF RIVERSIDE STATISTICS

	Year Ended June 30				
	1987	1988	1989	1990	1991 (1)
<b>Electric Plant:</b>					
Net Utility Plant .....	\$147,041,138	\$143,292,568	\$154,548,000	\$157,951,000	\$171,333,000
<b>Miles of Lines:</b>					
Overhead Circuit Miles .....	634	638	642	653	651
Underground Circuit Miles .....	359	391	440	466	498
Street Light Circuit Miles .....	732	740	753	776	782
Bonded Indebtedness .....	\$151,615,000	\$149,210,000	\$146,645,000	\$143,910,000	\$191,401,000
<b>Power Supply (MWh):</b>					
All Sources .....	1,258,319	1,344,676	1,459,994	1,525,584	1,553,971
<b>Customers:</b>					
Residential .....	72,197	74,195	76,087	78,795	78,317
Commercial .....	6,677	7,169	7,620	8,083	8,156
Industrial .....	330	193	196	186	189
Other .....	150	148	148	146	146
<b>Energy Sold (Thousands of MWh):</b>					
Residential .....	430,954	452,070	502,969	516,141	545,427
Commercial .....	278,629	297,909	333,223	355,144	381,290
Industrial .....	438,597	480,114	633,442	527,083	526,037
Other .....	42,207	40,698	42,975	41,408	41,692
Peak Demand (MW) .....	392.3	317.6	367.2	407.0	404.5
<b>Summary of Operations:</b>					
<b>Operating Revenues:</b>					
Electric Sales .....	\$115,358,024	\$123,878,509	\$130,612,248	\$127,091,260	\$134,897,113
Other (2) .....	(11,955,303)	42,484	(4,963,931)	24,196,809	21,068,787
Total Revenues .....	\$103,402,721	\$123,920,993	\$125,648,317	\$151,288,069	\$155,965,900
<b>Operating Expenses:</b>					
Nuclear Production .....	\$ 5,497,642	\$ 6,621,657	\$ 8,493,825	\$ 7,944,433	\$ 7,346,566
Purchased Power .....	65,999,818	78,565,755	76,036,176	84,606,644	79,504,298
Transmission and Distribution .....	6,771,460	6,692,621	7,806,455	19,243,237	20,980,471
Other .....	7,496,455	8,055,958	9,721,651	11,336,104	12,531,818
Total Expenses .....	\$ 85,765,375	\$ 99,935,991	\$102,058,107	\$123,130,418	\$120,363,153
<b>Net Available for Depreciation and</b>					
Debt Service .....	\$ 17,637,346	\$ 23,985,002	\$ 23,590,210	\$ 28,157,651	\$ 35,602,747
Debt Service .....	\$ 12,722,464	\$ 13,183,759	\$ 13,181,109	\$ 13,221,086	\$ 13,494,229

(1) Unaudited.

(2) Includes Rate Stabilization.

NOTE: Customer count for FY 1990 included 1,177 Private Area Lights.

# CITY OF VERNON

There follows certain information concerning the City of Vernon and its Electric System, prepared by the City of Vernon-for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the Electric System's business, operations and financial position. A copy of the most recent City of Vernon annual report may be obtained from Kenneth DeDario, City of Vernon, 4305 Santa Fe Avenue, Vernon, California 90058-0805.

The City of Vernon is a municipal corporation existing under the laws of the State of California owning and operating an electric public utility for its citizens, providing electric service to virtually all of the electric customers within the city limits, which encompass approximately 5.06 square miles. The principal facilities of the city's electric system are subtransmission and distribution lines aggregating 216 circuit miles of transmission lines, as of June 30, 1991. Electric rates for the city are established by its City Council. None of these electric rates are subject to regulation by any California state agency. The City of Vernon (because of the magnitude of its energy sales) is subject to certain ratemaking provisions of the Public Utilities Regulatory Policies Act of 1978.

The city operates its electric system and obtains its bulk power supply in accordance with provisions of a tariff schedule approved by FERC. This schedule provides for partial requirement services from Edison and the ability to purchase from other utilities. At this time the City of Vernon receives power and energy from its Project Entitlements in Unit 1, Unit 2 and Unit 3 of PVNGS, Hoover Entitlements and short term firm purchases and purchases interruptible energy from other utilities and governmental agencies when it is available at an economically attractive price and transmission is available. The City of Vernon receives power and energy from its diesel units and recently installed gas turbines. All remaining power and energy requirements for the city are purchased from Edison pursuant to said tariff schedule.

## CITY OF VERNON STATISTICS

	Year Ended June 30				
	1987	1988	1989	1990	1991 (1)
Electric Plant:					
Net Utility Plant.....	\$ 14,002,321	\$ 16,969,234	\$ 20,239,537	\$19,805,322	\$20,708,079
Miles of Lines:					
Transmission .....	13	13	13	13	13
Distribution .....	203	203	203	203	203
Bonded Indebtedness(2) .....	\$125,000,000	\$125,000,000	\$125,000,000	\$ 3,922,000	\$ 3,823,540
Power Supply (MWh):					
Purchases.....	1,140,518	1,142,258	1,156,647	1,106,468	1,034,440
Generation .....	11,171	14,720	16,830	18,637	17,856
Customers:					
Residential.....	30	30	30	31	31
Commercial.....	333	355	437	392	372
Industrial .....	1,628	1,615	1,693	1,825	1,732
Other .....	89	71	119	104	132
Energy Sold (MWh):					
Residential.....	123	124	120	131	120
Commercial.....	169,516	199,207	185,247	194,388	177,681
Industrial .....	929,471	909,377	902,725	904,824	827,056
Other .....	7,732	7,467	7,455	8,120	7,420
Total .....	1,106,842	1,116,175	1,095,547	1,107,463	1,012,277
Peak Demand (MW) .....	194	190	191	193	182
Summary of Operations:					
Operating Revenues:					
Electric Sales .....	\$ 59,405,155	\$ 60,609,597	\$ 69,459,342	\$65,826,732	\$56,203,080
Other .....	74,365	80,887	7,106,123	(1,265,268)	1,446,826
Total .....	\$ 59,479,520	\$ 60,690,484	\$ 76,565,465	\$64,561,464	\$57,649,906
Operating Expenses:					
Power Supply .....	\$ 54,425,868	\$ 57,156,843	\$ 57,189,010	\$47,648,906	\$40,210,544
Transmission and Distribution .....	3,758,562	3,418,463	3,615,133	10,844,270	9,614,048
Other .....	4,868,858	6,955,432	10,193,059	4,932,923	4,153,793
Total .....	\$ 63,053,288	\$ 67,530,738	\$ 70,997,202	\$63,426,099	\$53,978,385
Net Available for Depreciation and Debt Service ....	\$ (3,573,768)	\$ (6,840,254)	\$ 5,568,263	\$ 1,135,365	\$ 3,671,521
Other Revenue Available for Depreciation and Debt Service .....	\$ 4,492,170	\$ 7,730,064	\$ 6,819,418	\$11,452,340	\$13,896,864
Debt Service .....	\$ 0	\$ 0	\$ 0	\$ 0	\$ 98,460

(1) Unaudited.

(2) Bonded Indebtedness in the amount of \$125,000,000 was retired on March 1, 1990.

## CITY OF BURBANK

There follows certain information concerning the City of Burbank's electric system, prepared by the City of Burbank for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the electric system's business, operations and financial position. A copy of the most recent annual report may be obtained from Ronald V. Stassi, General Manager, Burbank Public Service Department, 164 West Magnolia Blvd., Burbank, California 91502.

The city is a municipal corporation existing under the laws of the State of California, owning and operating an electric public utility for its citizens, supplying electricity to virtually all of the electric customers within the city limits, which encompass approximately 17.1 square miles. Electric rates are established by the Burbank City Council and are not subject to regulation by any California State agency. The city is subject to certain ratemaking provisions of the Federal Public Utility Regulatory Policies Act of 1978.

The electricity supplied to the city consists of power from a combination of oil- and gas-fired generating facilities located in the Los Angeles Basin, allocations from the Hoover Power Plant and Hoover Upgrading Project, entitlements in PVNGS and IPP and purchases from BPA and other utilities in the Northwest and Southwest. During the fiscal year ended June 30, 1991, the city purchased or generated a total of 1,044,243 MWh of electricity for delivery to customers throughout the city. The city has a 4.4% (9.525 MW) entitlement in the Authority's Interest in PVNGS. The city also has generation entitlement of 4.167% (67 MW) in IPP, an allocation of 5.125 MW from the Hoover Power Plant and an allocation of 15 MW (15.96%) of capacity and associated energy financed by the Authority in the Hoover Upgrading Project.

## CITY OF BURBANK STATISTICS

	Year Ended June 30				
	1987	1988	1989	1990	1991
<b>Electric Plant:</b>					
Net Utility Plant .....	\$45,696,151	\$46,861,380	\$49,420,211	\$60,179,690	\$65,653,481
<b>Miles of Line:</b>					
Transmission .....	52.6	52.8	54.3	54.3	54.3
Distribution .....	310.0	315.9	334.1	335.1	339.1
Bonded Indebtedness .....	\$30,430,000	\$29,380,000	\$28,255,000	\$27,050,000	\$25,760,000
<b>Power Supply (MWh):</b>					
Purchases .....	769,117	727,610	778,465	878,177	860,547
Generation .....	239,641	328,011	301,099	201,931	183,696
<b>Customers:</b>					
Residential .....	38,876	40,701	41,521	42,705	43,729
Commercial .....	6,074	6,147	6,226	6,260	6,225
Industrial .....	179	185	189	187	203
Other .....	655	682	662	628	576
<b>Energy Sold (MWh):</b>					
Residential .....	195,961	204,263	213,684	218,951	227,453
Commercial .....	213,689	225,460	228,382	233,216	232,315
Industrial .....	521,948	548,929	549,134	551,880	499,538
Other .....	30,175	31,779	33,753	33,763	31,012
Peak Demand (MW) .....	232	244	249	261	247
<b>Summary of Operations</b>					
<b>Operating Revenues</b>					
Electric Sales .....	\$63,923,886	\$69,964,742	\$81,277,652	\$84,973,915	\$82,324,095
Other .....	0	0	0	0	0
Total .....	\$63,923,886	\$69,964,742	\$81,277,652	\$84,973,915	\$82,324,095
<b>Operating Expenses:</b>					
Purchased Power .....	\$31,533,535	\$33,194,530	\$41,655,908	\$46,063,144	43,580,854
Transmission and Distribution .....	4,136,617	5,820,003	6,214,481	6,576,162	6,847,747
Other .....	17,911,038	21,427,766	23,255,892	20,393,895	20,908,496
Total .....	\$53,581,190	\$60,442,299	\$71,126,281	\$73,033,201	\$71,337,097
<b>Net Available for Depreciation and Debt</b>					
Service .....	\$10,342,696	\$ 9,522,701	\$10,151,719	\$11,940,799	\$10,986,903
Debt Service .....	\$ 3,213,355	\$ 3,239,113	\$ 3,063,395	\$ 2,769,365	\$ 2,974,715

## CITY OF GLENDALE

There follows certain information concerning the City of Glendale and its Public Service Department, prepared by the City of Glendale for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the Public Service Department's business, operations and financial position. A copy of the most recent Glendale Public Service Department annual report may be obtained from Lawrence Silva, Glendale Public Service Department, 119 North Glendale Avenue, Glendale, California 91206.

The City of Glendale is a municipal corporation existing under the laws of the State of California, owning and operating an electric public utility providing electric service to virtually all of the electric customers within the city limits. Electric rates for the city are fixed by its City Council and are not subject to regulation by any California state agency. The city is subject to certain ratemaking provisions of the Public Utility Regulatory Policies Act of 1978.

The City of Glendale supplies electricity to its electric system through a combination of oil- and gas-fired generating facilities located in the Los Angeles Basin, hydroelectric generation at the Hoover Power Plant and purchases from the BPA and other utilities in the Northwest and Southwest. In the twelve months ended June 30, 1991, the city generated 170,641 MWh of energy and purchased 864,938 MWh.

### CITY OF GLENDALE STATISTICS

	Year Ended June 30				
	1987	1988	1989	1990	1991
<b>Electric Plant:</b>					
Net Utility Plant .....	\$93,578,382	\$101,003,647	\$106,745,296	\$113,939,344	\$122,167,611
<b>Miles of Lines:</b>					
Transmission .....	73	75	75	77	77
Distribution .....	411	415	415	440	445
Bonded Indebtedness .....	\$34,695,000	\$ 32,595,000	\$ 30,395,000	\$ 28,080,000	\$ 25,645,000
<b>Power Supply (MWh):</b>					
Purchases .....	766,668	759,613	720,974	773,875	864,938
Generation .....	147,484	201,835	275,888	250,794	170,641
<b>Customers:</b>					
Residential .....	61,347	63,896	66,580	68,300	69,049
Commercial .....	11,073	11,448	11,740	11,944	12,052
Industrial .....	126	126	140	150	159
Other .....	39	35	38	33	20
<b>Energy Sold (MWh):</b>					
Residential .....	284,836	297,276	320,752	310,786	324,232
Commercial .....	332,339	363,534	314,974	321,506	335,416
Industrial .....	208,677	202,734	273,742	286,393	298,784
Other .....	20,467	16,980	19,396	19,772	15,956
Peak Demand (MW) .....	225	228	244	284	263
<b>Summary of Operations:</b>					
<b>Operating Revenues:</b>					
Electric Sales .....	\$60,170,514	\$ 68,159,028	\$ 74,543,583	\$ 76,775,018	\$ 79,421,928
Other .....	634,074	469,573	650,286	706,815	440,017
Total .....	\$60,804,588	\$ 68,628,601	\$ 75,193,869	\$ 77,481,833	\$ 79,861,945
<b>Operating Expenses:</b>					
Purchased Power .....	\$28,138,546	\$ 27,180,332	\$ 30,215,779	\$ 31,770,780	\$ 32,687,516
Generation .....	11,859,342	12,535,159	14,600,430	16,280,155	15,887,723
Transmission and Distribution .....	3,298,747	3,812,635	4,138,346	4,439,720	5,193,468
Other .....	8,285,448	8,442,380	9,449,543	10,276,081	10,781,717
Total .....	\$45,582,083	\$ 51,970,506	\$ 58,404,098	\$ 62,766,736	\$ 64,550,424
<b>Net Available for Depreciation and Debt Service</b> .....	<b>\$15,222,505</b>	<b>\$ 16,658,095</b>	<b>\$ 16,789,771</b>	<b>\$ 14,715,097</b>	<b>\$ 15,311,521</b>
<b>Debt Service</b> .....	<b>\$ 4,155,701</b>	<b>\$ 4,160,128</b>	<b>\$ 4,161,666</b>	<b>\$ 4,149,816</b>	<b>\$ 4,228,768</b>

## CITY OF PASADENA

There follows certain information concerning the City of Pasadena and its Water and Power Department prepared by the City of Pasadena for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the Water and Power Department's business, operations and financial position. A copy of the most recent Pasadena Water and Power Department annual report may be obtained from Pamela J. Wilson, Pasadena Water and Power Department, 150 South Robles Avenue, Suite 200, Pasadena, California, 91101.

The City of Pasadena is a municipal corporation existing under the laws of the State of California, owning and operating an electric public utility providing electric service to virtually all of the electric customers within the city limits. Electric rates for the city are fixed by its City Council and are not subject to regulation by any California state agency. The city is subject to certain ratemaking provisions of the Public Utility Regulatory Policies Act of 1978.

The City of Pasadena supplies electricity to its electric system through a combination of oil- and gas-fired generating facilities located in the Los Angeles Basin, hydroelectric generation at the Hoover Power Plant, coal-fired generation in Utah, and purchases from the Bonneville Power Administration and other utilities in the Northwest and Southwest. The city also purchases electric energy from its own Azusa Hydroelectric Plant. In the fiscal year ended June 30, 1991, the city generated 293,288 MWh of energy and purchased 963,969 MWh.

### CITY OF PASADENA STATISTICS

	Year Ended June 30				
	1987	1988	1989	1990	1991(1)
Electric Plant:					
Net Utility Plant .....	\$87,170,197	\$93,048,549	\$97,158,489	\$ 99,527,907	\$115,369,595
Miles of Lines:					
Transmission .....	86	86	86	86	86
Distribution .....	327	327	328	328	328
Electric Revenue Bonds .....	\$41,390,000	\$39,635,000	\$37,845,000	\$ 36,015,000	\$ 55,290,000
Power Supply (MWh):					
Purchases .....	669,236	797,790	903,160	1,062,712	963,969
Generation .....	361,022	331,924	412,029	384,541	293,288
Customers:					
Residential .....	47,145	47,485	47,894	48,234	48,472
Commercial .....	6,623	6,827	7,004	7,175	7,238
Industrial .....	745	771	792	810	844
Other .....	173	182	184	185	178
Energy Sold (MWh):					
Residential .....	236,135	244,412	254,549	256,357	265,288
Commercial .....	131,181	136,432	137,776	139,928	140,927
Industrial .....	550,672	587,439	599,201	585,983	623,865
Sales to Other Utilities .....	—	—	163,800	257,885	62,022
Other .....	43,774	46,993	49,307	58,885	49,664
Peak Demand (MW) .....	232	240	246	268	254
Summary of Operations:					
Operating Revenues:					
Electric Sales .....	\$61,228,605	\$76,002,233	\$87,462,317	\$ 88,584,289	\$ 92,372,225
Sales to Other Utilities .....	—	—	6,306,853	11,662,552	4,804,679
Other .....	—	—	—	—	—
Total .....	\$61,228,605	\$76,002,233	\$93,769,170	\$100,246,841	\$ 97,176,904
Operating Expenses:					
Purchased Power .....	\$28,553,823	\$40,701,733	\$52,279,538	\$ 54,781,887	\$ 50,607,594
Generation .....	13,219,859	15,455,471	18,782,321	21,295,183	17,218,914
Transmission and Distribution .....	3,159,343	3,549,894	4,415,690	4,644,951	4,842,911
Other .....	4,587,567	5,359,358	6,298,065	8,590,462	8,676,275
Total .....	\$49,520,592	\$65,066,456	\$81,775,614	\$ 89,312,483	\$ 81,345,694
Net Available for Depreciation and Debt					
Service .....	\$11,708,013	\$10,935,777	\$11,993,556	\$ 10,934,358	\$ 15,831,210
Debt Service .....	\$ 4,240,654	\$ 4,582,396	\$ 4,499,718	\$ 4,424,053	\$ 5,316,231

(1) Unaudited

## CITY OF AZUSA

There follows certain information concerning the City of Azusa and its Municipal Light and Water Department, prepared by the city for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the Municipal Light and Water Department's business, operations and financial position. A copy of the most recent of the Municipal Light and Water Department annual report may be obtained from Joseph F. Hsu, Director of Utilities, Municipal Light Department, 777 No. Alameda Avenue, Azusa, California 91702-9500.

The city is a municipal corporation existing under the laws of the State of California, owning and operating an electric public utility for its citizens, providing electric service to virtually all of the electric customers within the city limits, which encompass approximately 9 square miles. The principal facilities of the city's electric system are substation and distribution lines aggregating approximately 152 circuit miles as of June 30, 1991. Electric rates for the city are established by its City Council and are not subject to regulation by any California state agency.

The city operates its electric system and obtains its bulk power supply in accordance with provisions of the IOA between the city and Edison. The IOA provides, among other things, that the requirements of the city's electric system will be met by generating resources in which the city has a contractual or ownership interest and, to the extent required, by wholesale purchases from Edison. The city currently receives power and energy from its Project Entitlements in Units 1, 2 and 3 of PVNGS, Hoover Entitlements, a long term firm power purchase from the Idaho Power Company and short term firm purchases and purchases interruptible energy from other utilities and governmental agencies when it is available at an economically attractive price and transmission is available.

### CITY OF AZUSA STATISTICS

	Year Ended June 30				
	1987	1988	1989	1990	1991(1)
Electric Plant:					
Net Utility Plant.....	\$ 3,705,428	\$ 3,205,884	\$ 4,705,360	\$ 4,912,914	\$ 6,054,947
Miles of Lines:					
Transmission .....	—	—	—	—	—
Distribution .....	139	144	147	149	152
Bonded Indebtedness .....	—	—	—	—	—
Power Supply (MWh):					
All Sources .....	185,713	196,436	202,203	215,737	212,640
Customers:					
Residential .....	11,157	11,640	12,267	12,220	12,258
Commercial .....	1,311	1,352	1,315	1,307	1,304
Industrial .....	34	34	31	30	30
Other .....	52	50	151	161	164
Energy Sold (MWh):					
Residential .....	53,961	56,530	61,100	63,087	62,949
Commercial .....	58,528	60,305	58,172	60,977	63,752
Industrial .....	64,542	67,988	66,900	63,508	61,613
Other .....	2,414	407	4,038	5,963	5,713
Peak Demand (MW) .....	44.0	46.9	46.7	47.8	47.7
Summary of Operations:					
Operating Revenues:					
Electric Sales .....	\$15,881,642	\$16,045,720	\$17,415,052	\$17,314,700	\$17,386,896
Other(2)(3) .....	154,080	495,555	348,643	160,620	143,115
Total .....	\$16,035,722	\$16,541,275	\$17,763,695	\$17,475,320	\$17,530,011
Operating Expenses:					
Purchased Power .....	\$10,518,613	\$10,808,514	\$11,411,374	\$10,884,496	\$ 9,220,393
Transmission and Distribution .....	1,231,667	992,597	1,005,932	1,103,144	1,269,310
Other .....	895,539	1,310,048	1,288,294	1,411,509	1,353,632
Total .....	\$12,645,819	\$13,111,159	\$13,705,600	\$13,399,149	\$11,843,335
Net Available for Depreciation and Debt					
Service Debt Service .....	\$ 3,389,903	\$ 3,340,116	\$ 4,058,095	\$ 4,076,171	\$ 5,686,676
Debt Service .....	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

(1) Unaudited

(2) Does not include \$2,037,241 refund from Edison for 1986.

(3) Does not include \$673,620 refund from Edison in 1990.



## CITY OF BANNING

There follows certain information concerning the City of Banning's Electric System, prepared by the City of Banning for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the Electric System's business, operations and financial position. A copy of the most recent annual report may be obtained from Mr. Terry M. Collins, 176 East Lincoln Street, Banning, California, 92220.

The city is a municipal corporation existing under the laws of the State of California, owning and operating an electric public utility for its citizens, providing electric service to virtually all of the electric customers within the city limits, which encompass approximately 18.9 square miles. The principal facilities of the city's electric system are sub-transmission and distribution lines aggregating approximately 105 circuit miles of transmission lines, as of July, 1991. Electric rates for the city are established by its City Council and are not subject to regulation by any California state agency.

The city operates its electric system and obtains its bulk power supply in accordance with provisions of the IOA between the city and Edison. The IOA provides, among other things, that the requirements of the city's electric system will be met by generating resources in which the city has a contractual or ownership interest and, to the extent required, by wholesale purchases from Edison. The city currently receives power and energy from its Project Entitlements in Units 1, 2 and 3 of PVNGS, Hoover Entitlements, a long term firm power purchase from the Idaho Power Company and short term firm purchases and purchases interruptible energy from other utilities and governmental agencies when it is available at an economically attractive price and transmission is available.

### CITY OF BANNING STATISTICS

	Year Ended June 30				
	1987	1988	1989	1990	1991 (1)
Electric Plant					
Net Utility Plant .....	\$4,185,193	\$5,098,965	\$6,383,331	\$7,322,927	\$7,556,093
Miles of Lines:					
Transmission .....	12	12	12	12	12
Distribution .....	89	90	92	96	99
Bonded Indebtedness .....	\$2,570,000	\$2,540,000	\$2,510,000	\$2,475,000	\$2,435,000
Power Supply (MWh):					
All Sources .....	76,565	84,848	97,199	95,737	103,150
Customers:					
Residential .....	5,791	6,345	5,633	7,273	7,560
Commercial .....	642	694	1,781	772	810
Industrial .....	5	5	5	7	7
Other .....	159	166	99	109	110
Energy Sold (MWh):					
Residential .....	31,227	32,080	32,682	37,930	40,201
Commercial .....	26,191	28,656	37,367	34,930	40,037
Industrial .....	8,858	8,497	9,179	9,810	8,502
Other .....	3,781	7,014	8,182	7,825	7,422
Peak Demand (MWe) .....	18.5	21.7	24.2	25.2	25.9
Summary of Operations:					
Operating Revenues:					
Electric Sales .....	\$6,725,499	\$6,443,073	\$7,380,508	\$8,236,073	\$9,424,165
Other (2) .....	142,526	153,331	153,256	429,221	422,446
Total .....	\$6,868,025	\$6,596,404	\$7,533,764	\$8,665,294	\$9,846,611
Operating Expenses:					
Power Purchased, Transmission and					
Distribution .....	\$4,633,565	\$4,492,473	\$5,351,921	\$5,843,207	\$5,771,863
Other (3) .....	1,603,629	1,895,550	1,884,568	2,287,938	2,586,021
Total .....	\$6,237,194	\$6,388,023	\$7,236,489	\$8,131,145	\$8,357,884
Net Available for Depreciation and Debt Service	\$ 630,831	\$ 208,381	\$ 297,275	\$ 534,149	\$1,488,727
Debt Service (4) .....	\$ 24,133	\$ 49,109	\$ 54,883	\$ 200,671	\$ 204,196

(1) Unaudited

(2) Includes refund for power purchased from Edison of \$32,438, \$120,850 and \$216,879 for 1988, 1989 and 1991, respectively.

(3) Includes administrative transfers to General Fund of \$632,639, \$611,391, \$627,723, \$681,698 and \$852,000 for the years 1987 through 1991, respectively.

(4) Includes principal and interest on bank notes and certificates of participation.

## CITY OF COLTON

There follows certain information concerning the City of Colton's Utility System, prepared by the City of Colton for inclusion in this Appendix to the Official Statement. This information does not purport to cover all aspects of the System's business, operations and financial position. A copy of the most recent annual report may be obtained from Gale A. Drews, Utility Director, 650 North La Cadena, Colton, California 92324.

The city is a municipal corporation existing under the laws of the State of California, owning and operating an electric public utility for its citizens, providing electric service to virtually all of the electric customers within the city limits, which encompass approximately 17.5 square miles. The principal facilities of the city's electric system are sub-transmission and distribution lines aggregating approximately 139 circuit miles of transmission lines, as of July, 1991. Electric rates for the city are established by its City Council and are not subject to regulation by any California state agency.

The city operates its electric system and obtains its bulk power supply in accordance with provisions of the IOA, which the city has executed with Edison. The IOA provides, among other things, that the requirements of the city's electric system will be met by generating resources in which the city has a contractual or ownership interest and, to the extent required, by wholesale purchases from Edison. At this time the City of Colton receives power and energy from its Project Entitlements in Unit 1, Unit 2 and Unit 3 of PVNGS, Hoover Entitlements, a long term firm power purchase from the Idaho Power Company and short term firm purchases and purchases interruptible energy from other utilities and governmental agencies when it is available at an economically attractive price and transmission is available. All remaining power and energy requirements for the city are purchased from Edison at wholesale rates.

## CITY OF COLTON STATISTICS

	Year Ended June 30				
	1987	1988	1989	1990	1991(1)
Electric Plant:					
Net Utility Plant .....	\$ 4,432,230	\$ 4,947,796	\$ 6,318,240	\$ 7,146,847	\$ 7,768,638
Miles of Lines:					
Transmission .....	1.5	2.3	2.3	2.3	2.3
Distribution .....	114	121	131	136.2	137.0
Bonded Indebtedness .....	\$ 975,000	\$ 940,000	\$ 900,000	\$ 855,000	\$ 810,000
Power Supply (MWh):					
Generation & Purchases .....	159,109	174,427	190,090	214,895	209,327
Customers:					
Residential .....	11,043	12,037	12,549	13,192	13,309
Commercial .....	1,293	1,379	1,434	1,540	1,605
Industrial .....	10	10	11	12	11
Other .....	98	105	112	116	123
Peak Demand (MWe) .....	39.4	40.2	47.2	54.3	53.7
Energy Sold (MWh):					
Residential .....	52,158	61,236	69,654	73,989	76,436
Commercial .....	58,564	63,534	68,200	77,165	81,814
Industrial .....	29,897	32,423	33,092	36,798	29,668
Other .....	6,931	7,855	8,106	8,012	8,279
Summary of Operations:					
Operating Revenues:					
Electric Sales .....	\$12,865,538	\$14,312,140	\$15,081,592	\$17,196,269	\$16,600,890
Other .....	62,640	44,742	89,387	87,757	87,679
Total .....	\$12,928,178	\$14,356,882	\$15,170,979	\$17,284,026	\$16,688,569
Operating Expenses:					
Purchased Power .....	\$10,452,914	\$ 9,133,055	\$ 9,728,118	\$11,308,256	\$11,354,125
Transmission and Distribution .....	422,291	448,159	557,260	667,210	673,224
Other .....	1,752,112	1,859,442	2,116,453	2,300,278	2,698,337
Total .....	\$12,627,317	\$11,440,656	\$12,401,831	\$14,275,744	\$14,725,686
Net Available for Depreciation and Debt					
Service .....	\$ 300,861	\$ 2,916,226	\$ 2,769,148	\$ 3,008,282	\$ 1,962,883
Debt Service .....	\$ 97,120	\$ 95,038	\$ 97,788	\$ 100,215	\$ 70,549

(1) Unaudited.

## SUMMARIES OF CERTAIN DOCUMENTS

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## SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following is a summary of certain provisions of the Bond Indenture. This summary is not to be considered a full statement of the terms of the Bond Indenture and accordingly is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not defined in this summary or in the Official Statement have the respective meanings set forth in the Bond Indenture.

## Pledge Effected by the Bond Indenture

Under the Bond Indenture, the Authority has pledged and assigned to the Trustee, for the benefit of the Bondholders, (1) the proceeds of the sale of the Bonds, (2) the Revenues, and (3) all Funds established by the Bond Indenture (excluding the Decommissioning Account in the Reserve and Contingency Fund), including the investments, if any, of the moneys therein, subject only to the provisions of the Bond Indenture permitting the application thereof for the purpose and on the terms and conditions set forth in the Bond Indenture (including application of the moneys on deposit in certain refunding escrow funds).

## Nature of Obligation

The Bond Indenture provides that the principal and Redemption Price of, and interest on, the Bonds shall be payable solely from the Revenues and other funds pledged by the Authority under the Bond Indenture. The Bonds are not an obligation of the State of California or any public agency thereof, other than the Authority, or any member of the Authority or any Project Participant and neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any Project Participant is pledged for the payment of the Bonds.

## Application of Revenues

Revenues are pledged by the Bond Indenture to payment of principal and Redemption Price of and interest on the Bonds, subject to the provisions of the Bond Indenture permitting application for other purposes. The Bond Indenture establishes the following Funds and Accounts for the application of Revenues:

<u>Funds</u>	<u>Held By</u>
Construction Fund .....	Trustee
Revenue Fund .....	Trustee
Operating Fund .....	Trustee
Debt Service Fund .....	Trustee
Debt Service Account	
Debt Service Reserve Account	
Bond Anticipation Note Fund .....	Trustee
Reserve and Contingency Fund .....	Trustee
Renewal and Replacement Account	
Decommissioning Account	
Reserve Account	
General Reserve Fund .....	Trustee

All Revenues received are to be deposited promptly in the Revenue Fund upon receipt thereof. Amounts in the Revenue Fund are to be paid monthly, in the following order of priority for application therefrom as follows:

1. To the Operating Fund, a sum which, together with any amount in the Operating Fund not set aside as a general reserve for Authority Operating Expenses or as a reserve for the acquisition of fuel or as a reserve for working capital, is equal to the total moneys appropriated for Authority Operating Expenses in the Annual Budget for the then current month. Such sum shall be paid to the Operating Fund as soon as practicable in each month after deposit of Revenues in the Revenue Fund, but not later than the last business day of such month. In addition, if the Supplemental Indenture authorizing a Series of Bonds so provides, amounts from the proceeds of such Bonds may be deposited in the Operating Fund and set aside as a reserve for the acquisition of fuel and as a reserve for working capital. At the requisition of the Authority, signed by an Authorized Authority Representative, amounts in the Operating Fund shall be paid out from time to time by the Trustee for reasonable and necessary Authority Operating Expenses. Additional amounts may be paid out from the appropriate separate Account in the Operating Fund to establish a revolving fund with a maximum balance of \$250,000 for the payment of Authority Operating Expenses not conveniently paid as described in the previous sentence. The Bond Indenture provides for the application of excess amounts in the Operating Fund to make up any deficiencies in certain other funds established under the Bond Indenture with any balance to be deposited in the General Reserve Fund.

2. To the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund, the respective amounts required so that the balances in such Accounts equal the Accrued Aggregate Debt Service and the Debt Service Reserve Requirement, respectively. The Trustee will apply amounts in the Debt Service Account to the payment of principal of and interest on the Bonds. In addition, the Trustee may, and if directed by the Authority must, apply certain amounts in the Debt Service Account to the purchase or redemption of Bonds to satisfy sinking fund requirements prior to the due date of any Sinking Fund Installment. The Trustee must pay out of the Debt Service Account the amount required for the redemption of Bonds called for redemption pursuant to sinking fund requirements, or maturing, on any redemption or maturity date.

In the event of the refunding of one or more Series of Bonds, the Trustee shall, upon the direction of the Authority with the advice of Bond Counsel, withdraw from the Debt Service Account in the Debt Service Fund amounts accumulated therein with respect to Debt Service on the Bonds being refunded and hold such amounts for the payment of the principal or Redemption Price, if applicable, and interest on the Series of Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Series of Bonds being refunded shall be deemed to have been paid pursuant to the Bond Indenture, and (b) the amount remaining in the Debt Service Account after such withdrawal shall not be less than the requirement of such Account pursuant to the Bond Indenture.

Amounts in the Debt Service Reserve Account are to be applied on the last business day of each month to make up any deficiency in the Debt Service Account. Whenever the amount in the Debt Service Reserve Account, together with the amount in the Debt Service Account, is sufficient to pay in full all Outstanding Bonds in accordance with their terms, the funds on deposit in the Debt Service Reserve Account shall be transferred to the Debt Service Account. As long as the amount in the Debt Service Fund is sufficient to pay all then Outstanding Bonds in full (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made in the Debt Service Reserve Account. Whenever moneys on deposit in the Debt Service Reserve Account exceed the Debt Service Reserve Requirement, the excess will be deposited in the Revenue Fund.

Deposits from the Revenue Fund into the Debt Service Fund, the Bond Anticipation Note Fund, the Reserve and Contingency Fund and the General Reserve Fund are to be made as soon as practicable in each month after the deposit of Revenues into the Revenue Fund and the payment to

the Operating Fund have been made for such month, but not later than the last business day of such month.

3. To the Bond Anticipation Note Fund, the amount, if any, required so that the balance in said Fund shall equal all interest on Outstanding Bond Anticipation Notes accrued and unpaid and to accrue to the end of the then current calendar month. The Trustee will apply amounts in the Bond Anticipation Note Fund to the payment of interest on Bond Anticipation Notes in accordance with the provisions of the resolution, agreement or contract relating to the issuance of such Bond Anticipation Notes. However, if at any time the amounts in the Debt Service Account or the Debt Service Reserve Account are less than the amounts required by the Bond Indenture, and there is not on deposit in the General Reserve Fund or in the Renewal and Replacement Account or the Reserve Account in the Reserve and Contingency Fund available moneys sufficient to cure such deficiency, the Trustee shall transfer from the Bond Anticipation Note Fund the amount necessary to make up such deficiency.

4. To the Reserve and Contingency Fund, for credit to (a) the Renewal and Replacement Account, the amount, if any, provided for deposit therein during the then current month in the current Annual Budget; (b) the Decommissioning Account, the amount, if any, provided for deposit therein for the then current month as set forth in the current Annual Budget; and (c) the Reserve Account, the amount, if any, provided for deposit therein during the then current month provided in the current Annual Budget.

Amounts in the Renewal and Replacement Account will be applied to the costs of Capital Improvements.

Amounts in the Decommissioning Account will be held as a reserve for the retirement from service, decommissioning or disposal of the generation facilities of the Project.

To the extent not provided for in the then current Annual Budget or by reserves in the Operating Fund or from the proceeds of Bonds, amounts in the Reserve Account will be applied to the costs of Capital Improvements to the extent amounts in the Renewal and Replacement Account are not sufficient therefor, and to the payment of extraordinary operation and maintenance costs of the Project, and contingencies.

If at any time the amounts in the Debt Service Account or in the Debt Service Reserve Account are less than the amounts required by the Bond Indenture, and there are not on deposit in the General Reserve Fund available moneys sufficient to cure such deficiency, then the Trustee will transfer from the Reserve Account and the Renewal and Replacement Account, in that order, the amount necessary to make up such deficiency.

Amounts in the Renewal and Replacement Account or the Reserve Account not required to meet any deficiencies in the Debt Service Fund or for any of the purposes for which such Accounts or the Decommissioning Account were established shall be transferred to the Operating Fund to the extent, if any, deemed necessary by the Authority to make up any deficiencies therein. Any remaining excess shall be deposited into the General Reserve Fund.

5. To the General Reserve Fund, the balance, if any, in the Revenue Fund. The Trustee shall transfer from the General Reserve Fund amounts in the following order of priority: (a) to the Debt Service Account and the Debt Service Reserve Account the amount necessary to make up any deficiencies in required payments to said Accounts, (b) to the Debt Service Reserve Account the amount of any deficiency in such Account resulting from any transfer to the Debt Service Account, and (c) to the Renewal and Replacement Account, the Decommissioning Account and the Reserve Account in the Reserve and Contingency Fund the amount necessary (or all moneys in the General Reserve Fund if less than the amount necessary) to make up any deficiencies in payments to said Accounts.

Amounts in the General Reserve Fund not required to meet any of the deficiencies described above or not required by the Bond Indenture for the purchase or redemption of Bonds will upon

determination of the Authority be applied to or set aside for any one or more of the following: (a) transfer to the Revenue Fund; (b) the purchase or redemption of any Bonds, and expenses and reserves in connection therewith; (c) Authority Operating Expenses or reserves therefor; (d) payments into any separate account or accounts established in the Construction Fund; (e) Costs of Acquisition and Construction attributable to Capital Improvements or reserves therefor; (f) reduction in the cost of the Project power and energy to Project Participants under the Power Sales Contracts; (g) payment of principal of Bond Anticipation Notes; and (h) any other lawful purpose of the Authority related to the Project. Bonds purchased or redeemed with amounts in the General Reserve fund shall be credited to Sinking Fund Installments thereafter to become due (other than the next due).

#### **Construction Fund**

The Bond Indenture establishes a Construction Fund, to be held by the Trustee, into which will be paid amounts required by the provisions of the Bond Indenture and any Supplemental Indenture and any moneys received for or in connection with the Project by the Authority, unless required to be otherwise applied as provided in the Bond Indenture. In addition, proceeds of insurance for physical loss or damage to the Project, including proceeds of any self-insurance fund, or of contractors' performance bonds pertaining to the period of construction of the Project will be paid into the Construction Fund. Within the Construction Fund, separate accounts will be established for (i) the Initial Facilities and (ii) any Capital Improvements, the costs of which are to be paid out of the Construction Fund.

The Trustee will pay, upon the requisitions of the Authority therefor, from the Construction Fund the Cost of Acquisition and Construction of the Project. Each such payment shall be made by the Trustee upon the filing by the Authority with the Trustee of a requisition for such payment, except that the Trustee will, during the construction of the Project, pay to the Authority a sum or sums aggregating not more than \$250,000 to be used as a revolving fund. The Authority is to use the moneys in such revolving fund to pay such items of the Cost of Construction and Acquisition of the Project which cannot be conveniently paid through the filing with the Trustee prior to payment of requisitions by the Authority. Upon requisition by the Authority, the Trustee will, so long as the amount in such fund is less than \$250,000, reimburse such fund by payments from the Construction Fund for expenses paid by the Authority.

Upon completion of the Initial Facilities or any Capital Improvements, the balance in the separate account in the Construction Fund established therefor not required to complete payment for the Cost of Acquisition and Construction of such Initial Facilities or Capital Improvements will be transferred to the Debt Service Reserve Account to the extent necessary to make the amount in such Account equal to the Debt Service Reserve Requirement, and the excess, if any, will be transferred to the General Reserve Fund for application to the retirement of Bonds by purchase or redemption. To the extent that other moneys are not available therefor, amounts in the Construction Fund will be applied, in priority to the other applications described above, to the payment of principal of and interest on Bonds when due.

#### **Debt Service Reserve Requirement and Certain Other Definitions Pertaining to the Issuance of Bonds**

Debt Service Reserve Requirement means, as of any date of calculation, an amount equal to the greatest amount of Adjusted Aggregate Debt Service for the then current or any future Fiscal Year; provided, however, that, for purposes of this definition, Adjusted Aggregate Debt Service shall be computed in accordance with the definition of said term given below with the exception that Aggregate Debt Service or Adjusted Debt Service with respect to a Series of Lender Bonds shall not be included in such computation unless the Supplemental Indenture authorizing such Series of Lender Bonds shall specify that such Aggregate Debt Service or Adjusted Debt Service shall be included in said computation; and provided further, that if such a computation shall include one or more Series of

Lender Bonds, each such Lender Bond shall be deemed to bear at all times to the maturity date thereof the Assumed Interest Rate applicable thereto.

Adjusted Aggregate Debt Service means, as of any date of calculation and with respect to any period, the sum of (i) the sum of the amounts of Adjusted Debt Service during such period for all Series of Bonds and (ii) the Aggregate Debt Service during such period for all Series of Bonds not included in the computation of Adjusted Debt Service on such date of calculation; provided, however, that in computing such Aggregate Debt Service, any particular Lender Bonds shall be deemed to bear at all times to the maturity thereof the Assumed Interest Rate applicable thereto.

Adjusted Debt Service means, with respect to any Series of Bonds, as of any date of calculation and with respect to any period, the Debt Service for such Series of Bonds for such period which would result if the Principal Installment for such Series due on the final maturity date of such Series were adjusted over the period specified pursuant to the next sentence so that the Bonds of such Series would have Substantially Equal Debt Service for each Fiscal Year of such period and that such Principal Installment would be fully paid at the end of such period, assuming timely payment of all principal of and premium, if any, and interest on the Bonds of such Series in accordance with such adjustments and computing the interest component of Debt Service on the basis of the true interest cost actually incurred on such Series of Bonds (determined by the true, actuarial method of calculation). Such adjustment shall be made over a period which shall begin with the final maturity date of such Series and end on a date which shall be specified in the Supplemental Indenture authorizing such Series of Bonds, which date shall be not later than the earlier to occur of (i) 35 years after the date of such Bonds or (ii) the termination date of the Power Sales Contracts. For purposes of computing such true interest cost for any Series of Bonds containing Lender Bonds, each such Lender Bond shall be deemed to bear at all times to the maturity date thereof the Assumed Interest Rate applicable thereto.

Assumed Interest Rate means, as to any Lender Bonds with a Variable Interest Rate, the interest rate for such Bonds assumed for purposes of determining their maturity schedule, and as to any Lender Bonds not having a Variable Interest Rate, the stated interest rate for each such Lender Bond.

Lender Bonds means Bonds which: (i) are issued in exchange for Bond Anticipation Notes, (ii) are issued pursuant to the requirements of a lending or credit facility or agreement and (iii) will be held by a bank, trust company or similar financial institution, domestic or foreign. To the extent such Bonds are not included in the computation of the Debt Service Reserve Requirement, the Supplemental Indenture pursuant to which such Bonds are issued shall specify that such Bonds shall not have a lien on or pledge of or be payable from, any moneys on deposit in the Debt Service Reserve Account notwithstanding any other provision of the Bond Indenture to the contrary.

Substantially Equal Adjusted Aggregate Debt Service means, with respect to any period of similar Fiscal Years for all Series of Bonds, that the greatest Adjusted Aggregate Debt Service for any Fiscal Year in such period is not in excess of one hundred and twenty-five per cent of the Adjusted Aggregate Debt Service for any preceding Fiscal Year in such period.

Substantially Equal Debt Service means, with respect to any period of Years for any Series of Bonds, that the greatest Debt Service for any Year in such period is not in excess of one hundred and twenty-five per cent of the smallest Debt Service for any Year in such period; provided, however, that in computing Debt Service for the purpose of this definition, any particular Lender Bond shall be deemed to bear at all times prior to the maturity thereof the Assumed Interest Rate applicable thereto.

#### Certain Requirements of and Conditions to Issuance of Bonds

Bonds shall be authenticated by the Trustee pursuant to the Bond Indenture upon compliance with certain requirements and conditions, including the following:

- (a) The Trustee shall have received an Opinion of Bond Counsel to the effect that the Bonds of the Series being issued have been duly and validly authorized and issued and are valid and

binding obligations of the Authority and as to certain other matters concerning the Bond Indenture.

(b) The Trustee shall have received the amount, if any, necessary for deposit in the Debt Service Reserve Account in the Debt Service Fund so that the balance in such Account shall equal the Debt Service Reserve Requirement calculated immediately after authentication and delivery of such Series of Bonds.

(c) Except in the case of Lender Bonds and Refunding Bonds, the Authority shall have certified that it is not in default in the performance of its agreements under the Bond Indenture.

The Bond Indenture also authorizes the issuance of Bonds known as "Initial Facilities Issue" to be issued in Series from time to time to pay all or a portion of the Cost of Acquisition and Construction of the Initial Facilities. Proceeds, including accrued interest, of each Series of Bonds of the Initial Facilities Issue are to be applied as determined by the Supplemental Indenture authorizing such Series.

The Bond Indenture also provides that Principal Installments will be established at the time of issuance for each Series of Bonds of the Initial Facilities Issue and each Series of Additional Bonds and Refunding Bonds so as to comply with the following:

(a) Principal Installments shall commence not later than the later of (A) the first day of the eighth Fiscal Year following the end of the Fiscal Year of authentication and delivery of such Series of Bonds or (B) the first day of the fifth Fiscal Year following the end of the Fiscal Year in which the Project Manager estimates that the last generation unit of the Project will first reach its Date of Firm Operation, and shall terminate not later than the date on which the Power Sales Contracts terminate.

(b) Such Principal Installments shall result in either (A) Substantially Equal Debt Service for the Bonds of such Series for the Year immediately preceding the due date of the first such Principal Installment to occur subsequent to the Date of Firm Operation of the last generating unit of the Project and for each Year thereafter to and including the final maturity date of such Series or (B) Substantially Equal Adjusted Aggregate Debt Service for all Outstanding Bonds, including such Series being issued, for the first Fiscal Year in which Principal Installments become due on all Series of Bonds then Outstanding, including such Series being issued, beginning however no earlier than the Fiscal Year immediately preceding the due date of the first Principal Installment to occur subsequent to the Date of Firm Operation of the last generating unit of the Project, and for each Fiscal Year thereafter to and including the Fiscal Year immediately preceding the latest maturity of any Series of Bonds Outstanding immediately prior to the issuance of such Series being issued or the Fiscal Year immediately preceding the latest maturity of such Series being issued, whichever is earlier (using in the case of any Series of Bonds sold by competitive bidding a net effective interest rate for the Bonds of such Series as estimated by the Authority); provided, that, if the first Principal Installment for any Series of Bonds shall be less than 12 months after the date of issuance thereof, it shall be assumed, for purposes of this calculation, that interest accrued on such Series for the entire 12-month period preceding the first Principal Installment at the same rate as interest accrued for the actual portion of such period during which such Series of Bonds was Outstanding.

#### **Additional Bonds**

The Authority may issue one or more Series of Additional Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of any Capital Improvements upon compliance with the following in addition to the conditions to issuance described above:

(a) In the case of Additional Bonds being issued to finance the Cost of Acquisition and Construction of Capital Improvements which are determined necessary by the Board of Directors under the Power Sales Contracts to keep the Project in good operating condition or to prevent a



loss of revenue therefrom or to prevent an increase in Authority Operating Expenses, the Trustee shall have received an opinion of the Consulting Engineer to such effect.

(b) In the case of Additional Bonds being issued to finance the Cost of Acquisition and Construction of Capital Improvements either required by any governmental agency having jurisdiction over the Project, required by the Participation Agreement or required by the Bond Indenture, the Trustee shall have received an Opinion of Bond Counsel to the effect that such Capital Improvements are either required by such governmental agency or are an obligation of the Authority arising out of the Power Sales Contracts, the Participation Agreement or the Bond Indenture, respectively.

### **Refunding Bonds**

One or more Series of Refunding Bonds may be issued to refund all Outstanding Bonds of one or more Series or one or more maturities within a Series. Refunding Bonds shall be authenticated and delivered by the Trustee pursuant to the Bond Indenture upon compliance with certain requirements and conditions, including the receipt by the Trustee of either (i) moneys sufficient to pay the applicable Redemption Price of the refunded Bonds to be redeemed plus the amount required to pay principal on refunded Bonds not to be redeemed together with accrued interest on such Bonds or (ii) Investment Securities in such amounts and having such terms as required by the Bond Indenture to pay the principal or Redemption Price, if applicable, and interest due on the redemption date or maturity date, as the case may be.

### **Notice of Redemption**

The Bond Indenture requires the Trustee to give notice of any redemption of the Bonds by publication once a week for at least two successive weeks in newspapers customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the English language and of general circulation, respectively, in Los Angeles, California and in the Borough of Manhattan, City and State of New York. The first such publication is required to be made not less than 30 days nor more than 60 days prior to the redemption date. The Trustee is also required to mail a copy of such notice not less than 25 days before the redemption date to the holders of any registered Bonds which are to be redeemed, but failure to do so will not affect the validity of any redemption.

### **Interchangeability**

Bonds in coupon form, upon surrender thereof at the principal corporate trust office of the Trustee, acting as Bond Registrar pursuant to the Bond Indenture, with all unmatured coupons attached, may, at the option of the holder thereof, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same Series and maturity and of any authorized denominations.

Bonds in fully registered form, upon surrender thereof at the principal corporate trust office of the Bond Registrar with a written instrument of transfer satisfactory to the Bond Registrar, duly executed by the registered owner or his duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Bonds in coupon form, of the same Series and maturity with appropriate coupons attached, or of Bonds in registered form of the same Series and maturity and of any other authorized denomination.

In all cases in which the privilege of exchanging the Bonds or transferring the registered Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver the Bonds in accordance with the provisions of the Bond Indenture. For every such exchange or transfer of the Bonds, the Authority or the Bond Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Authority nor the Bond Registrar shall be required to transfer or exchange any Bond (a) for a period of 20 days next preceding an interest payment date or next preceding any selection of the

Bonds to be redeemed or thereafter until after the first publication or mailing of any notice of redemption or (b) if such Bond has been called for redemption.

#### **Investment of Certain Funds and Accounts**

The Bond Indenture provides that certain Funds and Accounts held thereunder may, and in the case of the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund and the Bond Anticipation Note Fund, subject to the terms of agreements relating to the issuance of Bond Anticipation Notes, must, be invested to the fullest extent practicable in Investment Securities. The Bond Indenture provides that such investments will mature no later than such times as shall be necessary to provide moneys when needed for payments from such Funds and Accounts and provides specific limitations on the term of investments for moneys in certain Funds and Accounts.

Interest (net of the return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in such Funds or Accounts, other than the Construction Fund, will be paid into the Revenue Fund except that interest shall be paid into the Construction Fund to the extent provided in the Supplemental Indenture authorizing the first Series of Bonds issued under the Bond Indenture. Interest on moneys or investments in each separate account in the Construction Fund will be held in such account for the purposes thereof.

The Trustee may deposit moneys in all Funds and Accounts held under the Bond Indenture in banks or trust companies organized under the laws of any state of the United States or national banking associations ("Depositories"). All moneys held under the Bond Indenture by the Trustee or any Depository must be (1) either (a) continuously and fully insured by the Federal Deposit Insurance Corporation, or (b) continuously and fully secured by lodging with the Trustee or any Federal Reserve Bank, as custodian, as collateral security, such securities as are described in clauses (i) through (iv), inclusive, of the definition of "Investment Securities" having a market value (exclusive of accrued interest) not less than the amount of such moneys, and (2) held in such other manner as may then be required by applicable Federal or State of California laws and regulations and applicable state laws and regulations of the state in which the Trustee or such Depository is located, regarding security for the deposit of trust funds; provided, however, that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys held in trust by it and set aside by it for the payment of principal or Redemption Price of or interest on any Bonds or for the Trustee or any Depository to give security for any moneys which are represented by obligations or certificates of deposit purchased as an investment of such moneys.

In computing the amount in any Fund created under the Bond Indenture, obligations purchased as an investment of moneys therein shall be valued at the amortized cost of such obligations or the market value thereof, whichever is lower, exclusive of accrued interest. Such computations shall be determined as of January 1 and July 1 in each year.

#### **Encumbrances; Disposition of Properties**

The Authority will not issue bonds, notes, debentures or other evidences of indebtedness, other than the Bonds, payable out of or secured by a pledge or assignment of the Revenues or other moneys, securities or funds held or set aside by the Authority, the Trustee or the Paying Agents under the Bond Indenture, nor will it create, or cause to be created any lien or charge thereon, except, to the extent permitted by law, (1) evidences of indebtedness (a) payable out of moneys in the Construction Fund as part of the Cost of Acquisition and Construction of the Project or (b) payable out of, or secured by a pledge and assignment of, Revenues to be derived on and after the discharge of the pledge of Revenues provided in the Bond Indenture or (2) Bond Anticipation Notes issued in accordance with the provisions of the Bond Indenture.

The Authority may, however, acquire, construct or finance through the issuance of its bonds, notes or other evidences of indebtedness any facilities which do not constitute a part of the Project for the purposes of the Bond Indenture and may secure such bonds, notes or other evidences of

indebtedness by a mortgage of the facilities so financed or by a pledge of, or other security interest in, the revenues therefrom or any lease or other agreement with respect thereto or any revenues derived from such lease or other agreement; provided that such bonds, notes or other evidences of indebtedness shall not be payable out of or secured by the Revenues or any Fund or Account held under the Bond Indenture and neither the cost of such facilities nor any expenditure in connection therewith or with the financing thereof shall be payable from the Revenues or from any such Fund or Account.

The Authority will not sell, lease, mortgage or otherwise dispose of any part of the Project, except for sales or exchanges of property or facilities (1) which are not useful in the operation of the Project, or (2) for which the proceeds received are, or the fair market value of the subject property (as certified by an Authorized Authority Representative) is, less than \$100,000, or (3) as to which the Consulting Engineer certifies that the ability of the Authority to comply with the rate covenant described under the caption "Rate Covenant" below will not be impaired. The proceeds of any such transaction not used to acquire other property necessary or desirable for the operation of the Project will be deposited in the General Reserve Fund.

The Authority will not lease or make contracts or grant licenses for the operation or use of, or grant easements or any other rights with respect to, any part of the Project, which would (1) impede the operation of the Project and (2) impair or adversely affect the rights or security of Bondholders under the Bond Indenture. If the depreciated costs of the subject property exceeds \$500,000, the Consulting Engineer must certify that the proposed action of the Authority does not result in a breach of the above mentioned conditions. Any payments to the Authority in connection with any such transaction will constitute Revenues.

#### Rate Covenant

The Authority covenants in the Bond Indenture that as long as any Bonds are Outstanding it will have good right and lawful power to establish and collect rates and charges with respect to the use of the capability of the Project and the sale of the capacity, output or service thereof, subject to the terms of the Project Agreements. The Authority covenants in the Bond Indenture that it will at all times establish and collect rates and charges for the use of the capability of the Project or the sale of the output, capacity or service of the Project which provide Revenues at least sufficient in each Fiscal Year, together with other available funds, for the payment of all the following:

- (a) Authority Operating Expenses during such Fiscal Year;
- (b) An amount equal to the Aggregate Debt Service for such Fiscal Year;
- (c) The amount, if any, to be paid during such Fiscal Year into the Debt Service Reserve Account in the Debt Service Fund;
- (d) The amount, if any, to be paid during such Fiscal Year into the Bond Anticipation Note Fund;
- (e) The amount to be paid during such Fiscal Year into the Reserve and Contingency Fund for credit to the Renewal and Replacement Account, the Decommissioning Account and the Reserve Account therein; and
- (f) All other charges or liens whatsoever payable out of Revenues during such Fiscal Year.

The Authority will not furnish any use, output, capacity, or service of the Project free of charge to any person, firm or corporation, public or private, and the Authority will enforce the payment of any and all accounts owing to the Authority by reason of its ownership and operation of the Project by discontinuing such use, output, capacity, or service or by filing suit therefor as soon as practicable after 120 days after any such accounts are due, or by both such discontinuance and by filing suit.

## **Covenants with Respect to Power Sales Contracts and Project Agreements**

The Trustee covenants that it will collect and deposit in the Revenue Fund all amounts payable to it under the Power Sales Contracts or otherwise payable to it pursuant to any contract for use of the capability of the Project or the sale of the output, capacity or service of the Project or any part thereof. The Authority will enforce the provisions of the Power Sales Contracts and duly perform its covenants and agreements thereunder, and will not agree to or permit any rescission of or amendment to, or otherwise take any action under or in connection with, the Power Sales Contracts which would reduce the payments required thereunder or which would in any manner materially impair or materially adversely affect the rights or security of Bondholders under the Bond Indenture.

The Authority will enforce the provisions of the Project Agreements and duly perform its covenants and agreements thereunder. The Authority will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Project Agreements which will in any manner materially impair or materially adversely affect the rights of the Authority thereunder or the rights or security of the Bondholders under the Bond Indenture; however, the Authority is not thereby prohibited from amending any Power Sales Contract with respect to Points of Delivery.

## **Annual Budget**

The Authority will file with the Trustee an Annual Budget prepared in accordance with the Power Sales Contracts for each Fiscal Year commencing with the Fiscal Year which begins on the earliest of (i) the date to which all interest is capitalized with respect to all Bonds and Bond Anticipation Notes, (ii) the date which is one year prior to the first Principal Installment date for any Bonds, or (iii) the Date of Firm Operation of the first generating unit to be placed in service. The Annual Budget will set forth the estimated Revenues and Authority Operating Expenses of the Project, by month for such Fiscal Year and shall include monthly appropriations for the estimated amount to be deposited in each month of such Fiscal Year in the Revenue Fund, the Operating Fund, including provision for any general reserve for Authority Operating Expenses and the estimated amount to be deposited in the Renewal and Replacement Account, the Decommissioning Account and the Reserve Account in the Reserve and Contingency Fund and the requirements, if any, for the amounts estimated to be expended from each Fund and Account. The Authority shall review quarterly its estimates set forth in the Annual Budget and in the event such estimates do not substantially correspond with the actual Revenues, Authority Operating Expenses or other requirements, the Authority shall adopt an amended Annual Budget for the remainder of such Fiscal Year. The Authority is also required to adopt such an amended Annual Budget if there are at any time during such Fiscal Year extraordinary receipts or payments of unusual costs. The Authority may also at any time in accordance with the provisions of the Power Sales Contracts, adopt an amended Annual Budget for the remainder of the then current Fiscal Year.

## **Insurance**

The Authority will at all times keep or cause to be kept the properties of the Project which are of an insurable nature and of the character usually insured by those constructing or operating properties similar to the Project insured against loss or damage by fire and from other causes customarily insured against and in such amounts as are usually obtained. The Authority will also use its best efforts to maintain or cause to be maintained any additional or other insurance which the Authority deems necessary or advisable to protect its interests and those of the Bondholders. If any useful portion of the Project is damaged or destroyed, the Authority shall diligently prosecute the reconstruction or replacement thereof, unless the Authority decides not to so repair or replace. The proceeds of any insurance, including the proceeds of any self-insurance fund, paid on account of damage or destruction (other than any business interruption loss insurance) unless held and applied under the Participation Agreement, shall be held by the Trustee and applied, to the extent necessary, to pay the costs of

reconstruction or replacement. The proceeds of any business interruption loss insurance shall be paid into the Revenue Fund unless otherwise required by the Participation Agreement.

#### **Accounts and Reports**

The Authority will keep or cause to be kept proper and separate books of records and accounts relating to the Project and each Fund and Account established by the Bond Indenture and relating to the costs and charges under the Power Sales Contracts. Such books, together with all other books and papers of the Authority relating to the Project, will at all times be subject to the inspection of the Trustee and the Holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding.

The Authority will file annually with the Trustee an annual report for each Fiscal Year, accompanied by an Accountant's Certificate, relating to the Project, including a statement of assets and liabilities as of the end of such Fiscal Year, a statement of Revenues and Authority Operating Expenses, a statement of receipts and disbursements with respect to Funds and Accounts established by the Bond Indenture, and a statement as to the existence of any default under the provisions of the Bond Indenture.

The Authority will cause the Consulting Engineer to file with it and the Trustee after each three year period a report or survey with respect to the operation and maintenance of the properties constituting the Project, the making of necessary and proper renewals and replacements thereof and the status of the Annual Budget and any construction budget of the Project.

The Authority will notify the Trustee forthwith of any Event of Default or default in the performance of any provision of the Bond Indenture. The Authority will file annually with the Trustee a certificate of an Authorized Authority Representative stating whether, to the best of the signer's knowledge and belief, the Authority has complied with its covenants and obligations in the Bond Indenture and whether there is then existing an Event of Default or other event which would become an Event of Default upon the lapse of time and if any such default or Event of Default so exists, specifying the same and the nature and the status thereof.

The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Bond Indenture will be available for inspection of Bondholders at the office of the Trustee and will be mailed to each Bondholder who files a written request therefor with the Trustee. The Trustee may charge each Bondholder requesting such reports, statements and other documents a reasonable fee to cover reproduction, handling and postage.

#### **Extension of Payment of Bonds and Coupons**

The Authority covenants in the Bond Indenture that it will not extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the coupons or claims for interest. If the maturity of any of the Bonds or the time for payment of such coupons or claims for interest is extended, such Bonds, coupons or claims for interest shall not be entitled, in the case of any default under the Bond Indenture, to the benefit of the Bond Indenture or any payment out of Revenues, Funds or the moneys held by the Trustee or by any Paying Agent (except moneys held in trust for the payment of particular Bonds, coupons or claims for interest) except upon the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of the portion of accrued interest on the extended Bonds which is not represented by such extended coupons or claims for interest.

#### **Amendments and Supplemental Indentures**

Any of the provisions of the Bond Indenture may be amended by the Authority by a Supplemental Indenture upon the consent of the Holders of at least two-thirds in principal amount in each case of (1) all Bonds then Outstanding and (2) if less than all of the several Series of Outstanding Bonds are

affected, the Bonds of each affected Series; excluding, in each case, from such consent, and from the Outstanding Bonds, the Bonds of any specified Series and maturity if such amendment by its terms will not take effect so long as any of such Bonds remain Outstanding. Any such amendment may not permit a change in the terms of any Sinking Fund Installment or the terms of redemption or maturity of the principal of or interest on any Outstanding Bond or make any reduction in principal, Redemption Price or interest rate without the consent of each affected Holder, or reduce the percentages of consents required for a further amendment.

The Authority may adopt (without the consent of any Holders of the Bonds or the Trustee) Supplemental Indentures to close the Bond Indenture against, or impose additional limitations upon, issuance of Bonds or other evidences of indebtedness; to authorize Bonds of a Series; to add to the restrictions contained on the Bond Indenture; to add to the covenants of the Authority contained in the Bond Indenture; to confirm any security interest or pledge under the Bond Indenture; to authorize the establishment of a fund or funds for self-insurance; and to modify any of the provisions of the Bond Indenture in any other respect if such modification shall be, and be expressed to be, effective only after all Bonds then Outstanding cease to be Outstanding and all Bonds authenticated and delivered after the adoption of such Supplemental Indenture specifically refer to such Supplemental Indenture in the text of such Bonds. The Authority may adopt Supplemental Indentures which shall be effective upon the consent of the Trustee (without the consent of any Holders of the Bonds) to cure any ambiguity; supply any omission or correct any defect or inconsistent provision in the Bond Indenture; or to clarify matters or questions arising under the Bond Indenture and not contrary to or inconsistent with the Bond Indenture.

Notwithstanding any other provision of the Bond Indenture, certain provisions of the supplemental indentures authorizing the issuance of certain refunding Bonds may not be amended or supplemented in any manner if such amendment or supplement adversely affects the interest of the holders of such Bonds in the respective Escrow Funds or in any other manner.

#### **Trustee; Paying Agents**

The Trustee may at any time resign on 60 days' written notice to the Authority. Such resignation will take effect on the date specified in such notice, or, if a successor Trustee has been appointed by the Authority with the approval of the Bondholders pursuant to the Bond Indenture prior to such date, such resignation will take effect immediately upon the appointment of such successor. The Trustee may at any time be removed by the Holders of a majority in principal amount of the Bonds then Outstanding. Successor Trustees may be appointed by the Holders of a majority in principal amount of Bonds then Outstanding, and failing such an appointment the Authority shall appoint a successor to hold office until the Bondholders act. The Trustee and each successor Trustee, if any, must be a bank, trust company or national banking association doing business and having its principal office in either New York, New York, Chicago, Illinois, Los Angeles, California or San Francisco, California and having capital stock and surplus aggregating at least \$50,000,000; if there be such an entity willing and able to accept appointment. The Bond Indenture requires the appointment by the Authority of one or more Paying Agents (which may include the Trustee).

Pursuant to the Bond Indenture, the Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform only such duties as are specifically set forth in the Bond Indenture. If an Event of Default has occurred and has not been cured, the Trustee shall exercise such of the rights and powers vested in it by the Bond Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Subject to the above, neither the Trustee nor any Paying Agent shall be liable in connection with the performance of its duties under the Bond Indenture except for its own negligence, misconduct or default.

The Authority is required to pay to each Fiduciary reasonable compensation for all services rendered under the Bond Indenture and all reasonable expenses, charges, counsel fees and other

disbursements, incurred in the performance of its duties under the Bond Indenture. Each Fiduciary has a lien on any and all funds held by it under the Bond Indenture securing its rights to compensation. The Authority also agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the Bond Indenture, and which are not due to its negligence, misconduct or default.

#### Defeasance

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds and coupons the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Bond Indenture, then the lien of the Bond Indenture and all covenants, agreements and other obligations of the Authority to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Authority to be prepared and filed with the Authority and, upon the request of the Authority shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver, as directed by the Authority, all moneys or securities held by them pursuant to the Bond Indenture which are not required for the payment of principal or Redemption Price, if applicable, on Bonds or payment of coupons not theretofore surrendered for such payment or redemption. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Outstanding Bonds of a particular Series, or of a particular maturity within a Series, and the coupons appertaining thereto the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Bond Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Bond Indenture, and all covenants, agreements and obligations of the Authority to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds or coupons or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit pursuant to the Bond Indenture of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the above paragraph. All Outstanding Bonds of any Series, or of any maturity within a Series, and all coupons appertaining to such Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the above paragraph if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish as provided in the Bond Indenture notice of redemption of such Bonds on said date, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities (including any Investment Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers a notice to the Holders of such Bonds and coupons that the deposit required by (b) above has been made with the Trustee and that said Bonds and coupons are deemed to have been paid in accordance with the Bond Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds. Neither Investment Securities nor moneys deposited with the Trustee pursuant to the Bond Indenture nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds;

provided that any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee, (A) to the extent such cash will not be required at any time for such purpose, as determined by the Trustee, shall be paid over upon the direction of the Authority as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Bond Indenture, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds, on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over as received by the Trustee, free and clear of any lien, pledge or security interest securing said Bonds or otherwise existing under the Bond Indenture. For the purposes of defeasance, Investment Securities shall mean and include only such securities as are described in clause (i) of the definition of "Investment Securities" in the Bond Indenture which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof.

Any request, consent, revocation of consent or other instrument which the Bond Indenture may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds or coupons appertaining thereto, shall be sufficient for any purpose of the Bond Indenture (except as otherwise therein expressly provided) if made in accordance with the Bond Indenture, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable.

#### Events of Default and Remedies

Events of Default specified in the Bond Indenture include failure to pay principal or Redemption Price of any Bond when due; failure to pay any interest installment on any Bond or the unsatisfied balance of any Sinking Fund Installment thereon when due; and default for 120 days after written notice thereof from the Trustee or the Holders of not less than 10% in principal amount of the Bonds then Outstanding in the observance or performance of any other covenants, agreements or conditions contained in the Bond Indenture or in the Bonds. Upon the happening of any such Event of Default the Trustee or the Holders of not less than 25% in principal amount of the Bonds then Outstanding may declare the principal of and accrued interest on all Bonds then Outstanding due and payable (subject to a rescission of such declaration upon the curing of such default before the Bonds have matured).

Upon the occurrence of any Event of Default which has not been remedied, the Authority will, if demanded by the Trustee, (1) account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Bond Indenture, and (2) cause to be paid over to the Trustee (a) forthwith, all moneys, securities and funds held by the Authority in any Fund under the Bond Indenture and (b) as received, all Revenues. The Trustee will apply all moneys, securities, funds and Revenues received during the continuance of an Event of Default in the following order: (1) to payment of the reasonable and proper charges, expenses and liabilities of the Trustee and Paying Agents, (2) to the payment of Authority Operating Expenses, and (3) to the payment of interest and principal or Redemption Price on the Bonds without preference or priority of interest over principal or principal over interest, unless the principal of all Bonds has not been declared due and payable, in which case first to the payment of interest and second to the payment of principal or Redemption Price on those Bonds which have become due and payable in order of their due dates, and if the amount available shall not be sufficient for such payment thereof, ratably, according to the amounts of interest or principal or Redemption Price, respectively, due on such date. In addition, the Trustee will have the right to apply in an appropriate proceeding for appointment of a receiver of the Project.



If an Event of Default has occurred and has not been remedied the Trustee may, or on request of the Holders of not less than 25% in principal amount of Bonds Outstanding must, proceed to protect and enforce its rights and the rights of the Bondholders under the Bond Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant in the Bond Indenture or in aid of the execution of any power granted in the Bond Indenture or any remedy granted under the Act, or for an accounting against the Authority, as if it were trustee of an express trust, or in the enforcement of any other legal or equitable rights, as the Trustee deems most effectual to enforce any of its rights or to perform any of its duties under the Bond Indenture. The Trustee may, and upon the request of the Holders of a majority in principal amount of the Bonds then Outstanding and upon being furnished with reasonable security and indemnity must, institute and prosecute proper actions to prevent any impairment of the security under the Bond Indenture or to preserve or protect the interests of the Trustee and of the Bondholders.

No Bondholder will have any right to institute any suit, action or proceeding for the enforcement of any provision of the Bond Indenture or the execution of any trust under the Bond Indenture or for any remedy under the Bond Indenture, unless (1) such Bondholder previously has given the Trustee written notice of an Event of Default, (2) the Holders of at least 25% in principal amount of the Bonds then Outstanding have filed a written request with the Trustee and have afforded the Trustee a reasonable opportunity either to exercise its powers under the Bond Indenture, the Act or the laws of the State of California or to institute such suit, action or proceeding; (3) there have been offered to the Trustee adequate security and indemnity against its costs, expenses and liabilities to be incurred and (4) the Trustee has refused to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity. The Bond Indenture provides that nothing therein or in the Bonds affects or impairs the Authority's obligation to pay the Bonds and interest thereon when due or the right of any Bondholder to enforce such payment of his Bonds.

The Holders of not less than a majority in principal amount of Bonds then Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, subject to the Trustee's right to decline to follow such direction upon advice of counsel as to the unlawfulness thereof or upon its good faith determination that such action would involve the Trustee in personal liability or would be unjustly prejudicial to Bondholders not parties to such direction.

The Insurer shall be deemed to be the Holder of any Bonds for which the Insurer has issued a municipal bond insurance policy.

#### **Notice of Default**

Notice of the occurrence of any Event of Default will be given to each registered owner of Bonds then Outstanding and to each Holder of coupon Bonds who shall have filed with the Trustee within two years preceding the mailing of such notice an address for notices.

#### **Unclaimed Moneys**

Any moneys held by a Fiduciary in trust for the payment of any of the Bonds or coupons which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for redemption, shall, at the written request of the Authority and after meeting certain publication requirements, be repaid to the Authority, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Authority for the payment of such Bonds and coupons.

#### **Business Days**

If the date for making any payment or the last date for performance of any act or the exercising of any right under the Bond Indenture is a legal holiday or a day on which banking institutions in the city in which the principal office of the Trustee is located are authorized by law to remain closed, such

payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in the Bond Indenture, and no interest will accrue for the period after such nominal date.

## **SUMMARY OF CERTAIN PROVISIONS OF THE SERIES A SPECIAL OBLIGATION BOND INDENTURE**

The following is a summary of certain provisions of the Series A Special Obligation Bond Indenture. This summary is not to be considered a full statement of the terms of the Series A Special Obligation Bond Indenture and accordingly is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not defined in this summary or in the Official Statement have the respective meanings set forth in the Series A Special Obligation Bond Indenture.

### **The Pledge Effected by the Series A Special Obligation Bond Indenture**

Under the Series A Special Obligation Bond Indenture, the Authority has pledged and assigned to the Special Trustee, for the benefit of the Owners, the moneys and Series A Eligible Investments on deposit in the Series A Special Escrow Fund, subject only to the provisions of the Series A Special Obligation Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series A Special Obligation Bond Indenture. The Series A Special Obligation Bonds shall not be nor be deemed to be Bonds under and as defined in the Bond Indenture.

### **Nature of Obligation**

The Series A Special Obligation Bond Indenture provides that the principal and Redemption Price of, and interest on, the Series A Special Obligation Bonds shall be payable solely from the moneys and Series A Eligible Investments on deposit in the Series A Special Escrow Fund as provided in the Series A Special Obligation Bond Indenture. The Series A Special Obligation Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority), any member of the Authority or any Project Participant and neither the faith and credit nor the taxing power of any of the foregoing is pledged to the payment of the Series A Special Obligation Bonds. The Series A Special Obligation Bonds shall have no lien on or claim against the Revenues or the moneys and Investment Securities (as defined in the Bond Indenture) on deposit in the funds and accounts established pursuant to the Bond Indenture. No Owner or receiver or trustee in connection with the payment of the Series A Special Obligation Bonds shall have any right to compel the State of California, any political subdivision thereof or any city which is either a member of the Authority or a Project Participant or both to exercise its appropriation or taxing powers.

### **Investment of Moneys in Series A Special Escrow Fund**

At the written request of the Authority and upon compliance with the conditions set forth in the Series A Special Obligation Bond Indenture, the Special Trustee shall have the power to sell, transfer, request the redemption or otherwise dispose of some or all of the Series A Eligible Investments in the Series A Special Escrow Fund and, if necessary to comply with said conditions, to substitute other Series A Eligible Investments therefor subject to the provisions of the Series A Special Obligation Bond Indenture. The Special Trustee may effect the foregoing only if, among other things, (i) the substitution of Series A Eligible Investments for the substituted Series A Eligible Investments occurs simultaneously; (ii) the amounts of and dates on which the anticipated transfers from the Series A Special Escrow Fund (A) to the paying agents for the payment of the interest on the Series A Special Obligation Bonds on and prior to the Series A Crossover Date and (B) (1) to the paying agents for the Redemption Price of the Series A Special Obligation Bonds or (2) to the Bond Trustee for the payment of the principal of and applicable redemption premiums on the Series A Refunded Bonds, as applicable, on the Series A Crossover Date will not be diminished or postponed thereby; (iii) the

Special Trustee shall receive the unqualified opinion of nationally recognized municipal bond attorneys to the effect that (A) such disposition and substitution would not cause any of the Series A Special Obligation Bonds or Series A Refunded Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Code, as amended, and the regulations thereunder in effect on the date of such disposition and substitution and applicable to obligations issued on the respective issue dates of the Series A Special Obligation Bonds and the Series A Refunded Bonds and that the conditions set forth in this paragraph as to the disposition and substitution have been satisfied and (B) the Authority has the right and power to effect such disposition and substitution; and (iv) the Special Trustee shall receive from an independent certified public accountant a certification that, immediately after such transaction, the principal of and interest on the Eligible Investments in the Series A Special Escrow Fund will, together with other moneys available for such purpose, be sufficient to pay, when due, (1) on July 1, 1995 (A) the Redemption Price of the Series A Refunded Bonds if the Series A Bonds are delivered on the Series A Crossover Date or (B) the principal of and applicable redemption premiums on the Series A Special Obligation Bonds if the Series A Bonds are not delivered on the Series A Crossover Date, as applicable, and (2) the interest on the Series A Special Obligation Bonds on and prior to July 1, 1995. Any cash or Series A Eligible Investments received from the disposition and substitution of Series A Eligible Investments pursuant to this paragraph to the extent such amounts will not be required, in accordance with the Series A Special Obligation Bond Indenture, at any time for the payment of (1) (A) the Redemption Price of the Series A Special Obligation Bonds or (B) the principal of and applicable redemption premiums on the Series A Refunded Bonds, as applicable, on the Series A Crossover Date and (2) interest on the Series A Special Obligation Bonds on and prior to the Series A Crossover Date shall be paid to the Authority as received by the Special Trustee free and clear of any trust, lien, pledge or assignment securing the Series A Special Obligation Bonds. Except as provided in the Series A Special Obligation Bond Indenture, the Special Trustee shall have no power or duty to invest any funds held under the Series A Special Obligation Bond Indenture or to sell, transfer or otherwise dispose of the moneys and Series A Eligible Investments held thereunder.

#### Application of Moneys in Series A Special Escrow Fund

The Series A Special Obligation Bond Indenture establishes a special fund designated the "Series A Special Escrow Fund", which is held and maintained by the Special Trustee. All moneys and Series A Eligible Investments at any time on deposit in the Series A Special Escrow Fund are pledged by the Series A Special Obligation Bond Indenture to the payment of the principal and redemption price of, and interest on, the Series A Special Obligation Bonds, subject only to the provisions of the Series A Special Obligation Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series A Special Obligation Bond Indenture.

On any date on which the principal or Redemption Price of, or interest on, the Series A Special Obligation Bonds shall be payable, the Special Trustee shall apply the moneys on deposit in the Series A Special Escrow Fund and available on such date to pay such principal or Redemption Price, and/or interest as follows and in the following order:

First: Interest — To the payment to the persons entitled thereto of all installments of interest then due on the Series A Special Obligation Bonds in the order of the maturity of such installments, together with accrued and unpaid interest on the Series A Special Obligation Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: Principal or Redemption Price — To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Series A Special Obligation Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Series A Special Obligation Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal

or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

If, on May 15, 1995, the Authority shall have given to the Bond Trustee, in accordance with the provisions of the Bond Indenture, directions to publish a notice of redemption to redeem the Series A Refunded Bonds on the Series A Crossover Date and such directions shall not have been revoked by the Authority prior to June 1, 1995, then, on the Series A Crossover Date, simultaneously with the receipt by the Special Trustee of the Series A Bonds of each maturity in an amount equal to the aggregate principal amount of Outstanding Series A Special Obligation Bonds of each such maturity, the Special Trustee shall withdraw from the Series A Special Escrow Fund an amount of money equal to the principal of, and the applicable redemption premium on, the Series A Refunded Bonds then outstanding and shall pay such amount to the Bond Trustee, for application by the Bond Trustee to the redemption on such date of the Series A Refunded Bonds in accordance with the provisions of the Bond Indenture, upon delivery to the Special Trustee of a certificate of an Authorized Authority Representative of the setting forth or stating: (a) the aggregate principal amount of Series A Refunded Bonds outstanding on such date; (b) the applicable redemption premium payable to redeem the Series A Refunded Bonds on such date; and (c) that the Authority has given the Bond Trustee on May 15, 1995 directions to publish, in accordance with the provisions of the Bond Indenture, a notice of redemption to redeem the Series A Refunded Bonds then outstanding on the Series A Crossover Date, and that such directions have not been revoked by the Authority prior to June 1, 1995.

If (i) on May 15, 1995, the Authority shall not have given to the Bond Trustee, in accordance with the provisions of the Bond Indenture, directions to publish a notice of redemption to redeem the Series A Refunded Bonds on the Series A Crossover Date, (ii) the Authority shall have given said directions, and, prior to June 1, 1995, shall have revoked said directions or (iii) on the Series A Crossover Date, the Bond Trustee shall not have delivered the Series A Bonds to the Special Trustee, then, on the Series A Crossover Date the Special Trustee shall withdraw from the Series A Special Escrow Fund an amount of money equal to the Redemption Price of the Outstanding Series A Special Obligation Bonds, plus accrued interest on the Outstanding Series A Special Obligation Bonds to such date, and shall apply such money to redeem the Outstanding Series A Special Obligation Bonds on such date.

#### **Notice of Redemption**

The Special Trustee is required to mail a copy of a notice of redemption not less than 25 days before the redemption date to the Owners of any Series A Special Obligation Bonds which are to be redeemed, but failure to do so will affect the validity of the proceedings for redemption only with respect to the Owner or Owners of Series A Special Obligation Bonds to whom such notice was not mailed. Notwithstanding the foregoing, if the Series A Special Obligation Bonds are redeemed on the Series A Crossover Date, and the Special Trustee has theretofore mailed the notice required by the Series A Special Obligation Bond Indenture, then the Special Trustee is required to give notice, in the manner described above, as soon as practicable after the Series A Special Obligation Bonds have been redeemed that the Series A Special Obligation Bonds were redeemed on the Series Crossover Date.

#### **Special Trustee; Special Paying Agents**

The Special Trustee appointed pursuant to the Series A Special Obligation Bond Indenture may at any time resign by giving written notice to the Authority, and the Insurer, and such resignation shall take effect immediately on the appointment of a successor as provided in the Series A Special Obligation Bond Indenture and the acceptance of such appointment by such successor. The Special Trustee may be removed by (i) the Owners of a majority in principal amount of the Series A Special Obligation Bonds then Outstanding or (ii) an instrument in writing, filed with the Special Trustee, signed by two Authorized Authority Representatives. Successor Special Trustees may be appointed by the Owners of a majority in principal amount of the Service A Special Obligation Bonds then Outstanding, and failing such appointment the Authority shall appoint a Special Trustee to fill such

vacancy until a successor Special Trustee shall be appointed by the Owners. The Special Trustee, and any successor Special Trustee, shall be a commercial bank with trust powers or trust company or national banking association, doing business and having its principal office in New York, New York, or Chicago, Illinois, or Los Angeles, California, or San Francisco, California and having capital stock and surplus aggregating at least \$75,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Series A Special Obligation Bond Indenture.

Pursuant to the Series A Special Obligation Bond Indenture, the Special Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Series A Special Obligation Bond Indenture. Subject to the foregoing, neither the Special Trustee nor any Special Paying Agent shall be liable in connection with the performance of its duties under the Series A Special Obligation Bond Indenture except for its own negligence or willful misconduct.

The Authority is required to pay to the Special Trustee and each Special Paying Agent reasonable compensation for all services rendered under the Series A Special Obligation Bond Indenture, and all reasonable expenses, charges, counsel fees and other disbursements incurred in and about the performance of their powers and duties under the Series A Special Obligation Bond Indenture. Such payments shall be made by the Authority from any moneys legally available therefor. In no event shall any such payment be made from moneys on deposit in the Series A Special Escrow Fund and neither the Special Trustee nor any Special Paying Agent shall have a lien therefor on any funds at any time held by it under the Series A Special Obligation Bond Indenture. Subject to the provisions of the Series A Special Obligation Bond Indenture, the Authority further agrees to indemnify and save the Special Trustee and each Special Paying Agent harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the Series A Special Obligation Bond Indenture, and which are not due to its negligence, misconduct or default.

#### **Enforcement Proceedings**

If a default shall occur with respect to the payment of any installment of interest on or principal of a Series A Eligible Investment, the Special Trustee, by its agents and attorneys, may, and upon written request of the Owners of not less than 25% in principal amount of the Series A Special Obligation Bonds then Outstanding shall, proceed to enforce such payment in such manner as the Special Trustee, being advised by counsel, shall deem most effectual. Such enforcement may be, in addition to other remedies permitted by applicable law, by way of a suit or suits in equity or at law; provided, however, that the Special Trustee shall not be required to comply with any such request unless the Owners shall have furnished the Special Trustee with reasonable security and indemnity.

The Owners of not less than a majority in principal amount of the Series A Special Obligation Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Special Trustee, or exercising any power conferred upon the Special Trustee, provided that the Special Trustee shall have the right to decline to follow any such direction if the Special Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Special Trustee in good faith shall determine that the action or proceeding so directed would involve the Special Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

No Owner of any Series A Special Obligation Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any right to payment described above unless such Owner shall have previously given to the Special Trustee written notice of its intent to enforce such right, and the Owners of at least 25% in principal amount of the Series A Special Obligation Bonds then Outstanding shall have filed a written request with the Special Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Series A Special Obligation Bond Indenture or to institute such action, suit or proceeding in its own name, and unless such Owners shall have offered to the Special Trustee adequate security and indemnity against the costs, expenses and

liabilities to be incurred therein or thereby, and the Special Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Series A Special Obligation Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Series A Special Obligation Bond Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Series A Special Obligation Bond Indenture and for the equal benefit of all Owners of the Outstanding Series A Special Obligation Bonds.

#### **Amendments and Supplemental Series A Special Obligation Bond Indenture**

Pursuant to the terms of the Series A Special Obligation Bond Indenture, the Authority has covenanted that prior to the Series A Crossover Date, it shall not rescind or repeal the Eleventh Supplemental Indenture or amend the Eleventh Supplemental Indenture in any manner which would require the consent of the holders of the Series A Bonds if such Bonds were outstanding under the Bond Indenture at the time unless the Authority shall have theretofore obtained the consent of the Owners of at least a majority in principal amount of the Series A Special Obligation Bonds Outstanding at the time. Pursuant to the terms of the Series A Special Obligation Bond Indenture, the Authority has covenanted that prior to the Series A Crossover Date it shall not amend the Bond Indenture in any manner which would require the consent of the holders of the Series A Bonds if such Bonds were outstanding under the Bond Indenture at the time unless the Authority shall have theretofore obtained the consent of the Owners of at least a majority in principal amount of the Series A Special Obligation Bonds Outstanding at the time. The Authority may amend or supplement the Bond Indenture in any manner in which the consent of holders of bonds issued thereunder is not required and which would not require the consent of the holders of the Series A Bonds if such Bonds were outstanding under the Bond Indenture at the time or which provides for the issuance of bonds pursuant to the Bond Indenture as provided therein.

Any provisions of the Series A Special Obligation Bond Indenture may be amended by the Authority by a Supplemental Series A Special Obligation Bond Indenture, with the written consent given by the Owners of at least a majority in principal amount of the Series A Special Obligation Bonds Outstanding. No amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Series A Special Obligation Bonds or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Series A Special Obligation Bond, or shall reduce the percentages or otherwise affect the classes of Series A Special Obligation Bonds the consent of the Owners of which is required for a further amendment. No modification or amendment of any of the provisions relating to the exchange of Series A Special Obligation Bonds for Series A Bonds or rights upon exchange of such Bonds shall be effective unless the Owners of all Series A Special Obligation Bonds Outstanding shall consent thereto.

The Authority may adopt (without the consent of any Owners or the Special Trustee) Supplemental Series A Special Obligation Bond Indenture to, among other things, add to the covenants and agreements of the Authority in the Series A Special Obligation Bond Indenture other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Series A Special Obligation Bond Indenture; to add limitations and restrictions which are not contrary to or inconsistent with those contained in the Series A Special Obligation Bond Indenture; and to confirm any pledge or assignment under, and the subjection to any lien, pledge or assignment created or to be created by, the Series A Special Obligation Bond Indenture, of moneys, securities or funds. The Authority may adopt Supplemental Series A Special Obligation Bond Indentures effective upon the consent of the Special Trustee (without the consent of any Owners) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Series A Special Obligation Bond Indenture; or to clarify matters or questions arising under the Series A Special Obligation Bond

Indenture which are not contrary to or inconsistent with the Series A Special Obligation Bond Indenture.

#### **Defeasance**

The pledge and assignment of any moneys and securities pledged under the Series A Special Obligation Bond Indenture and all covenants, agreements and other obligations of the Authority to the Owners shall cease, terminate and become void and be discharged and satisfied whenever the Authority shall pay or cause to be paid to the Owners of all Series A Special Obligation Bonds the principal or Redemption Price, if applicable and interest due or to become due thereon, at the times and in the manner stipulated in the Series A Special Obligation Bond Indenture. Series A Special Obligation Bonds or interest installments will be deemed to have been paid for the purpose of the defeasance referred to above if on the maturity or redemption date thereof moneys shall have been set aside and shall be held in trust by the Special Paying Agents. Any Outstanding Series A Special Obligation Bonds of any maturity shall prior to the maturity or redemption thereof be deemed to have been so paid prior to the maturity or redemption date thereof whenever the following conditions are met: (1) there have been deposited with the Special Trustee either moneys in an amount which will be sufficient, or Defeasance Obligations, the principal of and the interest on which, when due, will provide moneys which, together with any moneys on deposit with the Special Trustee, will be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due or to become due on such Series A Special Obligation Bonds on or prior to the redemption date or maturity date thereof, as the case may be, (2) in the case of Series A Special Obligation Bonds to be redeemed prior to maturity, the Authority has given to the Special Trustee irrevocable instructions to mail the notice of redemption therefor, and (3) in the event such Series A Special Obligation Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority has given a trustee, which may be the Special Trustee, irrevocable instructions to mail, as soon as practicable, notice to the Owners of such Series A Special Obligation Bonds that the above deposit has been made with such trustee and that such Series A Special Obligation Bonds are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Series A Special Obligation Bonds.

#### **Unclaimed Moneys**

Any money held by the Special Trustee or any Special Paying Agent in trust for the payment and discharge of any of the Series A Special Obligation Bonds which remain unclaimed for one year after the date when such payment shall have become due and payable, shall, at the written request of the Authority, be repaid to the Authority, and the Special Trustee or any Special Paying Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for the payment of such Series A Special Obligation Bonds.

#### **Business Days**

Except as otherwise provided in the Series A Special Obligation Bond Indenture, if the date for making any payment or the last date for performance of any act or the exercising of any right under the Series A Special Obligation Bond Indenture is a legal holiday or a day on which banking institutions in the city in which the principal office of the Special Trustee is located are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in the Series A Special Obligation Bond Indenture, and no interest will accrue for the period after such nominal date.

#### **Definitions**

*Defeasance Obligations* shall mean any non-callable, direct obligations of, or obligations unconditionally guaranteed by, the United States of America; provided, however, that to the extent obtained

from the proceeds of refunding bonds of the Authority, in the opinion of Bond Counsel to the Authority, such obligations are eligible under the Act for purchase with the proceeds of refunding bonds.

*Outstanding*, when used in reference to Series A Special Obligation Bonds, shall mean, as of any date, Series A Special Obligation Bonds theretofore or thereupon being authenticated and delivered under the Series A Special Obligation Bond Indenture except:

- (i) Series A Special Obligation Bonds cancelled by the Special Trustee at or prior to such date;
- (ii) Series A Special Obligation Bonds in lieu of or in substitution for which other Series A Special Obligation Bonds shall have been authenticated and delivered pursuant to the Series A Special Obligation Bond Indenture;
- (iii) Series A Special Obligation Bonds deemed to have been paid for purposes of determining defeasance; and
- (iv) All Series A Special Obligation Bonds if, on the Series A Crossover Date, interest shall have been paid on such Series A Special Obligation Bonds to such Date and, if (a) the Series A Bonds have been authenticated by the Bond Trustee and delivered to the Special Trustee, or (b) the Redemption Price thereof shall have been paid or amounts are available therefor under the Series A Special Obligation Bond Indenture.

*Owner* shall mean any person who shall be the registered owner of any Series A Special Obligation Bond or Bonds.

*Series A Eligible Investments* shall mean and include any of the following, if and to the extent the same are, at the time legal for investment of the Authority's funds: any bonds or other obligations which, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, in either case which are not subject to redemption prior to maturity other than at the option of the holder thereof.

*Series A Special Escrow Fund* shall mean the fund by that name established pursuant to the Series A Special Obligation Bond Indenture.

#### SUMMARY OF CERTAIN PROVISIONS OF THE SERIES B SPECIAL OBLIGATION BOND INDENTURE

The following is a summary of certain provisions of the Series B Special Obligation Bond Indenture. This summary is not to be considered a full statement of the terms of the Series B Special Obligation Bond Indenture and accordingly is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not defined in this summary or in the Official Statement have the respective meanings set forth in the Series B Special Obligation Bond Indenture.

#### The Pledge Effected by the Series B Special Obligation Bond Indenture

Under the Series B Special Obligation Bond Indenture, the Authority has pledged and assigned to the Special Trustee, for the benefit of the Owners, the moneys and Series B Eligible Investments on deposit in the Series B Special Escrow Fund, subject only to the provisions of the Series B Special Obligation Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series B Special Obligation Bond Indenture. The Series B Special Obligation Bonds shall not be nor be deemed to be Bonds under and as defined in the Bond Indenture.

#### Nature of Obligation

The Series B Special Obligation Bond Indenture provides that the principal and Redemption Price of, and interest on, the Series B Special Obligation Bonds shall be payable solely from the moneys and



Series B Eligible Investments on deposit in the Series B Special Escrow Fund as provided in the Series B Special Obligation Bond Indenture. The Series B Special Obligation Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority), any member of the Authority or any Project Participant and neither the faith and credit nor the taxing power of any of the foregoing is pledged to the payment of the Series B Special Obligation Bonds. The Series B Special Obligation Bonds shall have no lien on or claim against the Revenues or the moneys and Investment Securities (as defined in the Bond Indenture) on deposit in the funds and accounts established pursuant to the Bond Indenture. No Owner or receiver or trustee in connection with the payment of the Series B Special Obligation Bonds shall have any right to compel the State of California, any political subdivision thereof or any city which is either a member of the Authority or a Project Participant or both to exercise its appropriation or taxing powers.

#### Investment of Moneys in Series B Special Escrow Fund

At the written request of the Authority and upon compliance with the conditions set forth in the Series B Special Obligation Bond Indenture, the Special Trustee shall have the power to sell, transfer, request the redemption or otherwise dispose of some or all of the Series B Eligible Investments in the Series B Special Escrow Fund and, if necessary to comply with said conditions, to substitute other Series B Eligible Investments therefor subject to the provisions of the Series B Special Obligation Bond Indenture. The Special Trustee may effect the foregoing only if, among other things, (i) the substitution of Series B Eligible Investments for the substituted Series B Eligible Investments occurs simultaneously; (ii) the amounts of and dates on which the anticipated transfers from the Series B Special Escrow Fund (A) to the paying agents for the payment of the interest on the Series B Special Obligation Bonds on and prior to the Series B Crossover Date and (B) (1) to the paying agents for the Redemption Price of the Series B Special Obligation Bonds or (2) to the Bond Trustee for the payment of the principal of and applicable redemption premiums on the Series B Refunded Bonds, as applicable, on the Series B Crossover Date will not be diminished or postponed thereby; (iii) the Special Trustee shall receive the unqualified opinion of nationally recognized municipal bond attorneys to the effect that (A) such disposition and substitution would not cause any of the Series B Special Obligation Bonds or Series B Refunded Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Code, as amended, and the regulations thereunder in effect on the date of such disposition and substitution and applicable to obligations issued on the respective issue dates of the Series B Special Obligation Bonds and the Series B Refunded Bonds and that the conditions set forth in this paragraph as to the disposition and substitution have been satisfied and (B) the Authority has the right and power to effect such disposition and substitution; and (iv) the Special Trustee shall receive from an independent certified public accountant a certification that, immediately after such transaction, the principal of and interest on the Eligible Investments in the Series B Special Escrow Fund will, together with other moneys available for such purpose, be sufficient to pay, when due, (1) on July 1, 1996 (A) the Redemption Price of the Series B Refunded Bonds if the Series B Bonds are delivered on the Series B Crossover Date or (B) the principal of and applicable redemption premiums on the Series B Special Obligation Bonds if the Series B Bonds are not delivered on the Series B Crossover Date, as applicable, and (2) the interest on the Series B Special Obligation Bonds on and prior to July 1, 1996. Any cash or Series B Eligible Investments received from the disposition and substitution of Series B Eligible Investments pursuant to this paragraph to the extent such amounts will not be required, in accordance with the Series B Special Obligation Bond Indenture, at any time for the payment of (1) (A) the Redemption Price of the Series B Special Obligation Bonds or (B) the principal of and applicable redemption premiums on the Series B Refunded Bonds, as applicable, on the Series B Crossover Date and (2) interest on the Series B Special Obligation Bonds on and prior to the Series B Crossover Date shall be paid to the Authority as received by the Special Trustee free and clear of any trust, lien, pledge or assignment securing the Series B Special Obligation Bonds. Except as provided in the Series B Special Obligation Bond Indenture, the Special Trustee shall have no power or duty to invest any funds held under the Series B Special Obligation Bond Indenture or to sell, transfer or otherwise dispose of the moneys and Series B Eligible Investments held thereunder.

### **Application of Moneys in Series B Special Escrow Fund**

The Series B Special Obligation Bond Indenture establishes a special fund designated the "Series B Special Escrow Fund", which is held and maintained by the Special Trustee. All moneys and Series B Eligible Investments at any time on deposit in the Series B Special Escrow Fund are pledged by the Series B Special Obligation Bond Indenture to the payment of the principal and redemption price of, and interest on, the Series B Special Obligation Bonds, subject only to the provisions of the Series B Special Obligation Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series B Special Obligation Bond Indenture.

On any date on which the principal or Redemption Price of, or interest on, the Series B Special Obligation Bonds shall be payable, the Special Trustee shall apply the moneys on deposit in the Series B Special Escrow Fund and available on such date to pay such principal or Redemption Price, and/or interest as follows and in the following order:

**First: Interest** — To the payment to the persons entitled thereto of all installments of interest then due on the Series B Special Obligation Bonds in the order of the maturity of such installments, together with accrued and unpaid interest on the Series B Special Obligation Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

**Second: Principal or Redemption Price** — To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Series B Special Obligation Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Series B Special Obligation Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

If, on May 15, 1996, the Authority shall have given to the Bond Trustee, in accordance with the provisions of the Bond Indenture, directions to publish a notice of redemption to redeem the Series B Refunded Bonds on the Series B Crossover Date and such directions shall not have been revoked by the Authority prior to June 1, 1996, then, on the Series B Crossover Date, simultaneously with the receipt by the Special Trustee of the Series B Bonds of each maturity in an amount equal to the aggregate principal amount of Outstanding Series B Special Obligation Bonds of each such maturity, the Special Trustee shall withdraw from the Series B Special Escrow Fund an amount of money equal to the principal of, and the applicable redemption premium on, the Series B Refunded Bonds then outstanding and shall pay such amount to the Bond Trustee, for application by the Bond Trustee to the redemption on such date of the Series B Refunded Bonds in accordance with the provisions of the Bond Indenture, upon delivery to the Special Trustee of a certificate of an Authorized Authority Representative of the setting forth or stating: (a) the aggregate principal amount of Series B Refunded Bonds outstanding on such date; (b) the applicable redemption premium payable to redeem the Series B Refunded Bonds on such date; and (c) that the Authority has given the Bond Trustee on May 15, 1996 directions to publish, in accordance with the provisions of the Bond Indenture, a notice of redemption to redeem the Series B Refunded Bonds then outstanding on the Series B Crossover Date, and that such directions have not been revoked by the Authority prior to June 1, 1996.

If (i) on May 15, 1996, the Authority shall not have given to the Bond Trustee, in accordance with the provisions of the Bond Indenture, directions to publish a notice of redemption to redeem the Series B Refunded Bonds on the Series B Crossover Date, (ii) the Authority shall have given said directions, and, prior to June 1, 1996, shall have revoked said directions or (iii) on the Series B Crossover Date, the Bond Trustee shall not have delivered the Series B Bonds to the Special Trustee, then, on the Series B Crossover Date the Special Trustee shall withdraw from the Series B Special Escrow Fund an amount of money equal to the Redemption Price of the Outstanding Series B Special

Obligation Bonds, plus accrued interest on the Outstanding Series B Special Obligation Bonds to such date, and shall apply such money to redeem the Outstanding Series B Special Obligation Bonds on such date.

#### Notice of Redemption

The Special Trustee is required to mail a copy of a notice of redemption not less than 25 days before the redemption date to the Owners of any Series B Special Obligation Bonds which are to be redeemed, but failure to do so will affect the validity of the proceedings for redemption only with respect to the Owner or Owners of Series B Special Obligation Bonds to whom such notice was not mailed. Notwithstanding the foregoing, if the Series B Special Obligation Bonds are redeemed on the Series B Crossover Date, and the Special Trustee has theretofore mailed the notice required by the Series B Special Obligation Bond Indenture, then the Special Trustee is required to give notice, in the manner described above, as soon as practicable after the Series B Special Obligation Bonds have been redeemed that the Series B Special Obligation Bonds were redeemed on the Series B Crossover Date.

#### Special Trustee; Special Paying Agents

The Special Trustee appointed pursuant to the Series B Special Obligation Bond Indenture may at any time resign by giving written notice to the Authority and the Insurer, and such resignation shall take effect immediately on the appointment of a successor as provided in the Series B Special Obligation Bond Indenture, and the acceptance of such appointment by such successor. The Special Trustee may be removed by (i) the Owners of a majority in principal amount of the Series B Special Obligation Bonds then Outstanding or (ii) an instrument in writing, filed with the Special Trustee, signed by two Authorized Authority Representatives. Successor Special Trustees may be appointed by the Owners of a majority in principal amount of the Series B Special Obligation Bonds then Outstanding, and failing such appointment the Authority shall appoint a Special Trustee to fill such vacancy until a successor Special Trustee shall be appointed by the Owners. The Special Trustee, and any successor Special Trustee, shall be a commercial bank with trust powers or trust company or national banking association, doing business and having its principal office in New York, New York, or Chicago, Illinois, or Los Angeles, California, or San Francisco, California and having capital stock and surplus aggregating at least \$75,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Series B Special Obligation Bond Indenture.

Pursuant to the Series B Special Obligation Bond Indenture, the Special Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Series B Special Obligation Bond Indenture. Subject to the foregoing, neither the Special Trustee nor any Special Paying Agent shall be liable in connection with the performance of its duties under the Series B Special Obligation Bond Indenture except for its own negligence or willful misconduct.

The Authority is required to pay to the Special Trustee and each Special Paying Agent reasonable compensation for all services rendered under the Series B Special Obligation Bond Indenture, and all reasonable expenses, charges, counsel fees and other disbursements incurred in and about the performance of their powers and duties under the Series B Special Obligation Bond Indenture. Such payments shall be made by the Authority from any moneys legally available therefor. In no event shall any such payment be made from moneys on deposit in the Series B Special Escrow Fund and neither the Special Trustee nor any Special Paying Agent shall have a lien therefor on any funds at any time held by it under the Series B Special Obligation Bond Indenture. Subject to the provisions of the Series B Special Obligation Bond Indenture, the Authority further agrees to indemnify and save the Special Trustee and each Special Paying Agent harmless against any liabilities which it may incur, in the exercise and performance of its powers and duties under the Series B Special Obligation Bond Indenture, and which are not due to its negligence, misconduct or default.

### **Enforcement Proceedings**

If a default shall occur with respect to the payment of any installment of interest on or principal of a Series B Eligible Investment, the Special Trustee, by its agents and attorneys, may, and upon written request of the Owners of not less than 25% in principal amount of the Series B Special Obligation Bonds then Outstanding shall, proceed to enforce such payment in such manner as the Special Trustee, being advised by counsel, shall deem most effectual. Such enforcement may be, in addition to other remedies permitted by applicable law, by way of a suit or suits in equity or at law; provided, however, that the Special Trustee shall not be required to comply with any such request unless the Owners shall have furnished the Special Trustee with reasonable security and indemnity.

The Owners of not less than a majority in principal amount of the Series B Special Obligation Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Special Trustee, or exercising any power conferred upon the Special Trustee, provided that the Special Trustee shall have the right to decline to follow any such direction if the Special Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Special Trustee in good faith shall determine that the action or proceeding so directed would involve the Special Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

No Owner of any Series B Special Obligation Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any right to payment described above unless such Owner shall have previously given to the Special Trustee written notice of its intent to enforce such right, and the Owners of at least 25% in principal amount of the Series B Special Obligation Bonds then Outstanding shall have filed a written request with the Special Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Series B Special Obligation Bond Indenture or to institute such action, suit or proceeding in its own name, and unless such Owners shall have offered to the Special Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Special Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Series B Special Obligation Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Series B Special Obligation Bond Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Series B Special Obligation Bond Indenture and for the equal benefit of all Owners of the Outstanding Series B Special Obligation Bonds.

### **Amendments and Supplemental Series B Special Obligation Bond Indenture**

Pursuant to the terms of the Series B Special Obligation Bond Indenture, the Authority has covenanted that prior to the Series B Crossover Date, it shall not rescind or repeal the Twelfth Supplemental Indenture or amend the Twelfth Supplemental Indenture in any manner which would require the consent of the holders of the Series B Bonds if such Bonds were outstanding under the Bond Indenture at the time unless the Authority shall have theretofore obtained the consent of the Owners of at least a majority in principal amount of the Series B Special Obligation Bonds Outstanding at the time. Pursuant to the terms of the Series B Special Obligation Bond Indenture, the Authority has covenanted that prior to the Series B Crossover Date it shall not amend the Bond Indenture in any manner which would require the consent of the holders of the Series B Bonds if such Bonds were outstanding under the Bond Indenture at the time unless the Authority shall have theretofore obtained the consent of the Owners of at least a majority in principal amount of the Series B Special Obligation Bonds Outstanding at the time. The Authority may amend or supplement the Bond Indenture in any manner in which the consent of holders of bonds issued thereunder is not required and which would not require the consent of the holders of the Series B Bonds if such Bonds were outstanding under the Bond Indenture at the time or which provides for the issuance of bonds pursuant to the Bond Indenture as provided therein.

Any provisions of the Series B Special Obligation Bond Indenture may be amended by the Authority by a Supplemental Series B Special Obligation Bond Indenture, with the written consent given by the Owners of at least a majority in principal amount of the Series B Special Obligation Bonds Outstanding. No amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Series B Special Obligation Bonds or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Series B Special Obligation Bond, or shall reduce the percentages or otherwise affect the classes of Series B Special Obligation Bonds the consent of the Owners of which is required for a further amendment. No modification or amendment of any of the provisions relating to the exchange of Series B Special Obligation Bonds for Series B Bonds or rights upon exchange of such Bonds shall be effective unless the Owners of all Series B Special Obligation Bonds Outstanding shall consent thereto.

The Authority may adopt (without the consent of any Owners or the Special Trustee) Supplemental Series B Special Obligation Bond Indenture to add, among other things, to the covenants and agreements of the Authority in the Series B Special Obligation Bond Indenture other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Series B Special Obligation Bond Indenture; to add limitations and restrictions which are not contrary to or inconsistent with those contained in the Series B Special Obligation Bond Indenture; and to confirm any pledge or assignment under, and the subjection to any lien, pledge or assignment created or to be created by, the Series B Special Obligation Bond Indenture, of moneys, securities or funds. The Authority may adopt Supplemental Series B Special Obligation Bond Indentures effective upon the consent of the Special Trustee (without the consent of any Owners) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Series B Special Obligation Bond Indenture; or to clarify matters or questions arising under the Series B Special Obligation Bond Indenture which are not contrary to or inconsistent with the Series B Special Obligation Bond Indenture.

#### Defeasance

The pledge and assignment of any moneys and securities pledged under the Series B Special Obligation Bond Indenture and all covenants, agreements and other obligations of the Authority to the Owners shall cease, terminate and become void and be discharged and satisfied whenever the Authority shall pay or cause to be paid to the Owners of all Series B Special Obligation Bonds the principal or Redemption Price, if applicable and interest due or to become due thereon, at the times and in the manner stipulated in the Series B Special Obligation Bond Indenture. Series B Special Obligation Bonds or interest installments will be deemed to have been paid for the purpose of the defeasance referred to above if on the maturity or redemption date thereof moneys shall have been set aside and shall be held in trust by the Special Paying Agents. Any Outstanding Series B Special Obligation Bonds of any maturity shall prior to the maturity or redemption thereof be deemed to have been so paid prior to the maturity or redemption date thereof whenever the following conditions are met: (1) there have been deposited with the Special Trustee either moneys in an amount which will be sufficient, or Defeasance Obligations, the principal of and the interest on which, when due, will provide moneys which, together with any moneys on deposit with the Special Trustee, will be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due or to become due on such Series B Special Obligation Bonds on or prior to the redemption date or maturity date thereof, as the case may be, (2) in the case of Series B Special Obligation Bonds to be redeemed prior to maturity, the Authority has given to the Special Trustee irrevocable instructions to mail the notice of redemption therefor, and (3) in the event such Series B Special Obligation Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority has given a trustee, which may be the Special Trustee, irrevocable instructions to mail, as soon as practicable, notice to the Owners of such Series B Special Obligation Bonds that the above deposit has been made with such trustee and that such Series B Special Obligation Bonds are deemed to be paid and stating

the maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Series B Special Obligation Bonds.

#### Unclaimed Moneys

Any money held by the Special Trustee or any Special Paying Agent in trust for the payment and discharge of any of the Series B Special Obligation Bonds which remain unclaimed for one year after the date when such payment shall have become due and payable, shall, at the written request of the Authority, be repaid to the Authority, and the Special Trustee or any Special Paying Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for the payment of such Series B Special Obligation Bonds.

#### Business Days

Except as otherwise provided in the Series B Special Obligation Bond Indenture, if the date for making any payment or the last date for performance of any act or the exercising of any right under the Series B Special Obligation Bond Indenture is a legal holiday or a day on which banking institutions in the city in which the principal office of the Special Trustee is located are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in the Series B Special Obligation Bond Indenture, and no interest will accrue for the period after such nominal date.

#### Definitions

*Defeasance Obligations* shall mean any non-callable, direct obligations of, or obligations unconditionally guaranteed by, the United States of America; provided, however, that to the extent obtained from the proceeds of refunding bonds of the Authority, in the opinion of Bond Counsel to the Authority, such obligations are eligible under the Act for purchase with the proceeds of refunding bonds.

*Outstanding*, when used in reference to Series B Special Obligation Bonds, shall mean, as of any date, Series B Special Obligation Bonds theretofore or thereupon being authenticated and delivered under the Series B Special Obligation Bond Indenture except:

(i) Series B Special Obligation Bonds cancelled by the Special Trustee at or prior to such date;

(ii) Series B Special Obligation Bonds in lieu of or in substitution for which other Series B Special Obligation Bonds shall have been authenticated and delivered pursuant to the Series B Special Obligation Bond Indenture;

(iii) Series B Special Obligation Bonds deemed to have been paid for purposes of determining defeasance; and

(iv) All Series B Special Obligation Bonds if, on the Series B Crossover Date, interest shall have been paid on such Series B Special Obligation Bonds to such Date and, if (a) the Series B Bonds have been authenticated by the Bond Trustee and delivered to the Special Trustee, or (b) the Redemption Price thereof shall have been paid or amounts are available therefor under the Series B Special Obligation Bond Indenture.

*Owner* shall mean any person who shall be the registered owner of any Series B Special Obligation Bond or Bonds.

*Series B Eligible Investments* shall mean and include any of the following, if and to the extent the same are, at the time legal for investment of the Authority's funds: any bonds or other obligations which, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed

by, the United States of America, in either case which are not subject to redemption prior to maturity other than at the option of the holder thereof.

*Series B Special Escrow Fund* shall mean the fund by that name established pursuant to the Series B Special Obligation Bond Indenture.

## SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACTS

The following is a summary of certain provisions of the Power Sales Contracts entered into between the Authority and each of the Project Participants. Except as described in this summary, all of the Power Sales Contracts are identical in all material respects. This summary is not to be considered a full statement of the terms of such Power Sales Contracts and accordingly is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not defined in the Official Statement have the meanings set forth in the Power Sales Contracts.

### Entitlement to Capacity

During the Start-up Period and any Base Load Period of any generating unit of the Project, each Project Participant is obligated to take delivery of its Project Entitlement Share of the product of the Authority Percentage multiplied by the Net Energy Generation of such generating unit. After the Date of Firm Operation of each generating unit of the Project, each Project Participant is entitled to schedule for its account capacity and energy of each generating unit of the Project up to the amount obtained by multiplying its Project Entitlement Share by the Authority Percentage and the Available Generating Capability of each generating unit of the Project; provided that such scheduling shall not reduce the Project Participant's obligations described in the preceding sentence. A Project Participant may arrange to dispose of capacity or energy from the Project to which it is entitled, but any such arrangements will not affect its obligations under its Power Sales Contract. The delivery of capacity and energy from the Generating Station will be scheduled by (or on behalf of) the Authority and the Project Participants in advance with the Operating Agent and accounted for on the basis of such advance schedules. Whenever any Project Participant schedules for its account capacity and energy from a generating unit of the Project, the Agent, acting on behalf of the Authority, unless otherwise established under the Participation Agreement, shall additionally schedule for each Project Participant a percentage of the Zero Net Load as effective during the period that such generating unit is operated to meet such schedule, equal to the product of the Project Participant's Project Entitlement Share multiplied by the Authority Percentage. The capacity and energy of the Project shall be scheduled or controlled by the Project Participants under practices and procedures approved by the Board of Directors, subject to the provisions of the Participation Agreement.

### Nature of Obligation

Each Project Participant is obligated to make the payments required under its Power Sales Contract solely from the revenues of its electric system as a cost of purchased electric capacity and energy and an operating expense. Each such Project Participant has covenanted to include in its annual power system budget for each fiscal year during the term of its Power Sales Contract an appropriation from the revenues of its electric system sufficient to pay all amounts required to be paid during such fiscal year under such Power Sales Contract. The Project Participants' obligations, which are several and not joint, to make payments of Monthly Power Costs under their respective Power Sales Contracts are not subject to reduction or offset if the Project is not operating or operable (or has been completed) or if its output is suspended, interfered with, reduced or curtailed or terminated in whole or in part. In addition, the Project Participants' payment obligations under the Power Sales Contracts are not subject to any reduction or offset and are not conditional upon the performance or nonperformance by any party of any agreement for any cause whatever.

## **Term**

The Power Sales Contracts shall constitute a binding obligation of the parties thereto from and after the effective date and the term of such Power Sales Contracts shall end on October 31, 2030 or such later date as all Bonds and the interest thereon shall have been paid in full or adequate provision for such payment shall have been made, unless terminated sooner in accordance with provisions for termination or amendment described below.

## **Required Payments**

For a discussion on Monthly Power Costs and the payment obligations of the respective Project Participants with respect thereto, see "Security and Sources of Payment for the Bonds — Power Sales Contracts".

## **Rate Covenants of Project Participants**

Each Project Participant has covenanted in its Power Sales Contract to establish, maintain and collect rates and charges for the electric service it furnishes so as to provide revenues which, together with its available electric system reserves, are sufficient to enable it to pay all amounts payable under its Power Sales Contract and to pay all other amounts payable from, and all lawful charges against or liens on, its electric system revenues.

## **The Board of Directors**

The Authority is administered by a Board of Directors comprised of the chief executive officer (or his designee) of the electric utility of each member of the Authority. The Project Participants are entitled to participate in Project matters in accordance with voting rights given to them as members of the Authority. See "Southern California Public Power Authority — Organization and Management" in the Official Statement. The Authority, through its Board of Directors, has the following duties and responsibilities, among others: (1) provide liaison among the Project Participants, (2) attempt to resolve any disputes among the Authority, the Project Participants, the Agent, and the Project Manager or the Operating Agent relating to the Project, (3) review, modify and approve (i) the practices and procedures to be followed by the Project Participants relating to the scheduling and controlling of capacity and energy from the Project, (ii) all Capital Improvements and the budgets therefor and provisions for financing thereof, (iii) all amendments and supplements to the Project Agreements and (iv) the Project's insurance program, (4) approve all consultants or advisors on financial and legal matters that may be retained by the Authority, (5) approve the issuance of each series of Bonds and evidences of indebtedness issued in anticipation of the issuance of Bonds and (6) perform other functions provided for in the Power Sales Contracts and the other Project Agreements.

## **Restrictions on Disposition**

A Project Participant may not sell, lease or otherwise dispose of all or substantially all of its electric system except upon the satisfaction of certain conditions, including, among others, that (i) the Project Participant assigns its interest under its Power Sales Contract to the purchaser or lessee of its electric system and said purchaser or lessee assumes all obligations of the Project Participant under the Power Sales Contract, (ii) the senior debt of the purchaser or lessee is rated in one of the two highest categories by at least one nationally recognized bond rating agency, (iii) an independent engineer selected by the Authority delivers an opinion that such purchaser or lessee is reasonably able to charge and collect rates and charges required to meet its obligations under the Power Sales Contract, (iv) it is determined by the Board of Directors that the disposition will not adversely affect the value of such Power Sales Contract as security for the Bonds and (v) Bond Counsel has rendered an opinion that such disposition will not adversely affect the Federal Tax Exemption.



## **Defaults and Remedies**

The failure of a Project Participant to perform any of its obligations, including the obligation to make required payments, under its Power Sales Contract will constitute a default. In the event of a default or inability to perform by a Project Participant under its Power Sales Contract, the Authority may proceed to enforce the Project Participant's covenants or obligations thereunder, or seek damages for the breach thereof, by action at law or equity, or if a payment due under the Power Sales Contract remains unpaid when due, the Authority may, upon 120 days' written notice to the Project Participant, discontinue the delivery of capacity and energy to, and the use of Project facilities by, such Project Participant while the default continues. Except as a result of a transfer of the defaulting Project Participant's rights to delivery of capacity and energy and the use of Project facilities described below, the discontinuance of delivery of capacity and energy to, and the use of Project facilities by, a defaulting Project Participant by the Authority will not reduce the obligation of such Project Participant to make payments under its Power Sales Contract. In the event the delivery of capacity and energy to, and use of Project facilities by, a Project Participant in default is discontinued, the Authority shall transfer to all other Project Participants which are not in default and which so request, a pro rata portion of the defaulting Project Participant's rights to delivery of capacity and energy and use of Project facilities. In the case of such a transfer, the Project Participants accepting additional rights to delivery of capacity and energy and use of Project facilities shall assume the defaulting Project Participant's obligations with respect to the rights which are transferred to them. In the event less than all of a defaulting Project Participant's rights to delivery of capacity and energy and use of Project facilities are transferred to non-defaulting Project Participants, the Authority shall, to the extent possible, dispose of such remaining rights on the best terms readily available, and in such a manner as, in the opinion of Bond Counsel, does not adversely affect the eligibility for exemption from federal income taxes of the interest payable on the Bonds. The obligation of the defaulting Project Participant to the Authority shall be reduced to the extent that the Authority receives payments with respect to the rights of such Project Participant which are transferred.

## **Termination or Amendment**

As long as any Bonds issued under the Bond Indenture are outstanding or until provision has been made for the payment of any Bonds outstanding in accordance with the Bond Indenture, the Power Sales Contracts may not be terminated or amended in any manner which will reduce the amount of or extend the time for the payments which are pledged as security for the Bonds or which will impair or adversely affect the rights of the holders of the Bonds. Each Power Sales Contract also provides that the Authority may not, without the consent of each of the Project Participants, amend or supplement the Bond Indenture (except to provide for the issuance of additional Bonds), to affect the rights and obligations of the Project Participants under the Power Sales Contracts or to be to the disadvantage of the Project Participants or to result in increased Monthly Power Costs to the Project Participants.

## **Contracts Subject to Bond Indenture**

It has been recognized by the Project Participants in the Power Sales Contracts that the Authority, in planning, financing, acquiring, constructing and operating the Project, must comply with the requirements of the Bond Indenture and the other Project Agreements and all licenses, permits and regulatory approvals necessary therefor, and the Project Participants have therefore agreed that the Power Sales Contracts are subject to the provisions of the Bond Indenture and the other Project Agreements and such licenses, permits and approvals.

## **SUMMARY OF CERTAIN PROVISIONS OF THE PARTICIPATION AGREEMENT**

The following is a summary of certain provisions of the Arizona Nuclear Power Project Participation Agreement, as amended (the "Participation Agreement"). This summary is not to be considered a

full statement of the terms of the Participation Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not defined in this summary or in the Official Statement have the respective meanings set forth in the Participation Agreement.

## Definitions

**Arizona Nuclear Power Project:** One or more nuclear steam electric Generating Units, together with all facilities, structures and Nuclear Fuel used or to be used therewith or related thereto, including the Nuclear Plant Site, all facilities and rights-of-way for the collection, transportation, treatment, storage and disposal of water required for Construction Work, Operating Work and Capital Improvements and for rail access wherever such facilities and rights-of-way are located, but excluding the ANPP High Voltage Switchyard(s), and all transmission facilities connected thereto, which may be revised from time to time by the Administrative Committee.

**Base Load Period:** Any period of time during which any Generating Unit is scheduled to be operated to achieve and maintain its then Maximum Generating Capability.

**Date of Firm Operation:** The date with respect to each Generating Unit on which the Engineering and Operating Committee determines it to be reliable as a source of Power and on which such Generating Unit can reasonably be expected to operate steadily at any load up to its Target Capacity.

**Fuel Assembly:** An integral unit of fabricated Nuclear Fuel prepared for insertion into a Reactor, including all hardware incorporated in such integral unit.

**Generating Unit:** A complete system of ANPP for generating electricity, including without limitation, the nuclear steam supply system and its containment, resident Fuel Assemblies, the turbine-generator, all auxiliary structures, system facilities and equipment necessary for or useful in the operation of the unit and any structures, systems, facilities and equipment shared with any other Generating Unit at the Nuclear Plant Site, such as the radioactive waste treatment systems, fire protection systems, water supply and treatment systems.

**Generating/Terminated Unit:** Any Generating Unit which the Administrative Committee has determined to permanently remove from service.

**Generation Entitlement Share:** The percentage entitlement of each Participant to the Net Energy Generation and to the Available Generating Capability.

**Nuclear Fuel Agreement:** Any agreement entered into by the Project Manager or the Operating Agent relating to the purchase, sale, lease, transfer, disposition, storage, transportation, mining, conversion, milling, enrichment, processing, fabrication and reprocessing of any Nuclear Fuel for use in, used in or removed from a Reactor.

**NRC:** The United States Nuclear Regulatory Commission or any successor agency which has authority to regulate the construction, operation, maintenance and Decommissioning of nuclear power facilities, including each Generating Unit and each Generating/Terminated Unit in respect of all matters affecting radiological safety in accordance with the Atomic Energy Act of 1954, as heretofore or hereafter amended or any laws superseding said act, and the NRC's predecessor agency, the U.S. Atomic Energy Commission.

**Project Agreements:** The Participation Agreement, any Construction Agreement, any Nuclear Fuel Agreement, but excluding any Nuclear Fuel Agreements for the supply of Uranium Concentrates to which all Participants are not parties, and any agreements between the Participants or any of them and any third party for land, land rights or water rights for ANPP, any agreement specified as a Project Agreement, as such agreements are originally executed or as they may thereafter be supplemented or amended and any other agreements as the Participants agree to designate as Project Agreements. Project Agreements shall not include any deed of trust, mortgage, indenture, security agreement, any agreement or instrument relating to a sale and leaseback transaction or any trust or other agreement

that any Participant may enter into in connection with the Termination Funds, unless the Participants shall otherwise agree.

**Start-Up Period:** The period with respect to each Generating Unit commencing with the date on which the first Fuel Assembly is inserted into the Generating Unit's Reactor and terminating with its Date of Firm Operation.

**Target Capacity:** The nominal generating capacity established by the Administrative Committee for each Generating Unit. The initial nominal generating capacity for each Generating Unit is 1,270 megawatts electrical.

**Termination Agent:** The corporation or other entity designated by the Administrative Committee which is responsible for the performance of Termination Work for each Generating/Terminated Unit.

**Termination Costs:** The costs and obligations incurred for any Generating/Terminated Unit in the performance of Termination Work for such unit, but excluding expenses incurred by the Operating Agent for work performed and expenses incurred by any Participant in establishing, administering, managing and investing its Termination Funds and otherwise complying with the Participation Agreement.

**Termination Fund(s):** The fund or funds which each Participant is obligated to establish and maintain for one or more Generating Units or Generating/Terminated Units in accordance with and for only those purposes permitted by the Participation Agreement, irrespective of (i) the tax treatment of contributions to or deposits in such funds or of income derived from the investment of such funds or (ii) the treatment accorded to such contributions, deposits and income in the establishment of the rates for electric service furnished by such Participant.

**Termination Funding Committee:** The committee established pursuant to the Participation Agreement.

**Termination Plan:** The plan, including any changes thereto, for each Generating/Terminated Unit which has been approved by the Administrative Committee.

**Termination Work:** All work, including Decommissioning Work, performed (i) by the Operating Agent that is deemed to be Termination Work and (ii) by or under the direction of the Termination Agent for any Generating/Terminated Unit in the development of the Recommended Termination Plan for such unit and in the implementation of the Termination Plan for such unit in connection with the permanent removal from service of such unit and the common facilities associated therewith which the Engineering and Operating Committee shall have determined are not required or useful in the operation or maintenance of any Generating Unit or other Generating/Terminated Unit.

## **The Agreement**

Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico and El Paso Electric Company have entered into the Participation Agreement, as amended, pursuant to which each of them and the Authority as Participants will accept, acquire and own undivided interests as tenants in common in the Arizona Nuclear Power Project (the "ANPP") and all Project Agreements in proportion to its Generation Entitlement Shares, excluding (i) the Option and Purchase of Effluent Agreement, dated April 23, 1973, except to the extent only that such agreement governs the rights and obligations for the purchase and delivery of wastewater effluent required for Construction Work, Operating Work and Capital Improvements and (ii) any Project Agreement which by its terms establishes an ownership interest or rights of any Participant in the subject matter thereof which differs from its Generation Entitlement Shares under the Participation Agreement.

## Energy Entitlements

The Participation Agreement does not constitute a joint venture. Each Participant is responsible for its own covenants, obligations and liabilities.

During the Start-Up Period and any Base Load Period, each Participant shall schedule and be obligated to take delivery of its Generation Entitlement Share. At all times after the Date of Firm Operation, each Participant shall be entitled to schedule generation of power and energy from each Generating Unit up to the amount of its Generation Entitlement Share of the available operating capacity of such Generating Unit and shall be entitled to receive all energy attributable thereto for its account in accordance with the provisions of the Participation Agreement, and each Participant shall be obligated to provide its own reserve requirements. Whenever any Participant schedules for its account power from a Generating Unit, the Operating Agent, unless otherwise established by the Administrative Committee, shall additionally schedule for each Participant a percentage, equal to its Generation Entitlement Share of the available operating capacity of each Generating Unit, of the Zero Net Load effective during the period that such Generating Unit is operated to meet such schedule.

## Administration

Arizona Public Service Company has been designated the Project Manager for construction and Operating Agent for operation and maintenance of the ANPP, and is responsible, as agent for the Participants, for the construction, operation and maintenance of the ANPP. For purposes of Project direction, four (4) committees are established as follows:

1. *Administrative Committee:* responsible, among other things, for providing liaison among the Participants; providing liaison among the Participants and the Project Manager and the Operating Agent with respect to progress, performance and completion of construction and operation of the ANPP; acting on certain recommendations of the Project Manager or the Operating Agent; acting upon disputes among the Participants arising under the Project Agreements; providing general supervision of the other committees established under the Participation Agreement; and for reviewing and acting upon issues and problems referred to it by another committee.

2. *Engineering and Operating Committee:* responsible, among other things, for providing liaison between the Participants and the Project Manager with regard to the construction of ANPP; establishing the Date of Firm Operation for each Generating Unit; acting upon the recommendations of the Operating Agent concerning the operation of the ANPP or the making of Capital Improvements, including among other things, the annual capital expenditures budget, annual manpower tables and budget and the annual operation and maintenance budget; developing a plan providing for coordination between the Participants, Federal, State and local authorities in the event of an abnormal occurrence at the plant site minimizing exposure of the public to radiation.

3. *Auditing Committee:* responsible, among other things, for developing accounting and auditing procedures, including the development of procedures for making forecasts and requests for funds; making periodic audits of the records maintained for the ANPP and establishing the minimum amounts for the Construction Account and the Operating Account.

4. *Termination Funding Committee:* responsible, among other things, for providing assistance and recommendations to the Termination Agent and Administrative Committee with respect to the development of Recommended Termination Plans; establish and revise every three years, criteria and standards for determining whether or not periodic deposits made by Participants in its respective Termination Fund(s) will be sufficient to pay its pro rata share of Termination Costs or amounts required by NRC; review reports submitted by Participants and report to the Administrative Committee concerning the sufficiency of funds in the Termination Fund(s) of each Participant and each Participant's compliance with the Committee's criteria and standards; establish and update from time to time, criteria for determining the aggregate amount of net income earned as part of Deficiency Deposits.

### **Actions Pending Resolution of Disputes**

If a dispute arises which is not resolved by the Administrative Committee or the higher authorities within the Participant's organizations, then, pending the resolution of the dispute by arbitration or judicial proceedings, the Project Manager, Operating Agent or Termination Agent shall proceed with Construction Work, Operating Work, Capital Improvements or Termination Work in a manner consistent with the Project Agreements. If a dispute arises between any of the Participants under the Project Agreements, any Participant may call for submission of the dispute to binding arbitration.

### **Interconnections and Transmission Lines**

Power and Energy generated by ANPP shall be delivered to the Participants by means of (i) one or more ANPP High Voltage Switchyards to be constructed and (ii) such high voltage transmission lines as the Participants or any of them determines to construct, operate and maintain to interconnect ANPP with either existing or planned transmission systems owned or to be owned, and operated, by one or more Participants or any other party with whom any Participant has or will have a right to interconnect according to the principles established in the Participation Agreement.

### **Construction, Operation and Maintenance Costs**

The Operating Agent will establish a separate Operating Account for the payment of all costs of operation and Capital Improvements of the ANPP. Each Participant shall advance payments to the Operating Account on the basis of bills it receives which reflect such Participant's share of the costs of Operating Work and Capital Improvements determined in accordance with the terms of the Participation Agreement. All payments due under any Nuclear Fuel Agreement, and for operating emergencies, shall be advanced to the Operating Account as required by each Participant. Each Participant is obligated to advance funds to the Operating Agent to make payments of operating and maintenance costs when due.

During the construction period each Participant is obligated to advance to the Project Manager its share of funds required for construction for deposit to the Construction Account. Each Participant shall pay weekly in advance its share (equal to its Generation Entitlement Share) of all construction costs in accordance with monthly forecasts of estimated weekly expenses prepared by the Project Manager. Upon completion of all construction, the Project Manager will prepare a final completion report of all costs of construction and the Participants will make such payments or adjustments as required so that the costs of construction are shown on the basis of ownership interests.

If a Participant shall dispute any portion of any amount specified in a request for the funds, the Participant shall make the total payment specified in the request pending a protest of such payment. If it is determined that a Participant has made advances which are greater or less than its share of the costs, the difference shall be paid or refunded to such Participant.

### **Transfer of Interest**

Each Participant shall have the right to transfer or assign all or part of its Generation Entitlement Share, together with an equal interest in the ownership of ANPP and in the Project Agreements, to any person or entity engaged in the generation, transmission or distribution of energy. Each Participant shall also have the right, in certain circumstances, to mortgage or create security interests in, and sell and leaseback, its Generation Entitlement Share and other interests, in connection with its financing of ANPP.

### **Operating Emergency**

The Operating Agent will advise the Participants when an emergency occurs, and shall submit an estimate of expenses required to restore the availability of each Generating Unit affected. If the uninsured costs of restoration exceed 10% of the original costs, the Operating Agent shall obtain the

approval of the Administrative Committee before committing any expenses. The Operating Agent, however, may incur any expense which in its sole discretion it deems necessary to protect the health and safety of the public.

#### Damage to Project

If ANPP or any portion thereof should be damaged or destroyed to the extent that the costs of repairs or reconstruction is estimated to be less than 150% of the aggregate amount of Project Insurance coverage carried and covering the cost of such repairs or reconstruction, then the Project Manager or the Operating Agent shall cause such repairs or reconstruction to be made so that ANPP is restored to substantially the same general condition, character or use as existed prior to such damage or destruction and the Participants shall share the costs of such repairs or reconstruction in the proportion to their Generation Entitlement Share.

If ANPP or any portion thereof should be damaged or destroyed to the extent that the costs of repairs or reconstruction are estimated to be 150% or more of the aggregate amount of Project Insurance coverage carried and covering the cost of such repairs or reconstruction, then upon agreement of all Participants the Project Manager or the Operating Agent shall cause such repairs or reconstruction to be made as may be agreed and the Participants shall share the costs of such repairs or reconstruction in proportion to their Generation Entitlement Share; provided, however, that should all of the Participants not agree to restore or reconstruct the damaged portion of ANPP, but some of the Participants nevertheless desire to do so, then any Participant who does not agree to restore or reconstruct shall sell its share and ownership interest in ANPP to the remaining Participants for a price equal in amount to its share in the salvage value thereof. The Participants agreeing to repair or reconstruct such Generating Unit shall share the costs of repair or reconstruction in the proportion that the share of each bears to the total shares of such Participants.

#### Termination of Generating Units

The Participation Agreement provides that the operation of the Generating Units can be terminated under certain specified circumstances. The Administrative Committee (the "Committee") has the authority, based upon recommendations of other committees, to approve the permanent termination of the operation of and the removal from service of each Generating Unit and the completion of all Termination Work.

In the event that the Administrative Committee elects to terminate a Generating Unit, the Committee shall designate a Termination Agent (which may be a Participant, the Operating Agent, or other entity) to perform or direct the Termination Work for such Generating Unit(s) that is not otherwise performed by the Operating Agent.

The Termination Agent, with the approval of the Committee and the recommendation of other committees, shall prepare and administer a Termination Plan in accordance with applicable law. Every three years, the Operating Agent shall provide an estimate of the Termination Costs for each Generating Unit. The Operating Agent shall also prepare and file with the NRC all required reports in connection with the termination of the Generating Unit(s) not otherwise performed by the Termination Agent.

Each Participant is responsible for establishing and maintaining Termination Fund(s) sufficient to pay all Termination Costs of a Generating/Terminated Unit until the completion of all Termination Work for each such unit. Each Participant is obligated to pay its Generation Entitlement Share of all Termination Costs for each Generating/Terminated Unit and all liabilities arising from the Termination Work for each such Generating/Terminated Unit. Title to all equipment, machinery and other materials and supplies purchased for the performance of the Termination Work shall vest in the Participants in accordance with their respective Generation Entitlement Shares.

### **Term of Agreement**

The contract became effective September 1, 1973 and shall terminate on December 31, 2027 or the date on which all Generating Units shall have been permanently removed from service and all Termination Work is completed, whichever is earlier.

### **Defaults and Covenants**

In the event of a default by any Participant of any obligation, including the obligation to make payments when due, under the Project Agreements the non-defaulting parties shall remedy such default, either by advancing the necessary funds and/or commencing to render the necessary performance. Each non-defaulting party agrees to contribute to such remedy in the ratio of its Generation Entitlement Share to the total of the Generation Entitlement Shares of all non-defaulting parties. The defaulting party, upon notice by a non-defaulting party of a default or alleged default under the Project Agreements, shall remedy such default or alleged default, and shall pay promptly upon demand to each non-defaulting party the total amount of money, if any, together with interest thereon, paid by each such non-defaulting party. If the defaulting party disputes the default, it shall pay the disputed payment or perform the disputed obligation but may do so under protest, in which event the matter in dispute is to be submitted to arbitration and if so submitted the decision of the arbitrator or board of arbitrators shall be binding upon the parties.

Unless otherwise determined by a board of arbitrators, if an event of default continues for a period of six months or more without having been cured or without the defaulting Participant having commenced action to cure, then while such default is continuing, all of the non-defaulting Participants by written notice to all Participants, may suspend the right of the defaulting Participant (i) to be represented on and participate in the actions of all committees and (ii) to receive all or any part of its proportionate share of the Available Generating Capability and Net Energy Generation. During such suspension period, the non-defaulting Participants will bear all of the operation and maintenance costs, insurance costs and other expenses otherwise payable by the defaulting Participant and will be entitled to receive for their respective accounts the Generation Entitlement Share of the defaulting Participant, in the ratio of their respective Generation Entitlement Shares to the total of the Generation Entitlement Shares of all non-defaulting Participants. A defaulting Participant will be liable to the non-defaulting Participants in the proportion that the Generation Entitlement Shares of each non-defaulting Participant bears to the total of the Generation Entitlement Shares of all non-defaulting Participants for all costs incurred by such non-defaulting Participants.

Under Amendment No. 13 to the Participation Agreement, dated as of April 22, 1991, in the event a Participant is found to be deficient in maintaining sufficient amounts on deposit in its Termination Fund(s) in accordance with the provisions of such Amendment, the Participant will be deemed to be in default under the Participation Agreement. The rights of a Participant in default to participate on committees and to receive its Generation Entitlement Share will be suspended until (i) the amounts on deposit in the Termination Fund(s) have been brought into compliance and the defaulting Participant has reimbursed each non-defaulting Participant for all Unrecovered Advanced Termination Costs, incidental costs and accrued interest thereon, or (ii) an arbitration decision is rendered determining that the deficiency findings were in error. Amendment No. 13 provides that the default provisions of such Amendment and the provisions regarding the suspension of the rights of such Participant as a result of such default or breach, to the extent such provisions are inconsistent with the default provisions of the Participation Agreement, will prevail and apply.

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## DEBT SERVICE REQUIREMENTS

(Accrual Basis)

Fiscal Year Ending June 30	Prior Series Bonds(1)		Series A, B and C Bonds(2)		Combined Total Debt Service
	Principal	Interest	Principal	Interest	
1992(3) ....	\$ 17,530,000	\$ 33,354,263.75	\$ 205,000.00	\$ 1,031,001.25	\$ 52,120,265.00
1993 .....	16,230,000	65,370,745.00	3,595,000.00	2,056,365.00	87,252,110.00
1994 .....	15,835,000	64,163,390.00	5,340,000.00	1,923,350.00	87,261,740.00
1995 .....	18,270,000	62,976,400.00	4,305,000.00	1,704,410.00	87,255,810.00
1996 .....	19,270,000	61,002,125.00	5,095,000.00	1,888,917.50	87,256,042.50
1997 .....	21,250,000	54,715,025.00	5,645,000.00	5,218,222.50	86,828,247.50
1998 .....	25,205,000	53,319,437.50	3,370,000.00	4,935,972.50	86,830,410.00
1999 .....	17,695,000	51,591,682.50	12,785,000.00	4,759,047.50	86,830,730.00
2000 .....	20,390,000	50,411,772.50	11,945,000.00	4,081,442.50	86,828,215.00
2001 .....	21,820,000	49,995,237.50	11,580,000.00	3,436,412.50	86,831,650.00
2002 .....	23,305,000	48,511,062.50	12,225,000.00	2,787,932.50	86,828,995.00
2003 .....	32,140,000	47,629,912.50	4,965,000.00	2,091,107.50	86,826,020.00
2004 .....	34,385,000	45,386,462.50	5,255,000.00	1,803,137.50	86,829,600.00
2005 .....	36,305,000	43,468,650.00	5,560,000.00	1,493,092.50	86,826,742.50
2006 .....	38,815,000	40,958,268.75	5,895,000.00	1,159,492.50	86,827,761.25
2007 .....	47,655,000	38,309,375.00	495,000.00	796,950.00	87,256,325.00
2008 .....	50,915,000	35,049,470.00	495,000.00	796,950.00	87,256,420.00
2009 .....	54,395,000	31,566,362.50	495,000.00	796,950.00	87,253,312.50
2010 .....	58,175,000	27,788,631.25	495,000.00	796,950.00	87,255,581.25
2011 .....	62,240,000	23,720,743.75	498,700.55	796,950.00	87,256,394.30
2012 .....	65,175,000	20,788,343.75	496,473.60	796,950.00	87,256,767.35
2013 .....	67,730,000	18,236,800.00	495,954.00	796,950.00	87,259,704.00
2014 .....	70,480,000	15,480,775.00	497,629.40	796,950.00	87,255,354.40
2015 .....	73,770,000	12,195,450.00	497,399.70	796,950.00	87,259,799.70
2016 .....	65,760,000	7,470,362.50	13,855,000.00	796,950.00	87,882,312.50
2017 .....	69,395,000	3,836,012.50	13,860,000.00	796,950.00	87,887,962.50
Totals ...	<u>\$1,044,135,000</u>	<u>\$1,007,296,761.25</u>	<u>\$129,946,157.25</u>	<u>\$49,136,353.75</u>	<u>\$2,230,514,272.25</u>

(1) Excludes debt service on the Series C Refunded Bonds commencing January 1, 1992 and commencing July 1, 1995, the Series A Refunded Bonds, and, commencing July 1, 1996, the Series B Refunded Bonds.

(2) Assumes issuance of Series A Bonds on July 1, 1995 and issuance of Series B Bonds on July 1, 1996.

(3) Six (6) months ending June 30, 1992.

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## [PROPOSED FORM OF BOND COUNSEL OPINION]

Upon delivery of the Series A Special Obligation Bonds, the Series B Special Obligation Bonds and the Series C Bonds in definitive form, Mudge Rose Guthrie Alexander & Ferdon, Los Angeles, California, Bond Counsel, proposes to render its final approving opinion with respect to such Bonds in substantially the following form:

[DELIVERY DATE]

Board of Directors  
Southern California Public Power Authority  
200 South Los Robles Avenue  
Suite 155  
Pasadena, California 91101

Gentlemen:

We have examined (i) a record of proceedings relating to the issuance of \$7,265,000 aggregate principal amount of Special Obligation Bonds, Crossover Series A (the "Series A Special Obligation Bonds"), \$63,415,000 aggregate principal amount of Special Obligation Bonds, Crossover Series B (the "Series B Special Obligation Bonds") and \$59,800,000 aggregate principal amount of Power Project Revenue Bonds, 1992 Refunding Series C (the "Series C Bonds"), of Southern California Public Power Authority (the "Authority"), a public entity of the State of California; (ii) the Power Sales Contracts hereinafter referred to; and (iii) such other matters of law as we have deemed necessary to enable us to render the opinions expressed herein. The Series A Special Obligation Bonds are issued under and pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), and under and pursuant to an Indenture of Trust, dated as of January 1, 1992, by and between the Authority and First Interstate Bank of California, as trustee (the "Special Trustee") (the "Series A Special Obligation Bond Indenture"). The Series B Special Obligation Bonds are issued under and pursuant to the Act, and under and pursuant to a separate Indenture of Trust, dated as of January 1, 1992, by and between the Authority and the Special Trustee (the "Series B Special Obligation Bond Indenture"). The Series C Bonds are issued under and pursuant to the Act, and under and pursuant to the Indenture of Trust, dated as of July 1, 1981, by and between the Authority and First Interstate Bank of California, as trustee, as amended and supplemented by the First Supplemental Indenture of Trust, dated as of August 1, 1982, and as supplemented by the Eleventh Supplemental Indenture of Trust (the "Eleventh Supplemental Indenture"), dated as of January 1, 1992, the Twelfth Supplemental Indenture of Trust (the "Twelfth Supplemental Indenture"), dated as of January 1, 1992 and the Thirteenth Supplemental Indenture of Trust (the "Thirteenth Supplemental Indenture"), dated as of January 1, 1992 (such Indenture of Trust as so amended and supplemented being herein called the "Indenture").

The Series A Special Obligation Bonds will mature on the dates and in the principal amounts, and bear interest at the respective rates per annum, shown below.

<u>Due July 1</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>	<u>Due July 1</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>
1996.....	\$ 110,000	4.80%	1999.....	\$2,220,000	5.30%
1997.....	2,010,000	5.00	2000.....	820,000	5.40
1998.....	2,105,000	5.25			

The Series A Special Obligation Bonds are dated, and shall bear interest from, January 1, 1992, except as otherwise provided in the Series A Special Obligation Bond Indenture. Interest on the Series A Special Obligation Bonds is payable on January 1 and July 1 in each year, commencing July 1, 1992. The Series A Special Obligation Bonds are subject to redemption prior to maturity in the manner and upon the terms set forth in the Series A Special Obligation Bond Indenture. The Series A Special

Obligation Bonds are issuable in fully registered form without interest coupons in denominations of \$5,000 or any integral multiple thereof, are interchangeable and transferable as provided in the Series A Special Obligation Bond Indenture and are lettered and numbered as provided in the Series A Special Obligation Bond Indenture.

The Series A Special Obligation Bonds are issued for the principal purpose of providing moneys to redeem, on July 1, 1995, the Series A Refunded Bonds (as defined in the Series A Special Obligation Bond Indenture).

Pursuant to the Indenture the Authority has authorized the issuance of its \$7,265,000 Power Project Revenue Bonds, 1992 Refunding Series A (the "Series A Bonds"). The Eleventh Supplemental Indenture requires that the Series A Bonds be authenticated and issued on July 1, 1995 if certain conditions in the Series A Special Obligation Bond Indenture and the Indenture are satisfied. The Series A Bonds shall mature at the times and in the principal amounts and bear interest at rates the same as the Series A Special Obligation Bonds. The Series A Special Obligation Bonds prior to July 1, 1995 and the Series A Bonds on and after July 1, 1995 are herein sometimes referred to collectively as the "Series A Crossover Bonds."

If on July 1, 1995 the Series A Bonds shall be so issued, Outstanding (as defined in the Series A Special Obligation Bond Indenture) Series A Special Obligation Indenture Bonds shall be exchangeable for Series A Bonds of the same principal amount, maturity date and interest rate, all as provided in the Series A Special Obligation Bond Indenture, and, from and after such date, if interest on the Series A Special Obligation Bonds shall have been paid to such date or provision shall have been made for the payment of such interest, such Series A Special Obligation Bonds shall no longer be Outstanding and the holders thereof shall have no rights with respect thereto (other than to receive interest on the Series A Special Obligation Bonds to such date and to receive Series A Bonds in exchange for the Series A Special Obligation Bonds). If on July 1, 1995 the Series A Bonds shall not have been so issued, then the Outstanding Series A Special Obligation Bonds shall be redeemed on such date in whole at par and from and after such date, said Series A Special Obligation Bonds shall cease to bear interest and the holders thereof shall have no rights with respect thereto (other than to receive interest on the Series A Special Obligation Bonds to such date and to receive payment of the redemption price thereof).

The Series A Special Obligation Bonds shall be payable solely from the moneys and Eligible Investments held or set aside under the Series A Special Obligation Bond Indenture. The Series A Special Obligation Bonds shall not be payable from and shall have no lien or charge on or pledge of the proceeds, revenues (including payments by the Purchasers hereinafter referred to under the Power Sales Contracts) and funds pledged by the Indenture to the payment of the bonds issued pursuant to the Indenture.

The Series B Special Obligation Bonds will mature on the dates and in the principal amounts, and bear interest at the respective rates per annum, shown below.

<u>Due July 1</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>	<u>Due July 1</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>
1997.....	\$ 735,000	5.00%	2002.....	\$11,585,000	5.70%
1998.....	770,000	5.25	2003.....	4,290,000	5.80
1999.....	10,045,000	5.30	2004.....	4,545,000	5.90
2000.....	10,575,000	5.40	2005.....	4,805,000	6.00
2001.....	10,975,000	5.60	2006.....	5,090,000	6.15

The Series B Special Obligation Bonds are dated, and shall bear interest from, January 1, 1992, except as otherwise provided in the Series B Special Obligation Bond Indenture. Interest on the Series B Special Obligation Bonds is payable on January 1 and July 1 in each year, commencing July 1, 1992. The Series B Special Obligation Bonds are subject to redemption prior to maturity in the manner and upon the terms set forth in the Series B Special Obligation Bond Indenture. The Series B Special

Obligation Bonds are issuable in fully registered form without interest coupons in denominations of \$5,000 or any integral multiple thereof, are interchangeable and transferable as provided in the Series B Special Obligation Bond Indenture and are lettered and numbered as provided in the Series B Special Obligation Bond Indenture.

The Series B Special Obligation Bonds are issued for the principal purpose of providing moneys to redeem, on July 1, 1996, the Series B Refunded Bonds (as defined in the Series B Special Obligation Bond Indenture).

Pursuant to the Indenture the Authority has authorized the issuance of its \$63,415,000 Power Project Revenue Bonds, 1992 Refunding Series B (the "Series B Bonds"). The Twelfth Supplemental Indenture requires that the Series B Bonds be authenticated and issued on July 1, 1996 if certain conditions in the Series B Special Obligation Bond Indenture and the Indenture are satisfied. The Series B Bonds shall mature at the times and in the principal amounts, bear interest at rates and be subject to optional redemption the same as the Series B Special Obligation Bonds. The Series B Special Obligation Bonds prior to July 1, 1996 and the Series B Bonds on and after July 1, 1996 are herein sometimes referred to collectively as the "Series B Crossover Bonds."

If on July 1, 1996 the Series B Bonds shall be so issued, Outstanding (as defined in the Series B Special Obligation Bond Indenture) Series B Special Obligation Bonds shall be exchangeable for Series B Bonds of the same principal amount, maturity date and interest rate, all as provided in the Series B Special Obligation Bond Indenture, and, from and after such date, if interest on the Series B Special Obligation Bonds shall have been paid to such date or provision shall have been made for the payment of such interest, such Series B Special Obligation Bonds shall no longer be Outstanding and the holders thereof shall have no rights with respect thereto (other than to receive interest on the Series B Special Obligation Bonds to such date and to receive Series B Bonds in exchange for the Series B Special Obligation Bonds). If on July 1, 1996 the Series B Bonds shall not have been so issued, then the Outstanding Series B Special Obligation Bonds shall be redeemed on such date in whole at par and from and after such date, said Series B Special Obligation Bonds shall cease to bear interest and the holders thereof shall have no rights with respect thereto (other than to receive interest on the Series B Special Obligation Bonds to such date and to receive payment of the redemption price thereof).

The Series B Special Obligation Bonds shall be payable solely from the moneys and Eligible Investments held or set aside under the Series B Special Obligation Bond Indenture. The Series B Special Obligation Bonds shall not be payable from and shall have no lien or charge on or pledge of the proceeds, revenues (including payments by the Purchasers hereinafter referred to under the Power Sales Contracts) and funds pledged by the Indenture to the payment of the bonds issued pursuant to the Indenture.

The Series C Bonds will mature on the dates and in the principal amounts, and bear interest at the respective rates per annum, shown below.

<u>Due July 1</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>	<u>Due July 1</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>
1992.....	\$ 205,000	2.75%	2003.....	\$ 675,000	5.80%
1993.....	3,595,000	3.70	2004.....	710,000	5.90
1994.....	5,340,000	4.10	2005.....	755,000	6.00
1995.....	4,305,000	4.50	2006.....	805,000	6.15
1996.....	4,985,000	4.80	2007.....	495,000	0.00
1997.....	2,900,000	5.00	2008.....	495,000	0.00
1998.....	495,000	5.25	2009.....	495,000	0.00
1999.....	520,000	5.30	2010.....	495,000	0.00
2000.....	550,000	5.40	2016.....	16,875,000	0.00
2001.....	605,000	5.60	2017.....	13,860,000	5.75
2002.....	640,000	5.70			

The Series C Bonds are dated, and shall bear interest from, January 1, 1992, except as otherwise provided in the Indenture. Interest on the Series C Bonds is payable on January 1 and July 1 in each year, commencing July 1, 1992. The Series C Bonds are subject to redemption prior to maturity in the manner and upon the terms set forth in the Indenture. The Series C Bonds are in fully registered form without interest coupons in denominations of \$5,000 or any integral multiple thereof, are interchangeable and transferable as provided in the Indenture and are lettered and numbered as provided in the Indenture.

The Series C Bonds are issued for the principal purpose of providing moneys to advance refund the Series C Refunded Bonds (as defined in the Thirteenth Supplemental Indenture) all of which were issued to finance a portion of the Cost of Acquisition and Construction of the Initial Facilities (as defined in the Indenture).

The Authority reserves the right to issue additional bonds under the Indenture on the terms and conditions and for the purposes stated in the Indenture. Under the provisions of the Indenture all such bonds may rank equally as to security and payment with the Authority's Outstanding (as defined in the Indenture) Power Project Revenue Bonds, 1982 Series A and B, 1983 Series A, 1984 Series A, 1985 Refunding Series A and B, 1986 Refunding Series A and B, 1987 Refunding Series A and 1989 Refunding Series A (the "Prior Series Bonds"), the Series A Bonds if delivered on July 1, 1995, the Series B Bonds if delivered on July 1, 1996 and the Series C Bonds.

The Authority has entered into ten separate Power Sales Contracts (the "Power Sales Contracts") with the following purchasers (the "Purchasers") of capability of the Project (as defined in the Indenture): Department of Water and Power of The City of Los Angeles (the "Department"), Imperial Irrigation District, and the Cities of Riverside, Vernon, Burbank, Glendale, Pasadena, Azusa, Banning and Colton.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Act and has good right and lawful authority under the Act to acquire and construct the Initial Facilities and provide for the operation and maintenance thereof.

2. The Authority has the right and power under the Act to enter into the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture and the Indenture, and each has been duly and lawfully authorized by the Authority, is in full force and effect in accordance with its respective terms and is valid and binding upon the Authority and enforceable in accordance with its respective terms, and no other authorization for the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture or the Indenture is required. The Series A Special Obligation Bond Indenture creates the valid pledge it purports to create of the moneys and Eligible Investments (as defined in the Series A Special Obligation Bond Indenture) held or set aside under the Series A Special Obligation Bond Indenture, subject only to the provisions of the Series A Special Obligation Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series A Special Obligation Bond Indenture. The Series B Special Obligation Bond Indenture creates the valid pledge it purports to create of the moneys and Eligible Investments (as defined in the Series B Special Obligation Bond Indenture) held or set aside under the Series B Special Obligation Bond Indenture, subject only to the provisions of the Series B Special Obligation Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series B Special Obligation Bond Indenture. The Indenture creates the valid pledge which it purports to create of (i) the proceeds of the sale of the Series C Bonds and any other parity bonds issued under the Indenture, (ii) the Revenues (as defined in the Indenture), and (iii) all funds established by the Indenture (excluding the Decommissioning Account in the Reserve and Contingency Fund) including the investments, if any, thereof; subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Authority is duly authorized and entitled to issue the Series A Special Obligation Bonds, the Series B Special Obligation Bonds and the Series C Bonds, and the Series A Special Obligation Bonds, the Series B Special Obligation Bonds and the Series C Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Act, and the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture and the Indenture, respectively. The Series A Special Obligation Bonds, the Series B Special Obligation Bonds and the Series C Bonds constitute valid and binding obligations of the Authority as provided in the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture and the Indenture, respectively, are enforceable in accordance with their respective terms and the terms of the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture and the Indenture, respectively, and are entitled to the benefits of the Act and the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture and the Indenture, respectively. Neither the Series A Special Obligation Bonds, the Series B Special Obligation Bonds nor the Series C Bonds are an obligation of the State of California, any public agency thereof (other than the Authority), or any member of the Authority or any Purchaser and neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any member of the Authority or any Purchaser is pledged for the payment of the Series A Special Obligation Bonds, the Series B Special Obligation Bonds or the Series C Bonds. The Series C Bonds rank equally as to security and payment with the Prior Series Bonds.

4. The Authority is duly authorized and entitled to issue the Series A Bonds and the Series B Bonds, and the Series A Bonds and the Series B Bonds have been duly and validly authorized by the Authority in accordance with the Constitution and statutes of the State of California, including the Act, and the Indenture. The Series A Bonds and the Series B Bonds, if authenticated and delivered on July 1, 1995 and July 1, 1996, respectively, in compliance with the terms and conditions therefor set forth in the Indenture, will constitute valid and binding obligations of the Authority as provided in the Indenture, will be enforceable in accordance with their respective terms and the terms of the Indenture, and will be entitled to the benefits of the Act and the Indenture. Neither the Series A Bonds nor the Series B Bonds are an obligation of the State of California, any public agency thereof (other than the Authority), or any member of the Authority or any Purchaser and neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any member of the Authority or any Purchaser is pledged for the payment of the Series A Bonds or the Series B Bonds. The Series A Bonds, if authenticated and delivered on July 1, 1995, and the Series B Bonds, if authenticated and delivered on July 1, 1996, will rank equally as to security and payment with the Prior Series Bonds.

5. The Authority has the right and power to enter into and carry out its obligations under the Power Sales Contracts and has duly authorized, executed and delivered the Power Sales Contracts which constitute valid and binding agreements of the Authority enforceable in accordance with their terms.

6. Under the Constitution and laws of the State of California, each Power Sales Contract constitutes a valid and binding agreement of the Purchaser party thereto enforceable in accordance with its terms. In rendering the foregoing opinion, we have made no investigation of, and do not express any opinion with respect to, the following as they may relate to the valid, binding and enforceable nature of such Power Sales Contracts: (i) the legal existence or formation of any Purchaser or the incumbency of any official or officer thereof; (ii) any local or special acts or any ordinance, resolution or other proceedings of any Purchaser, including, without limitation, any proceedings relating to the negotiation or authorization of any Power Sales Contract or the execution, delivery or performance thereof (except that we have examined the ordinances pursuant to which the respective Power Sales Contracts were authorized by the respective Purchasers); (iii) any bond resolution, indenture, contract, debt instrument, agreement or other instrument (other than such Power Sales Contracts) or any governmental order, regulation or rule

of or applicable to any Purchaser; (iv) any judicial order, judgment or decree in a proceeding to which any Purchaser is a party; or (v) any approval, consent, filing, registration or authorization by or with any regulatory authority or other governmental or public agency, authority or person which may be or has been required for the authorization, execution, delivery or performance by any Purchaser of its Power Sales Contract. The Authority has received, independent from this opinion, opinions with respect to, among other things, the validity and enforceability of the Power Sales Contracts rendered by legal counsel to the respective Purchasers.

7. The Internal Revenue Code of 1986 (the "Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Series A Crossover Bonds, the Series B Crossover Bonds and the Series C Bonds for interest thereon to be and remain excluded from Federal gross income. Non-compliance with such requirements could cause the interest on such Bonds to be included in Federal gross income retroactive to the date of issuance of such Bonds. These requirements include, but are not limited to, provisions which prescribe yield and other limits within which the proceeds of the Series A Crossover Bonds, the Series B Crossover Bonds and the Series C Bonds and other amounts are to be invested and require that certain investment earnings on the foregoing must be rebated on a periodic basis to the Treasury Department of the United States. Pursuant to the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture and the Indenture, the Authority has covenanted to maintain the exclusion from Federal gross income of the interest on the Series A Crossover Bonds, the Series B Crossover Bonds and the Series C Bonds.

In our opinion, under existing law, interest on the Series A Crossover Bonds, the Series B Crossover Bonds and the Series C Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Series A Crossover Bonds, the Series B Crossover Bonds and the Series C Bonds is excluded from gross income for Federal income tax purposes.

We are further of the opinion that the difference between the principal amount of the Crossover Bonds and the Series C Bonds maturing on July 1, 1999 through July 1, 2005, and the Series C Bonds maturing on July 1, 2007 through July 1, 2017 (collectively, the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on any Series C Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.

We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Series A Crossover Bonds, the Series B Crossover Bonds and the Series C Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code and, therefore, interest on the Series A Crossover Bonds, the Series B Crossover Bonds and the Series C Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. However, we note a portion of the interest on the Series A Crossover Bonds, the Series B Crossover Bonds and the Series C Bonds owned by corporations may be subject to the Federal alternative minimum tax, which is based in part on adjusted net book income or adjusted current earnings.

Except as stated in the preceding five paragraphs and in paragraph nine below, we express no opinion as to any other Federal or State tax consequences of the ownership or disposition of the Series A Crossover Bonds, the Series B Crossover Bonds and the Series C Bonds.

8. The Authority has paid (within the meaning of the Indenture) the Redemption Price and interest due and to become due on the Series C Refunded Bonds, at the times and in the manner



stipulated therein and in the Indenture, and the Series C Refunded Bonds are no longer Outstanding. Except for the rights of the holders of the Series C Refunded Bonds to payments from the Escrow Fund established by the Thirteenth Supplemental Indenture, the Series C Refunded Bonds have ceased to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Authority to the holders of the Series C Refunded Bonds have ceased, terminated, become void and been discharged and satisfied.

9. Under existing statutes, regulations, rulings and court decisions, (i) a holder of the Series A Special Obligation Bond who exchanges such Bond for a Series A Bond on or after July 1, 1995, and (ii) a holder of a Series B Special Obligation Bond who exchanges such Bond for a Series B Bond on or after July 1, 1996, will not, solely as a result of such exchange, recognize any gain or loss on such exchange for Federal income tax purposes.

The opinions expressed in paragraphs 2, 3, 4, 5 and 6 hereof are qualified to the extent that the enforceability of the Series A Special Obligation Bond Indenture, the Series B Special Obligation Bond Indenture, the Indenture, the Series A Crossover Bonds, the Series B Crossover Bonds, the Series C Bonds and the Power Sales Contracts, respectively, may be limited by any applicable bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights generally or as to the availability of any particular remedy.

Very truly yours,

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# Department of Water and Power the City of Los Angeles

**TOM BRADLEY**  
Mayor

*Commission*  
**MICHAEL J. GAGE, President**  
**RICK J. CARUSO, Vice President**  
**ANGEL M. ECHEVARRIA**  
**DOROTHY GREEN**  
**MARY D. NICHOLS**  
**JUDITH K. DAVISON, Secretary**

**DANIEL W. WATERS, General Manager and Chief Engineer**  
**ELDON A. COTTON, Assistant General Manager - Power**  
**JAMES F. WICKSER, Assistant General Manager - Water**  
**WILLIAM G. WILLIAMS, Chief Financial Officer**

January 24, 1992

Board of Directors  
Southern California Public Power Authority  
200 South Los Robles Avenue  
Suite 155  
Pasadena, California 91101

Gentlemen:

In connection with the Department's purchase from the Southern California Power Public Authority (the "Authority") of a 67% entitlement to the output of the Authority Interest in the Palo Verde Nuclear Generating Station, the Department has conducted certain studies and analyses which have included projections with respect to, among other things, the estimated cost of power from Authority Interest, the estimated cost and availability of oil and natural gas, future load growth in The City of Los Angeles, and the estimated future power system revenue requirements necessary to satisfy its cost of such purchase. The Department has also compared the projected cost of power from the Authority Interest with the projected cost of power from its existing facilities.

Based upon these studies and analyses, we are of the opinion that:

1. The Department's share of the output from the Authority Interest will, over time, be economically beneficial to the Department in displacing base load oil- and natural gas-fired generation in the Los Angeles basin;

2. The projected cost of power to the Department from the Authority Interest makes such power economically attractive in the long term to the Department when compared with the projected price levels of oil and natural gas and with the projected cost of power from other alternative resources which may be available to the Department; and

3. For the period through June 30, 1996, the Department's electric system revenues will be sufficient to enable it to pay the Authority all amounts payable under the Department's Power Sales Contract and to pay all other amounts payable from, and all liens on and lawful charges against, the Department's power system revenues.

Respectively submitted,

DEPARTMENT OF WATER AND POWER  
OF THE CITY OF LOS ANGELES

By: /s/ Eldon A. Cotton  
Assistant General Manager — Power

By: /s/ William G. Williams  
Chief Financial Officer

**Water and Power Conservation . . . a way of life**

111 North Hope Street, Los Angeles, California ☐ Mailing address: Box 111, Los Angeles 90051-0100  
Telephone: (213) 481-4211 Cable address: DEWAPOLA FAX: (213) 481-8701

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## Municipal Bond Insurance Policy

### APPENDIX F

AMBAC Indemnity Corporation  
c/o CT Corporation Systems  
222 W. Washington Ave., Madison, WI 53703  
Administrative Office:  
One State Street Plaza, New York, NY 10004

Issuer:

Policy Number:

Bonds:

Premium:

#### AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

In consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.


AMBAC will make such payments to the Insurance Trustee within 5 days following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all of the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.


As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any redemption, prepayment or acceleration premium which at any time may become due in respect of any Bond, nor against risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the counter-signature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer



## Endorsement

AMBAC Indemnity Corporation  
c/o CT Corporation Systems  
222 West Washington Avenue  
Madison, Wisconsin 53703  
Administrative Office;  
One State Street Plaza  
New York, New York 10004

Policy issued to:

Attached to and forming part of

Effective Date of Endorsement

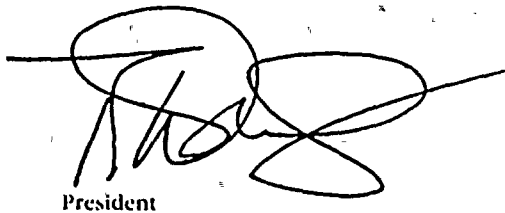
The Policy to which this endorsement is attached and of which it forms a part is hereby amended by the insertion of the following language:

"Notwithstanding anything contained herein to the contrary, when any Bonds are issued in book entry form, the Insurance Trustee shall disburse that portion of the principal and interest on such Bonds Due for Payment but unpaid by reason of Nonpayment to a Bondholder only upon evidence satisfactory to the Insurance Trustee of the Bondholder's right to receive payment of the principal or interest then Due for Payment and that such right has been effectively transferred to AMBAC on the books maintained for such purpose. Upon such disbursement AMBAC shall become the owner of such Bond, appurtenant coupon or right of payment of principal or interest on such Bond and shall be fully subrogated to all the Bondholder's rights thereunder, including the Bondholder's right to payment thereof."

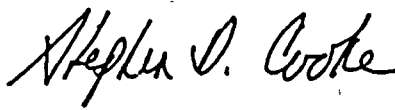
Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, the Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

AMBAC Indemnity Corporation



President



Secretary

Authorized Representative



AMBAC Indemnity Corporation  
CIT Corporation Systems  
222 West Washington Avenue  
Madison, Wisconsin 53703  
Administrative Office  
One State Street Plaza  
New York, New York 10004

## Endorsement

Policy issued to:

Attached to and forming part of

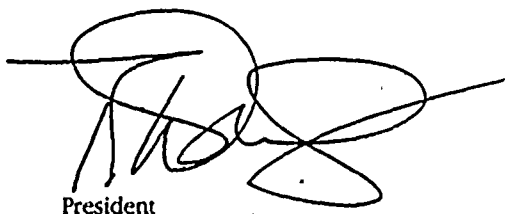
Effective Date of Endorsement:

The Policy to which this Endorsement is attached and of which it forms a part is hereby amended to provide that AMBAC will make payments of that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer within one (1) day following notification to AMBAC of Nonpayment.


Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, the Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

AMBAC Indemnity Corporation



President



Secretary

Authorized Representative



AMBAC Indemnity Corporation  
c/o CT Corporation Systems  
222 West Washington Avenue  
Madison, Wisconsin 53703  
Administrative Office:  
One State Street Plaza  
New York, New York 10004

## Endorsement

Policy issued to:

Attached to and forming part of

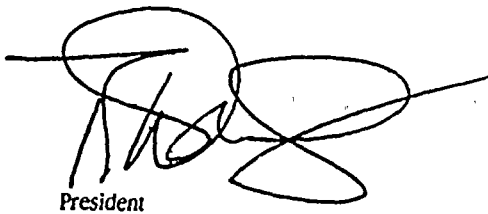
Effective Date of Endorsement:

In the event that AMBAC Indemnity Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California. Payments due under the Policy with respect to the Bonds, as defined in the Policy, may not be accelerated by the issuer of, the obligor on, or any trustee or paying agent for, the Bonds.


Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, the Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

AMBAC Indemnity Corporation



President



Secretary

Authorized Representative



9206040244



**SOUTHERN CALIFORNIA  
PUBLIC POWER AUTHORITY**

**REPORT AND FINANCIAL STATEMENTS  
AND SUPPLEMENTAL  
FINANCIAL INFORMATION**

**JUNE 30, 1991 AND 1990**



*Price Waterhouse*



REPORT OF INDEPENDENT ACCOUNTANTS

September 3, 1991

To the Board of Directors of  
Southern California Public Power Authority

In our opinion, the accompanying combined balance sheet and the related combined statements of operations and of cash flows present fairly, in all material respects, the financial position of the Southern California Public Power Authority (Authority) at June 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

In our opinion, the accompanying separate balance sheets and the related separate statements of cash flows of the Authority's Palo Verde Project, Southern Transmission System Project, Hoover Upgrading Project, Mead-Phoenix Project and Multiple Project Fund and the separate statements of operations of the Authority's Palo Verde Project, Southern Transmission System Project and Hoover Upgrading Project present fairly, in all material respects, the financial position of each of the Projects at June 30, 1991 and 1990, and their cash flows and the results of operations of the Authority's Palo Verde Project, Southern Transmission System Project and Hoover Upgrading Project for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether



The Board of Directors  
September 3, 1991  
Page 2



the financial statements are free of material misstatement. We believe that our audits provide a reasonable basis for the opinion expressed above.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental financial information, as listed on the accompanying index, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Price Waterhouse*



## SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

COMBINED BALANCE SHEET

(In thousands)

	June 30, 1991						June 30, 1990
	Palo Verde Project	Southern Transmission System Project	Hoover Upgrading Project	Mead- Phoenix Project	Multiple Project Fund	Total	Total
<u>ASSETS</u>							
Utility plant							
Production	\$ 596,880					\$ 596,880	\$ 594,323
Transmission	14,211	\$ 668,316				682,527	676,899
General	2,259	18,893				21,152	21,182
	613,350	687,209				1,300,559	1,292,404
Less - Accumulated depreciation	102,265	95,853				198,118	153,898
	511,085	591,356				1,102,441	1,138,506
Construction work in progress	7,574	3,725		\$14,149		25,448	25,517
Nuclear fuel, at amortized cost	17,659					17,659	25,931
Net utility plant	536,318	595,081		14,149		1,145,548	1,189,954
Special funds							
Decommissioning fund	45,319					45,319	6,355
Investments	116,850	127,488	\$12,690	96	\$603,005	860,129	847,761
Advance to Intermountain Power Agency		19,550				19,550	19,550
Advances for capacity and energy, net			15,400			15,400	12,163
Interest receivable	2,527	2,692	208		22,160	27,587	27,938
Cash and cash equivalents	68,001	53,256	7,304	31		128,592	157,973
	232,697	202,986	35,602	127	625,165	1,096,577	1,071,740
Accounts receivable	4,516	2,344	5			6,865	4,883
Materials and supplies	11,236					11,236	8,968
Costs recoverable from future billings to participants	82,056	113,025	(1,636)			193,445	161,080
Deferred costs							
Unamortized debt expenses, less accumulated amortization of \$69,788 and \$62,801	209,670	185,022	1,073			395,765	386,552
Other deferred costs	211					211	466
	209,881	185,022	1,073			395,976	387,018
	\$1,076,701	\$1,098,458	\$35,044	\$14,276	\$625,165	\$2,849,647	\$2,823,643
<u>LIABILITIES</u>							
Long-term debt	\$1,018,003	\$1,054,434	\$34,298		\$601,024	\$2,707,759	\$2,673,128
Arbitrage rebate payable					3,501	3,501	1,287
Current liabilities							
Long-term debt due within one year	16,325	10,545		\$ 100		26,970	25,145
Accrued interest	35,644	29,547	689	1	20,640	86,521	98,040
Accounts payable and accrued expenses	6,732	3,932	57	127		10,848	11,995
	58,701	44,024	746	228	20,640	124,339	135,180
Advances from participants				14,048		14,048	14,048
Commitments and contingencies							
	\$1,076,701	\$1,098,458	\$35,044	\$14,276	\$625,165	\$2,849,647	\$2,823,643

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





# SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## COMBINED STATEMENT OF OPERATIONS

(In thousands)

	<u>Year Ended June 30, 1991</u>				<u>Year Ended</u> <u>June 30,</u> <u>1990</u>
	<u>Palo</u> <u>Verde</u> <u>Project</u>	<u>Southern</u> <u>Transmission</u> <u>System</u> <u>Project</u>	<u>Hoover</u> <u>Upgrading</u> <u>Project</u>	<u>Total</u>	
Operating revenues:					
Sales of electric energy	\$ 128,245		\$ 2,760	\$ 131,005	\$ 123,542
Sales of transmission services		\$ 87,803		87,803	93,508
Total operating revenues	<u>128,245</u>	<u>87,803</u>	<u>2,760</u>	<u>218,808</u>	<u>217,050</u>
Operating expenses:					
Nuclear fuel expenses	12,880			12,880	4,176
Other operation	30,175	12,262	1,553	43,990	39,992
Maintenance	6,486	3,808		10,294	12,794
Depreciation	18,641	19,376		38,017	37,185
Decommissioning	<u>7,339</u>			<u>7,339</u>	<u>5,699</u>
Total operating expenses	<u>75,521</u>	<u>35,446</u>	<u>1,553</u>	<u>112,520</u>	<u>99,846</u>
Operating income	52,724	52,357	1,207	106,288	117,204
Investment income	<u>18,122</u>	<u>11,305</u>	<u>1,608</u>	<u>31,035</u>	<u>31,926</u>
Income before debt expenses	70,846	63,662	2,815	137,323	149,130
Debt expense:					
Interest on debt	<u>83,898</u>	<u>82,979</u>	<u>2,811</u>	<u>169,688</u>	<u>171,820</u>
Costs recoverable from future billings to participants	<u>(\$ 13,052)</u>	<u>(\$ 19,317)</u>	<u>\$ 4</u>	<u>(\$ 32,365)</u>	<u>(\$ 22,690)</u>

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



## SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## COMBINED STATEMENT OF CASH FLOWS

(In thousands)

Year Ended June 30, 1991

	Palo Verde Project	Southern Transmission System Project	Hoover Upgrading Project	Mead-Phoenix Project	Multiple Project Fund	Total	Year Ended June 30, 1990
Cash flows from operating activities:							
Costs recoverable from future billings to participants	(\$13,052)	(\$ 19,317)	\$ 4			(\$ 32,365)	(\$ 22,690)
Adjustments to arrive at net cash (used for) provided by operating activities:							
Depreciation	18,641	19,376				38,017	37,185
Decommissioning	7,339					7,339	5,699
Amortization of nuclear fuel	11,266					11,266	3,676
Amortization of debt costs	12,861	10,252	54			23,167	22,953
Changes in assets and liabilities:							
Decommissioning fund	(38,964)					(38,964)	(2,490)
Interest receivable	586	(60)	42			568	(2,914)
Accounts receivable	(244)	(1,733)	(5)			(1,982)	(700)
Materials and supplies	(2,268)					(2,268)	(2,109)
Other assets	5	(75)	(10)			(80)	(8)
Accrued interest	(536)	(7,543)				(8,079)	(207)
Accounts payable and accrued expenses	1,107	(2,330)	32			(1,191)	1,393
Net cash (used for) provided by operating activities	(3,259)	(1,430)	117			(4,572)	39,788
Cash flows from investing activities:							
Interest received on investments					\$43,929	43,929	
Payments for construction of facility	(10,707)	(1,994)				(12,701)	(14,524)
Payments of interest on long-term debt					(44,720)	(44,720)	
Advances for capacity and energy, net			(3,237)			(3,237)	(1,945)
Payments for feasibility study				(\$ 27)		(27)	(1,000)
Purchases of investments	(87,504)	(164,801)	(6,748)	(217)	(2,993)	(262,263)	(934,343)
Proceeds from sale of investments	103,776	132,908	9,174	253	3,784	249,895	309,174
Refund from Intermountain Power Agency							611
Purchase of investments for decommissioning fund	(35,858)					(35,858)	
Net cash (used for) provided by investing activities	(30,293)	(33,887)	(811)	9		(64,982)	(642,027)
Cash flows from capital and related financing activities:							
Proceeds from sale of bonds							603,796
Proceeds from sale of refunding bonds		293,900				293,900	
Payment for defeasance of revenue bonds		(260,749)				(260,749)	
Payment for principal of long-term debt	(15,255)	(9,890)				(25,145)	(20,195)
Payment for bond issue costs		(3,690)	(1)			(3,691)	(61)
Proceeds from construction fund for contributions to decommissioning fund	35,858					35,858	
Net cash provided by (used for) capital and related financing activities	20,603	19,571	(1)			40,173	583,540
Net (decrease) increase in cash and cash equivalents	(12,949)	(15,746)	(695)	9		(29,381)	(18,699)
Cash and cash equivalents at beginning of year	80,950	69,002	7,999	22		157,973	176,672
Cash and cash equivalents at end of year	\$ 68,001	\$ 53,256	\$ 7,304	\$ 31	\$ -	\$128,592	\$157,973
Supplemental disclosure of cash flow information:							
Cash paid during the year for interest (net of amount capitalized)	\$ 71,824	\$ 80,240	\$ 2,757	\$ -	\$ -	\$154,821	\$149,505

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



# SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - ORGANIZATION AND PURPOSE:

Southern California Public Power Authority (Authority), a public entity organized under the laws of the State of California, was formed by a Joint Powers Agreement dated as of November 1, 1980 pursuant to the Joint Exercise of Powers Act of the State of California. The Authority's participant membership consists of ten Southern California cities and one public district of the State of California. The Authority was formed for the purpose of planning, financing, developing, acquiring, constructing, operating and maintaining projects for the generation and transmission of electric energy for sale to its participants. The Joint Powers Agreement has a term of fifty years.

The members have the following participation percentages in the Authority's interest in the four projects at June 30, 1991 and 1990:

<u>Participants</u>	<u>Palo Verde</u>	<u>Southern Transmission System</u>	<u>Hoover Upgrading</u>	<u>Mead- Phoenix</u>
City of Los Angeles	67.0%	59.5%		61.81%
City of Anaheim		17.6	42.6%	15.00
City of Riverside	5.4	10.2	31.9	6.00
Imperial Irrigation District	6.5			
City of Vernon	4.9			3.50
City of Azusa	1.0		4.2	.23
City of Banning	1.0		2.1	.23
City of Colton	1.0		3.2	.23
City of Burbank	4.4	4.5	16.0	5.00
City of Glendale	4.4	2.3		5.00
City of Pasadena	<u>4.4</u>	<u>5.9</u>	<u>      </u>	<u>3.00</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.00%</u>

The members do not currently participate in the Multiple Project Fund.



NOTE 1: (Continued)

Palo Verde Project

The Authority, pursuant to an assignment agreement dated as of August 14, 1981 with the Salt River Project Agricultural Improvement and Power District, purchased a 5.91% interest in the Palo Verde Nuclear Generating Station (PVNGS), a 3,810 megawatt nuclear-fueled generating station near Phoenix, Arizona, and a 6.55% share of the right to use certain portions of the Arizona Nuclear Power Project Valley Transmission System (collectively, the Palo Verde Project).

As of July 1, 1981, ten participants had entered into power sales contracts with the Authority to purchase the Authority's share of PVNGS capacity and energy. Units 1, 2 and 3 of the Palo Verde Project began commercial operation in January and September 1986, and January 1988, respectively. During fiscal year 1990, Unit 1 was down the entire year and Units 2 and 3 were down approximately one-half the year for repairs. During fiscal year 1991, all three units were operational for most of the year.

Southern Transmission System Project

The Authority, pursuant to an agreement dated as of May 1, 1983 with the Intermountain Power Agency (IPA), has made payments-in-aid of construction to IPA to defray all the costs of acquisition and construction of the Southern Transmission System Project (STS), which provides for the transmission of energy from the Intermountain Generating Station in Utah to Southern California. The Authority entered into an agreement also dated as of May 1, 1983 with six of its participants pursuant to which each member assigned its entitlement to capacity of STS to the Authority in return for the Authority's agreement to make payments-in-aid of construction to IPA. STS commenced commercial operations in July 1986. The Department of Water and Power of the City of Los Angeles, a member of the Authority, serves as project manager and operating agent of the Intermountain Power Project (IPP).

Hoover Upgrading Project

The Authority and six participants entered into an agreement dated as of March 1, 1986, pursuant to which each participant assigned its entitlement to capacity and associated firm energy to the Authority in return for the Authority's agreement to make advance payments to the United States Bureau of Reclamation (USBR) on behalf of such participants. Construction is scheduled for completion by September 1992. The Authority will have an 18.68% interest in the contingent capacity of the Hoover Upgrading Project. Twelve "uprated" generators of the Hoover Upgrading Project have commenced commercial operations as of June 30, 1991.





NOTE 1: (Continued)

Mead-Phoenix Project

The Authority has studied the feasibility of constructing the proposed Mead-Phoenix DC Intertie Project (Mead-Phoenix Project), a transmission line from Arizona to Nevada. The Authority's present interest in the Mead-Phoenix Project is 18.3%. The feasibility study is complete and the project is in contract negotiations with its participants.

Multiple Project Fund

During fiscal year 1990, the Authority issued Multiple Project Revenue Bonds for net proceeds of approximately \$600 million to provide funds to finance costs of construction and acquisition of ownership interests or capacity rights in one or more projects for the generation or transmission of electric energy which are expected to be undertaken within the next five years. Currently, the Authority has not authorized specific projects to be financed with the proceeds of the Bonds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Authority are presented in conformity with generally accepted accounting principles, and substantially in conformity with accounting principles prescribed by the Federal Energy Regulatory Commission and the California Public Utilities Commission. The Authority is not subject to regulations of such commissions.

Utility Plant

All expenditures, including general administrative and other overhead expenses, payments-in-aid of construction, interest net of related investment income, deferred cost amortization and the fair value of test power generated and delivered to the participants are capitalized as utility plant construction work in progress until a facility begins commercial operation.

The Authority's share of costs associated with PVNGS is included as utility plant. Depreciation expense is computed using the straight-line method based on the estimated service life of thirty-five years. Nuclear fuel is amortized and charged to expense on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the Authority is charged one mill per kilowatt-hour on its share of electricity produced by PVNGS. The Authority records this charge as a current year expense.

The costs associated with STS are included as utility plant. Depreciation expense is computed using the straight-line method based on the estimated service lives, principally thirty-five years.

## NOTE 2: (Continued)

### Advances for Capacity and Energy

Advance payments to USBR for the uprating of the 17 generators at the Hoover Power Plant are included in advances for capacity and energy. These advances are being reduced by the Western Area Power Administration billings to participants for energy and capacity.

### Nuclear Decommissioning

Decommissioning of PVNGS is projected to start sometime after 2022. Based upon a study performed by an independent engineering firm, the Authority's share of the estimated decommissioning costs is \$295,000,000 in 1989 dollars. The Authority is providing for its share of the estimated future decommissioning costs over the life of the nuclear power plant through annual charges to expense.

A Nuclear Decommissioning Fund has been established and prefunded. The deposits to the fund plus the interest earnings on the fund balances are expected to be sufficient to pay the Authority's share of the decommissioning costs.

### Deferred Costs

Deferred costs are reported net of accumulated amortization. Unamortized debt issue costs, including the cost of refunding, are amortized over the terms of the respective issues. Other deferred costs are amortized generally over five years.

### Investments

Investments include United States Government and governmental agency securities and repurchase agreements which are collateralized by such securities. Additionally, the Multiple Project Fund's investments are invested under an investment agreement with a financial institution earning a guaranteed rate of return. The Southern Transmission System Project has debt service reserve funds associated with the 1991 Subordinate Refunding Series Bonds invested with a financial institution under a specific investment agreement allowed under the Bond Indenture earning a guaranteed rate of return. The investments are stated at amortized cost, which in general is not in excess of market. As discussed in Note 3, all of the investments are restricted as to their use.

### Cash and Cash Equivalents

Cash and cash equivalents include cash and all investments with maturities less than ninety days.

NOTE 2: (Continued)

Revenues

Revenues consist of billings to participants for the sales of electric energy and of transmission service in accordance with the participation agreements. Generally, revenues are fixed at a level to recover all operating and debt service costs over the commercial life of the plant (see Note 6).

Debt Expenses

Debt expenses include interest on debt, and the amortization of bond discounts, debt issue and refunding costs.

Arbitrage Rebate

A rebate payable to the Internal Revenue Service (IRS) results from the investment of the proceeds from the Multiple Project Revenue Bond Offering in a taxable financial instrument that yields a higher rate of interest income than the cost of the associated funds. The excess of interest income over costs is payable to the IRS within five years of the date of the bond offering and each consecutive five years thereafter.

NOTE 3 - SPECIAL FUNDS:

The Bond Indentures for three of the four projects and the Multiple Project Fund require the following special funds to be established to account for the Authority's receipts and disbursements. The moneys and investments held in these funds are restricted in use to the purposes stipulated in the Bond Indentures. A summary of these funds follows:

<u>Fund</u>	<u>Held by</u>	<u>Purpose</u>
Construction	Trustee	To disburse funds for the acquisition and construction of the Project
Debt Service	Trustee	To pay interest and principal related to the Revenue Bonds
Revenue	Trustee	To initially receive all revenues and disburse them to other funds
Operating	Trustee	To pay operating expenses
Reserve and Contingency	Trustee	To pay capital improvements and make up deficiencies in other funds and accumulate funds for PVNGS decommissioning



NOTE 3: (Continued)

<u>Fund</u>	<u>Held by</u>	<u>Purpose</u>
General Reserve	Trustee	To make up any deficiencies in other funds
Advance Payments	Trustee	To disburse funds for the cost of acquisition of capacity
Proceeds Account	Trustee	To initially receive the proceeds of the sale of the Multiple Project Revenue Bonds
Earnings Account	Trustee	To receive investment earnings on the Multiple Project Revenue Bonds
Revolving Fund	Authority	To pay the Authority's operating expenses
Decommissioning Trust Fund	Trustee	To accumulate estimated future decommissioning costs of PVNGS
Issue Fund	Trustee	To initially receive pledged revenues associated with the 1991 Subordinated Refunding Series' Indenture of Trust and pay the related interest and principal

Special funds, in thousands, were as follows:

	<u>June 30,</u>			
	<u>1991</u>		<u>1990</u>	
	<u>Carrying Value</u>	<u>Market</u>	<u>Carrying Value</u>	<u>Market</u>
Palo Verde Project	\$ 232,697	\$ 235,760	\$ 223,540	\$ 227,012
Southern Transmission System Project	202,986	213,373	186,779	186,347
Hoover Upgrading Project	35,602	35,631	35,528	35,411
Mead-Phoenix Project	127	127	154	154
Multiple Project Fund	<u>625,165</u>	<u>625,165</u>	<u>625,739</u>	<u>625,739</u>
	<u>\$1,096,577</u>	<u>\$1,110,056</u>	<u>\$1,071,740</u>	<u>\$1,074,663</u>



NOTE 3: (Continued)

Palo Verde Project

The special funds required by the Bond Indenture contain balances, in thousands, as follows:

	<u>June 30,</u>	
	<u>1991</u>	<u>1990</u>
Construction Fund-Initial Facilities Account	\$ 15,521	\$ 50,871
Debt Service Fund -		
Debt Service Account	49,626	51,871
Debt Service Reserve Account	92,256	91,001
Bond Anticipation Note Fund		30
Revenue Fund	674	2
Operating Fund	19,812	14,038
Reserve and Contingency Fund	9,436	9,372
Decommissioning Trust Fund	45,319	6,355
Revolving Fund	<u>53</u>	<u>          </u>
	<u>\$232,697</u>	<u>\$223,540</u>

Southern Transmission System Project

The special funds required by the Bond Indenture contain balances, in thousands, as follows:

	<u>June 30,</u>	
	<u>1991</u>	<u>1990</u>
Construction Fund - Initial Facilities Account	\$ 957	\$ 263
Debt Service Fund -		
Debt Service Account	39,498	47,720
Debt Service Reserve Account	90,156	89,952
Revenue Fund	2	2
Operating Fund	5,550	7,168
General Reserve Fund	15,455	22,124
Issue Fund	31,808	
Revolving Fund	<u>10</u>	<u>          </u>
	<u>\$183,436</u>	<u>\$167,229</u>

At June 30, 1991 and 1990 the Authority had non-interest bearing advances outstanding to IPA of \$19,550,000.





NOTE 3: (Continued)

Hoover Upgrading Project

The special funds required by the Bond Indenture contain balances, in thousands, as follows:

	<u>June 30,</u>	
	<u>1991</u>	<u>1990</u>
Advance Payments Fund	\$15,349	\$18,559
Operating-Working Capital Fund	524	471
Debt Service Fund -		
Debt Service Account	718	723
Debt Service Reserve Account	3,604	3,612
Revolving Fund	<u>7</u>	<u>      </u>
	<u>\$20,202</u>	<u>\$23,365</u>

At June 30, 1991 and 1990 the Authority had advances to USBR of \$15,400,000 and \$12,163,000, respectively.

Multiple Project Fund

The special funds required by the Bond Indenture contain balances, in thousands, as follows:

	<u>June 30,</u>	
	<u>1991</u>	<u>1990</u>
Multiple Project Fund -		
Multiple Project Proceeds Account	\$600,012	\$600,012
Multiple Project Debt Service Account		3,784
Multiple Project Earnings Account	<u>25,153</u>	<u>21,943</u>
	<u>\$625,165</u>	<u>\$625,739</u>

Mead-Phoenix Project

At June 30, 1991 and 1990, the balances in the Development Fund were \$127,000 and \$154,000, respectively, substantially all of which were invested in securities of the United States Government.



#### NOTE 4 - LONG-TERM DEBT:

##### Palo Verde Project

To finance the purchase and construction of the Authority's share of the Palo Verde Project, the Authority issued Power Project Revenue Bonds pursuant to the Authority's Indenture of Trust dated as of July 1, 1981 (Bond Indenture), as amended and supplemented. Reference is made below to the Combined Schedule of Long-Term Debt at June 30, 1991 for details related to outstanding bonds.

The Bond Indenture provides that the Revenue Bonds shall be special, limited obligations of the Authority payable solely from and secured solely by (1) proceeds from the sale of bonds, (2) all revenues, incomes, rents and receipts attributable to the Palo Verde Project (see Note 5) and interest on all moneys or securities (other than in the Construction Fund) held pursuant to the Bond Indenture and (3) all funds established by the Bond Indenture (excluding Decommissioning Account in the Reserve and Contingency Fund).

All outstanding Power Project Revenue Term Bonds, at the option of the Authority, are subject to redemption prior to maturity.

The Bond Indenture requires mandatory sinking fund installments to be made beginning in fiscal year 1998 for the 1982 Series A Bonds, 1999 for the 1982 Series B Bonds and the 1983 Series A Bonds, 2001 for the 1984 Series A Bonds and the 1985 Series A Bonds, 2003 for the 1986 Series A Bonds, the 1986 Series B Bonds and the 1987 Series A Bonds and 2005 for the 1985 Series B Bonds and 1989 Series A Bonds. Scheduled principal maturities for the Palo Verde Project during the five fiscal years following June 30, 1991 are \$16,325,000 in 1992, \$17,530,000 in 1993, \$18,860,000 in 1994, \$20,355,000 in 1995 and \$22,010,000 in 1996. The average interest rate on outstanding debt during the fiscal years 1991 and 1990 was 6.9%.

##### Southern Transmission System Project

To finance payments-in-aid of construction to IPA for construction of STS the Authority issued Transmission Project Revenue Bonds pursuant to the Authority's Indenture of Trust dated as of May 1, 1983 (Bond Indenture), as amended and supplemented. Reference is made below to the Combined Schedule of Long-Term Debt at June 30, 1991 for details related to the outstanding bonds.

The Bond Indenture provides that the Revenue Bonds shall be special, limited obligations of the Authority payable solely from and secured solely by (1) proceeds from the sale of bonds, (2) all revenues, incomes, rents and receipts attributable to STS (see Note 5) and interest on all moneys or securities (other than in the Construction Fund) held pursuant to the Bond Indenture and (3) all funds established by the Bond Indenture.

NOTE 4: (Continued)

All outstanding Transmission Project Revenue Term Bonds, at the option of the Authority, are subject to redemption prior to maturity.

The Bond Indenture requires mandatory sinking fund installments to be made beginning in fiscal year 1993 for the 1991 Series Bonds, 2000 for the 1984 Series A Bonds, 2001 for the 1984 Series B Bonds and the 1985 Series A Bonds, 2003 for the 1986 Series A Bonds, 2002 for the 1986 Series B Bonds, and 2007 for the 1988 Series A Bonds. Scheduled principal maturities for STS during the five fiscal years following June 30, 1991 are \$10,545,000 in 1992, \$11,795,000 in 1993, \$12,600,000 in 1994, \$13,600,000 in 1995 and \$14,600,000 in 1996. The average interest rate on outstanding debt during fiscal years 1991 and 1990 was 7.0% and 7.3%, respectively.

Multiple Project Fund

To finance costs of construction and acquisition of ownership interests or capacity rights in one or more projects expected to be undertaken within the next five years, the Authority issued Multiple Project Revenue Bonds pursuant to the Authority's Indenture of Trust dated as of August 1, 1989 (Bond Indenture), as amended and supplemented. Reference is made below to the Combined Schedule of Long-Term Debt at June 30, 1991 for details related to the outstanding bonds.

The Bond Indenture provides that the Revenue Bonds shall be special, limited obligations of the Authority payable solely from and secured solely by (1) proceeds from the sale of bonds, (2) with respect to each authorized project, the revenues of such authorized project, and (3) all funds established by the Bond Indenture.

Of the outstanding Multiple Project Revenue Bonds, \$153,500,000 are not subject to redemption prior to maturity. The balance of the outstanding bonds, at the option of the Authority, are subject to redemption prior to maturity.

The Bond Indenture requires mandatory sinking fund installments to be made beginning in fiscal year 2006 for the 1989 Series Bonds. The first scheduled principal maturity for the Multiple Project is \$13,500,000 in 1999. The average interest rate on outstanding debt during the fiscal years 1991 and 1990 was 6.9% and 6.8%, respectively.

The Bond Indenture required that, at the time of issuance of the Bonds, sufficient funds were available to pay costs related to issuance of the bonds, and that such funds come from a source other than proceeds of the bonds. The Department of Water and Power of the City of Los Angeles (LADWP) advanced \$7,219,000 to the Authority for the payment of the costs.



NOTE 4: (Continued)

The advance plus 7.09% interest becomes immediately payable to the LADWP after the first transfer of bond proceeds by the Authority from the Multiple Project Fund to a separate authorized project account to finance the costs of construction and acquisition of ownership interest of the project.

The Authority has no obligation to repay the advance or interest to the LADWP if bond proceeds are not transferred from the Multiple Project Fund to a separate project account; except that on retirement of the bonds the amount of any remaining funds in the Multiple Project Fund shall be payable to the LADWP without interest.

Hoover Upgrading Project

To finance advance payments to USBR for application to the costs of the Hoover Upgrading Project, the Authority issued Hydroelectric Power Project Revenue Bonds pursuant to the Authority's Indenture of Trust dated as of March 1, 1986 (Bond Indenture). Reference is made below to the Combined Schedule of Long-Term Debt at June 30, 1991 for details related to the outstanding bonds.

The Bond Indenture provides that the Revenue Bonds shall be special, limited obligations of the Authority payable solely from and secured solely by (1) the proceeds from the sale of the bonds, (2) all revenues from sales of energy to participants (see Note 5), (3) interest or other receipts derived from any moneys or securities held pursuant to the Bond Indenture and (4) all funds established by the Indenture of Trust (except for the Interim Advance Payments Account in the Advance Payment Fund).

All outstanding Hydroelectric Power Project Revenue Term Bonds, at the option of the Authority, are subject to redemption prior to maturity.

The Bond Indenture requires mandatory sinking fund installments to be made beginning in fiscal year 2002 for the 1986 Series A Bonds. The next scheduled principal maturities for the Hoover Upgrading Project are \$490,000 in fiscal 1994, \$525,000 in fiscal 1995 and \$560,000 in fiscal 1996. The average interest rate on outstanding debt during fiscal years 1991 and 1990 was 8.0%.

The Authority estimates that the total financing requirements for its interest in the Hoover Upgrading Project will approximate \$34 million, substantially all of which will be expended for the acquisition of entitlements to capacity.

Mead-Phoenix Project

Prior to fiscal year 1989, the Authority borrowed \$14,148,000 to finance the feasibility study and development costs of the Mead-Phoenix Project. During fiscal year 1989, the Authority received from the participants \$14,048,000 retiring all the notes but \$100,000. These receipts



NOTE 4: (Continued)

are shown as Advances from Participants. Authority management anticipates repaying these advances during fiscal 1992 or later.

Refunding Bonds

During fiscal 1991, the proceeds from the sale of \$293,900,000 of Southern Transmission System Project Revenue Bonds were issued to refund \$240,605,000 of previously issued bonds (for total escrow payments of \$260,749,000 including interest and early redemption premium). The refunding reduced total debt service payments over the next 28 years by approximately \$25,336,000 (the difference between the debt service payments on the old and new debt). This will result in an overall present value savings of approximately \$14,138,000. In connection therewith, the net proceeds of the refunding bonds have been invested in securities of the United States Government, the principal and interest from which will be sufficient to fund the remaining principal, interest and call premium payments on the refunded bonds until the stated first call dates of the respective issues. Accordingly, all amounts related to the refunded bonds have been removed from the balance sheets and the cost of refunding the debt is included in unamortized debt expenses.

At June 30, 1991 and 1990, the aggregate amount of debt considered to be extinguished was \$2,451,285,000 and \$2,210,680,000, respectively.

Interest Rate Swap

The Authority entered into an Interest Rate Swap agreement with a third party for the purpose of hedging against interest rate fluctuations arising from the issuance of the 1991 Refunding Series Bonds as variable rate obligations. The Swap Agreement provides for the Authority to make payments to the third party on a fixed rate basis at 6.38%, and for the third party to make reciprocal payments based on a variable rate basis.





**NOTE 4: (Continued)**

**COMBINED SCHEDULE OF LONG-TERM DEBT**

**AT JUNE 30, 1991**

(In thousands)

<u>Project</u>	<u>Series</u>	<u>Date of Sale</u>	<u>Effective Interest Rate</u>	<u>Maturity on July 1</u>	<u>Total</u>
<b>Principal:</b>					
Palo Verde Project Revenue and Refunding Bonds	1982A	08/13/82	10.9%	1991 to 2017	\$ 10,075
	1982B	11/12/82	7.7%	1991 to 2017	34,925
	1983A	04/08/83	8.8%	1991 to 2017	13,005
	1984A	07/18/84	10.3%	1991 to 2004	10,985
	1985A	05/22/85	8.7%	1991 to 2014	9,115
	1985B	07/02/85	9.1%	1991 to 2017	31,420
	1986A	03/13/86	8.2%	1991 to 2015	77,155
	1986B	12/16/86	7.2%	1991 to 2017	351,630
	1987A	02/11/87	6.9%	1991 to 2017	342,470
	1989A	02/15/89	7.2%	1991 to 2015	293,995
					<u>1,174,775</u>
Southern Transmission System Project Revenue and Refunding Bonds	1984A	02/09/84	9.3%	1991 to 2004	26,990
	1984B	10/17/84	10.2%	1991 to 2000	10,575
	1985A	08/15/85	8.9%	1991 to 2021	13,940
	1986A	03/18/86	8.0%	1991 to 2021	129,975
	1986B	04/29/86	7.5%	1991 to 2023	473,995
	1988A	11/22/88	7.2%	1991 to 2015	235,335
	1991	4/17/91	6.4%	2019	293,900
					<u>1,184,710</u>
Multiple Project Revenue Bonds	1989	01/04/90	6.9%	1999 to 2020	647,750
Hoover Upgrading Project Revenue Bonds	1986A	08/13/86	8.1%	1993 to 2017	34,435
Mead-Phoenix - Bank Loan					<u>100</u>
Total principal amount					<u>3,041,770</u>
Unamortized bond discount:					
Palo Verde Project					(140,447)
Southern Transmission System Project					(119,731)
Multiple Project Fund					(46,726)
Hoover Upgrading Project					<u>(137)</u>
Total unamortized bond discount					<u>(307,041)</u>
					2,734,729
Long-term debt due within one year					<u>(26,970)</u>
Total long-term debt, net					<u>\$2,707,759</u>

Bonds which have been refunded are excluded from this schedule.



#### NOTE 5 - POWER SALES AND TRANSMISSION SERVICE CONTRACTS:

The Authority has sold its entitlement to the output of the Palo Verde Project pursuant to power sales contracts with ten participants (see Note 1). Under the terms of the contracts, the participants are entitled to power output from the Palo Verde Nuclear Generating Station and are obligated to make payments on a "take or pay" basis for their proportionate share of operating and maintenance expenses and debt service on Power Project Revenue Bonds and other debt, whether or not the Palo Verde Project or any part thereof has been completed, is operating or operable, or its output is suspended, interfered with, reduced or curtailed or terminated. The contracts expire in 2030 and, as long as any Power Project Revenue Bonds are outstanding, cannot be terminated or amended in any manner which will impair or adversely affect the rights of the bondholders.

The Authority has entered into transmission service contracts with six participants of the Southern Transmission System Project (see Note 1). Under the terms of the contracts, the participants are entitled to transmission service utilizing the Southern Transmission System Project and are obligated to make payments on a "take or pay" basis for their proportionate share of operating and maintenance expenses and debt service on Transmission Project Revenue Bonds and other debt, whether or not the Southern Transmission System Project or any part thereof has been completed, is operating or operable, or its service is suspended, interfered with, reduced or curtailed or terminated. The contracts expire in 2027 and, as long as any Transmission Project Revenue Bonds are outstanding, cannot be terminated or amended in any manner which will impair or adversely affect the rights of the bondholders.

In March 1986, the Authority entered into power sales contracts with six participants of the Hoover Upgrading Project (see Note 1). Under the terms of the contracts, the participants are entitled to capacity and associated firm energy of the Hoover Upgrading Project and are obligated to make payments on a "take or pay" basis for their proportionate share of operating and maintenance expenses and debt service whether or not the Hoover Upgrading Project or any part thereof has been completed, is operating or is operable, or its service is suspended, interfered with, reduced or curtailed or terminated in whole or in part. The contracts expire in 2018 and as long as the Hydroelectric Power Project Revenue Bonds are outstanding, cannot be terminated or amended in any manner which will impair or adversely affect the rights of the bondholders.

#### NOTE 6 - COSTS RECOVERABLE FROM FUTURE BILLINGS TO PARTICIPANTS:

Billings to participants are designed to recover "costs" as defined by the power sales and transmission service agreements. The billings are structured to systematically provide for debt service requirements, operating funds and reserves in accordance with these agreements. Those expenses, according to generally accepted accounting principles (GAAP), which are not included as "costs" are deferred to such periods as they are intended to be recovered through billings for the repayment of principal on related debt.



**NOTE 6: (Continued)**

Costs recoverable from future billings to participants are comprised of the following:

	Balance June 30, <u>1990</u>	Fiscal 1991 <u>Activity</u>	Balance June 30, <u>1991</u>
GAAP items not included in billings to participants:			
Depreciation of plant	\$137,341	\$38,017	\$175,358
Amortization of bond discount; debt issue costs, and cost of refunding	76,319	22,917	99,236
Nuclear fuel amortization and decommissioning expense	22,975	9,757	32,732
Interest expense	6,208	(3)	6,205
Bond requirements included in billings to participants:			
Operations and maintenance, net of investment income	(34,582)	(6,106)	(40,688)
Costs of acquisition of capacity - STS	(18,350)		(18,350)
Reduction in debt service due to transfer of excess construction funds	40,999		40,999
Principal repayments	(60,695)	(26,870)	(87,565)
Other	<u>(9,135)</u>	<u>(5,347)</u>	<u>(14,482)</u>
	<u>\$161,080</u>	<u>\$32,365</u>	<u>\$193,445</u>

**NOTE 7 - COMMITMENTS AND CONTINGENCIES:**

As a participant in the PVNGS, the Authority could be subject to assessment of retroactive insurance premium adjustments in the event of a nuclear incident at the PVNGS or at any other licensed reactor in the United States.

The Authority is involved in various legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material effect on the financial position of the Authority or the respective separate projects.



NOTE 8 - SUBSEQUENT EVENT (UNAUDITED):

In August 1991, the Authority entered into a transaction to issue \$35,695,000 of Hoover Uprating Project Revenue Refunding Bonds to refund \$28,530,000 of previously issued bonds. The refunding will reduce total debt service payments over the next 26 years by approximately \$4,624,000 (the difference between the debt service payments on the old and new debt) and will result in an overall present value savings of approximately \$1,519,000.





# **SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

## **SUPPLEMENTAL FINANCIAL INFORMATION**

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Supplemental Balance Sheet at June 30, 1991 and 1990.

Supplemental Statement of Operations for the Years Ended June 30, 1991 and 1990.

Supplemental Statement of Cash Flows for the Years Ended June 30, 1991 and 1990.

Supplemental Schedule of Receipts and Disbursements in Funds Required by the Bond Indenture for the Year Ended June 30, 1991.

#### **Southern Transmission System Project**

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Supplemental Statement of Operations for the Years Ended June 30, 1991 and 1990.

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#### **Mead-Phoenix Project**

Supplemental Balance Sheet at June 30, 1991 and 1990.

Supplemental Statement of Cash Flows for the Years Ended June 30, 1991 and 1990.

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Supplemental Balance Sheet at June 30, 1991 and 1990.

Supplemental Statement of Cash Flows for the Years Ended June 30, 1991 and 1990.

Supplemental Schedule of Receipts and Disbursements in Funds Required by the Bond Indenture for the Year Ended June 30, 1991.



## SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## PALO VERDE PROJECT

SUPPLEMENTAL BALANCE SHEET

(In thousands)

	June 30,	
	<u>1991</u>	<u>1990</u>
<u>ASSETS</u>		
Utility plant:		
Production -	\$ 596,880	\$ 594,323
Transmission	14,211	14,172
General	<u>2,259</u>	<u>2,289</u>
	613,350	610,784
Less - Accumulated depreciation	<u>102,265</u>	<u>77,421</u>
	511,085	533,363
Construction work in progress	7,574	4,119
Nuclear fuel, at amortized cost	<u>17,659</u>	<u>25,931</u>
Net utility plant	<u>536,318</u>	<u>563,413</u>
Special funds		
Decommissioning fund	45,319	6,355
Investments	116,850	133,122
Interest receivable	2,527	3,113
Cash and cash equivalents	<u>68,001</u>	<u>80,950</u>
	<u>232,697</u>	<u>223,540</u>
Accounts receivable	<u>4,516</u>	<u>4,272</u>
Materials and supplies	<u>11,236</u>	<u>8,968</u>
Costs recoverable from future billings to participants	<u>82,056</u>	<u>69,004</u>
Deferred costs:		
Unamortized debt expenses, less accumulated amortization		
of \$41,606 and \$33,660	209,670	218,597
Other deferred costs	<u>211</u>	<u>466</u>
	<u>209,881</u>	<u>219,063</u>
	<u>\$1,076,704</u>	<u>\$1,088,260</u>
<u>LIABILITIES</u>		
Long-term debt	<u>\$1,018,003</u>	<u>\$1,031,200</u>
Current liabilities:		
Long-term debt due within one year	16,325	15,255
Accrued interest	35,644	36,180
Accounts payable and accrued expenses	<u>6,732</u>	<u>5,625</u>
	<u>58,701</u>	<u>57,060</u>
Commitments and contingencies		
	<u>\$1,076,704</u>	<u>\$1,088,260</u>

See Notes to Financial Statements.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

**PALO VERDE PROJECT**

**SUPPLEMENTAL STATEMENT OF OPERATIONS**

(In thousands)

	<u>Year Ended June 30,</u>	
	<u>1991</u>	<u>1990</u>
Operating revenue:		
Sales of electric energy	\$128,245	\$120,782
Operating expenses:		
Nuclear fuel	12,880	4,176
Other operation	30,175	28,145
Maintenance	6,486	8,660
Depreciation	18,641	17,980
Decommissioning	<u>7,339</u>	<u>5,699</u>
Total operating expenses	<u>75,521</u>	<u>64,660</u>
Operating income	52,724	56,122
Investment income	<u>18,122</u>	<u>18,290</u>
Income before debt expenses	70,846	74,412
Debt expense:		
Interest on debt	<u>83,898</u>	<u>84,829</u>
Costs recoverable from future billings to participants	<u>(\$ 13,052)</u>	<u>(\$ 10,417)</u>

See Notes to Financial Statements.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

**PALO VERDE PROJECT**

**SUPPLEMENTAL STATEMENT OF CASH FLOWS**

(In thousands)

	<u>Year Ended June 30,</u>	
	<u>1991</u>	<u>1990</u>
Cash flows from operating activities:		
Costs recoverable from future billings to participants	(\$ 13,052)	(\$ 10,417)
Adjustments to arrive at net cash (used for) provided by operating activities -		
Depreciation -	18,641	17,980
Decommissioning	7,339	5,699
Amortization of nuclear fuel	11,266	3,676
Amortization of debt costs	12,861	12,899
Changes in assets and liabilities:		
Decommissioning fund	(38,964)	(2,490)
Interest receivable	586	(1,499)
Accounts receivable	(244)	(637)
Materials and supplies	(2,268)	(2,109)
Other assets	5	(32)
Accrued interest	(536)	(39)
Accounts payable and accrued expenses	<u>1,107</u>	<u>890</u>
Net cash (used for) provided by operating activities	<u>(3,259)</u>	<u>23,921</u>
Cash flows from investing activities:		
Payments for construction of facility	(10,707)	(9,980)
Purchase of investments for decommissioning fund	(35,858)	
Purchases of investments	(87,504)	(189,436)
Proceeds from sale of investments	<u>103,776</u>	<u>163,143</u>
Net cash used for investing activities	<u>(30,293)</u>	<u>(36,273)</u>
Cash flows from capital and related financing activities:		
Payments for principal of long-term debt	(15,255)	(14,370)
Proceeds from construction fund for contributions to the decommissioning fund	<u>35,858</u>	
Net cash provided by (used for) capital and related financing activities	<u>20,603</u>	<u>(14,370)</u>
Net decrease in cash and cash equivalents	(12,949)	(26,722)
Cash and cash equivalents at beginning of year	<u>80,950</u>	<u>107,672</u>
Cash and cash equivalents at end of year	<u>\$ 68,001</u>	<u>\$ 80,950</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest (net of amount capitalized)	<u>\$ 71,824</u>	<u>\$ 72,399</u>

See Notes to Financial Statements.



## SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## PALO VERDE PROJECT

SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS  
IN FUNDS REQUIRED BY THE BOND INDENTURE  
YEAR ENDED JUNE 30, 1991

(In thousands)

	Construction Fund Initial Facilities Account	Debt Service Fund	Bond Anticipation Note Fund	Revenue Fund	Operating Fund	Reserve & Contingency Fund	General Reserve Fund	Decommissioning Trust Funds I & II	Total
Balance at June 30, 1990	<u>\$50,080</u>	<u>\$141,784</u>	<u>\$29</u>	<u>\$ -</u>	<u>\$14,028</u>	<u>\$9,288</u>	<u>\$ -</u>	<u>\$ 6,282</u>	<u>\$221,491</u>
Additions:									
Investment earnings	3,197	11,706	2	127	1,145	687		2,841	19,705
Distribution of investment earnings		(10,117)	(2)	12,001	(962)	(475)		(445)	-
Revenue from power sales				127,832					127,832
Distribution of revenues		84,870		(139,280)	46,303	5,488	1,448	1,171	-
Other income	27				140	574		(3)	738
Transfer for interest payment		114,687							114,687
Miscellaneous transfers	<u>(35,839)</u>	<u>          </u>	<u>(29)</u>	<u>(9)</u>	<u>1,502</u>	<u>          </u>	<u>(1,448)</u>	<u>35,879</u>	<u>56</u>
Total	<u>(32,615)</u>	<u>201,146</u>	<u>(29)</u>	<u>671</u>	<u>48,128</u>	<u>6,274</u>	<u>-</u>	<u>39,443</u>	<u>263,018</u>
Deductions:									
Construction expenditures	1,923					6,166			8,089
Operating expenditures					41,699				41,699
Fuel costs					608				608
Payment of principal		15,255							15,255
Interest paid		186,863			35			14	186,912
Interest paid on investment purchases	211				166	16		1,047	1,440
Premium paid on investment purchases					2				2
Miscellaneous	<u>25</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>4</u>	<u>29</u>
Total	<u>2,159</u>	<u>202,118</u>	<u>-</u>	<u>-</u>	<u>42,510</u>	<u>6,182</u>	<u>-</u>	<u>1,065</u>	<u>254,034</u>
Balance at June 30, 1991	<u>\$15,306</u>	<u>\$140,812</u>	<u>\$ -</u>	<u>\$ 671</u>	<u>\$19,646</u>	<u>\$9,380</u>	<u>\$ -</u>	<u>\$ 44,660</u>	<u>\$230,475</u>

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and has been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable of \$2,527 and \$3,113 and Decommissioning Trust Fund accrued interest receivable of \$724 and \$16 at June 30, 1991 and 1990, nor do they include total amortized net investment premiums of \$1,029 and \$1,080 at June 30, 1991 and 1990.

# SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## SOUTHERN TRANSMISSION SYSTEM PROJECT

### SUPPLEMENTAL BALANCE SHEET

(In thousands)

	<u>June 30,</u>	
	<u>1991</u>	<u>1990</u>
<b><u>ASSETS</u></b>		
Utility plant:		
Transmission	\$ 668,316	\$ 662,727
General	<u>18,893</u>	<u>18,893</u>
	687,209	681,620
Less - Accumulated depreciation	<u>95,853</u>	<u>76,477</u>
	591,356	605,143
Construction work in progress	<u>3,725</u>	<u>7,320</u>
Net utility plant	<u>595,081</u>	<u>612,463</u>
Special funds:		
Investments	127,488	95,595
Advance to Intermountain Power Agency	19,550	19,550
Interest receivable	2,692	2,632
Cash and cash equivalents	<u>53,256</u>	<u>69,002</u>
	<u>202,986</u>	<u>186,779</u>
Accounts receivable	<u>2,344</u>	<u>611</u>
Costs recoverable from future billings to participants	<u>113,025</u>	<u>93,708</u>
Deferred costs:		
Unamortized debt expenses, less accumulated amortization of \$27,921 and \$281,933	<u>185,022</u>	<u>166,840</u>
	<u>\$1,098,458</u>	<u>\$1,060,401</u>
<b><u>LIABILITIES</u></b>		
Long-term debt	<u>\$1,054,434</u>	<u>\$1,007,159</u>
Current liabilities:		
Long-term debt due within one year	10,545	9,890
Accrued interest	29,547	37,090
Accounts payable and accrued expenses	<u>3,932</u>	<u>6,262</u>
	<u>44,024</u>	<u>53,242</u>
Commitments and contingencies	<u>                    </u>	<u>                    </u>
	<u>\$1,098,458</u>	<u>\$1,060,401</u>

See Notes to Financial Statements.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

**SOUTHERN TRANSMISSION SYSTEM PROJECT**

**SUPPLEMENTAL STATEMENT OF OPERATIONS**

(In thousands)

	<u>Year Ended June 30,</u>	
	<u>1991</u>	<u>1990</u>
Operating revenue:		
Sales of transmission services	<u>\$ 87,803</u>	<u>\$ 93,508</u>
Operating expenses:		
Other operation	12,262	10,501
Maintenance	3,808	4,134
Depreciation	<u>19,376</u>	<u>19,205</u>
Total operating expenses	<u>35,446</u>	<u>33,840</u>
Operating income	52,357	59,668
Investment income	<u>11,305</u>	<u>11,611</u>
Income before debt expense	63,662	71,279
Debt expense:		
Interest on debt	<u>82,979</u>	<u>84,180</u>
Costs recoverable from future billings to participants	<u>(\$ 19,317)</u>	<u>(\$ 12,901)</u>

See Notes to Financial Statements.

# SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## SOUTHERN TRANSMISSION SYSTEM PROJECT

### SUPPLEMENTAL STATEMENT OF CASH FLOWS

(In thousands)

	<u>Year Ended June 30,</u>	
	<u>1991</u>	<u>1990</u>
Cash flows from operating activities:		
Costs recoverable from future billings to participants	(\$ 19,317)	(\$ 12,901)
Adjustments to arrive at net cash (used for) provided by operating activities -		
Depreciation	19,376	19,205
Amortization of debt costs	10,252	10,000
Changes in assets and liabilities:		
Interest receivable	(60)	(1,457)
Accounts receivable	(1,733)	(63)
Other assets	(75)	24
Accrued interest	(7,543)	(168)
Accounts payable and accrued expenses	<u>(2,330)</u>	<u>493</u>
Net cash (used for) provided by operating activities	<u>(1,430)</u>	<u>15,133</u>
Cash flows from investing activities:		
Payments for construction of facility	(1,994)	(4,544)
Purchases of investments	(164,801)	(124,280)
Proceeds from sale of investments	132,908	124,612
Refund from Intermountain Power Agency	<u>          </u>	<u>611</u>
Net cash used for investing activities	<u>(33,887)</u>	<u>(3,601)</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of refunding bonds	293,900	
Payment for defeasance of revenue bonds	(260,749)	
Payment for principal of long-term debt	(9,890)	(5,825)
Payment for bond issue costs	<u>(3,690)</u>	<u>          </u>
Net cash provided by (used for) capital and related financing activities	<u>19,571</u>	<u>(5,825)</u>
Net (decrease) increase in cash and cash equivalents	(15,746)	5,707
Cash and cash equivalents at beginning of year	<u>69,002</u>	<u>63,295</u>
Cash and cash equivalents at end of year	<u>\$ 53,256</u>	<u>\$ 69,002</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest (net of amount capitalized)	<u>\$ 80,240</u>	<u>\$ 74,349</u>

See Notes to Financial Statements.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

**SOUTHERN TRANSMISSION SYSTEM PROJECT**

**SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS  
IN FUNDS REQUIRED BY THE BOND INDENTURE  
YEAR ENDED JUNE 30, 1991  
(In thousands)**

	Construction Fund-Initial Facilities Account	Debt Service Fund	Revenue Fund	Operating Fund	General Reserve Fund	Issue Fund	Total
Balance at June 30, 1990	<u>\$ 262</u>	<u>\$135,062</u>	<u>\$ -</u>	<u>\$ 7,138</u>	<u>\$21,776</u>	<u>\$ -</u>	<u>\$164,238</u>
Additions:							
Bond proceeds						33,151	33,151
Investment earnings	62	9,210	209	526	2,295	465	12,767
Distribution of investment earnings		(8,279)	11,090	(459)	(1,887)	(465)	-
Revenue from transmission sales			85,414				85,414
Distribution of revenue		80,330	(96,713)	14,448	1,935		-
Transfer for interest payment		97,316					97,316
Miscellaneous transfers	<u>4,997</u>	<u>(4,737)</u>	<u>-</u>	<u>10</u>	<u>(8,448)</u>	<u>4,062</u>	<u>(4,116)</u>
Total	<u>5,059</u>	<u>173,840</u>	<u>-</u>	<u>14,525</u>	<u>(6,105)</u>	<u>37,213</u>	<u>224,532</u>
Deductions:							
Bond issue costs						3,690	3,690
Payments-in-aid of construction	4,365						4,365
Operating expenditures				16,037			16,037
Payment of principal		9,890					9,890
Interest paid		171,163				1,717	172,880
Interest paid on investment purchases		622		67	262		951
Premium paid on investment purchases	<u>-</u>	<u>91</u>	<u>-</u>	<u>1</u>	<u>33</u>	<u>-</u>	<u>125</u>
Total	<u>4,365</u>	<u>181,766</u>	<u>-</u>	<u>16,105</u>	<u>295</u>	<u>5,407</u>	<u>207,938</u>
Balance at June 30, 1991	<u>\$ 956</u>	<u>\$127,136</u>	<u>\$ -</u>	<u>\$ 5,558</u>	<u>\$15,376</u>	<u>\$31,806</u>	<u>\$180,832</u>

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and has been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable of \$2,692 and \$2,632 at June 30, 1991 and 1990, nor do they include total amortized net investment premium of \$88 and discount of \$359 at June 30, 1991 and 1990.





# SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## HOOVER UPRATING PROJECT

### SUPPLEMENTAL BALANCE SHEET

(In thousands)

	<u>June 30,</u>	
	<u>1991</u>	<u>1990</u>
<u>ASSETS</u>		
Special funds:		
Investments	\$12,690	\$15,116
Advances for capacity and energy, net	15,400	12,163
Interest receivable	208	250
Cash and cash equivalents	<u>7,304</u>	<u>7,999</u>
	<u>35,602</u>	<u>35,528</u>
Accounts receivable	<u>5</u>	<u>      </u>
Billings to participants in excess of costs recoverable	<u>(1,636)</u>	<u>(1,632)</u>
Deferred costs:		
Unamortized debt expenses, less accumulated amortization of \$261 and \$208	<u>1,073</u>	<u>1,115</u>
	<u>\$35,044</u>	<u>\$35,011</u>
<u>LIABILITIES</u>		
Long-term debt	<u>\$34,298</u>	<u>\$34,297</u>
Current liabilities:		
Accrued interest	689	689
Accounts payable and accrued expenses	<u>57</u>	<u>25</u>
	<u>746</u>	<u>714</u>
Commitments and contingencies	<u>      </u>	<u>      </u>
	<u>\$35,044</u>	<u>\$35,011</u>

See Notes to Financial Statements.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

**HOOVER UPRATING PROJECT**

**SUPPLEMENTAL STATEMENT OF OPERATIONS**

(In thousands)

	<u>Year Ended June 30,</u>	
	<u>1991</u>	<u>1990</u>
Operating revenue:		
Sales of electric energy	<u>\$2,760</u>	<u>\$2,760</u>
Operating expenses:		
Capacity charges	680	608
Energy charges	568	586
Other operation	<u>305</u>	<u>152</u>
Total operating expenses	<u>1,553</u>	<u>1,346</u>
Operating income	1,207	1,414
Investment income	<u>1,608</u>	<u>2,025</u>
Income before debt expense	2,815	3,439
Debt expense:		
Interest on debt	<u>2,811</u>	<u>2,811</u>
Billings to participants in excess of costs recoverable	<u>\$ 4</u>	<u>\$ 628</u>

See Notes to Financial Statements.



# SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## HOOVER UPRATING PROJECT

### SUPPLEMENTAL STATEMENT OF CASH FLOWS

(In thousands)

	<u>Year Ended June 30,</u>	
	<u>1991</u>	<u>1990</u>
Cash flows from operating activities:		
Billings to participants in excess of costs recoverable	\$ 4	\$ 628
Adjustments to arrive at net cash provided by operating activities -		
Amortization of debt costs	54	54
Changes in assets and liabilities:		
Interest receivable	42	42
Accounts receivable	(5)	
Accounts payable and accrued expenses	32	10
Other assets	<u>(10)</u>	<u>      </u>
Net cash provided by operating activities	<u>117</u>	<u>734</u>
Cash flows from investing activities:		
Advances for capacity and energy, net	(3,237)	(1,945)
Purchases of investments	(6,748)	(15,816)
Proceeds from sale of investments	<u>9,174</u>	<u>19,447</u>
Net cash (used for) provided by investing activities	<u>(811)</u>	<u>1,686</u>
Cash flows from capital and related financing activities:		
Payment for bond issue costs	<u>(1)</u>	<u>(61)</u>
Net cash used for capital and related financing activities	<u>(1)</u>	<u>(61)</u>
Net (decrease) increase in cash and cash equivalents	(695)	2,359
Cash and cash equivalents at beginning of year	<u>7,999</u>	<u>5,640</u>
Cash and cash equivalents at end of year	<u>\$ 7,304</u>	<u>\$ 7,999</u>
Supplemental disclosure of cash flow information:		
Cash paid during year for interest (net of amount capitalized)	<u>\$ 2,757</u>	<u>\$ 2,757</u>

See Notes to Financial Statements.



## SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## HOOVER UPRATING PROJECT

SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS  
IN FUNDS REQUIRED BY THE BOND INDENTUREYEAR ENDED JUNE 30, 1991

(In thousands)

	Advance Payments <u>Fund</u>	Interim Advance Payments <u>Fund</u>	Revenue <u>Fund</u>	Operating Working Capital <u>Fund</u>	Debt Service <u>Account</u>	Debt Service Reserve <u>Account</u>	<u>Total</u>
Balance at June 30, 1990	<u>\$15,762</u>	<u>\$2,841</u>	<u>\$ -</u>	<u>\$458</u>	<u>\$ 720</u>	<u>\$3,624</u>	<u>\$23,405</u>
Additions:							
Investment earnings	1,276	233	4	41	46	288	1,888
Distribution of investment earnings	610	(233)	(4)	(39)	(46)	(288)	-
Revenue from power sales			2,755				2,755
Distribution of revenues	(50)		(2,755)	50	2,755		-
Transfer of investments	(3,514)	3,514					-
Miscellaneous transfers	<u>8</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>8</u>
Total	<u>(1,670)</u>	<u>3,514</u>	<u>-</u>	<u>52</u>	<u>2,755</u>	<u>-</u>	<u>4,651</u>
Deductions:							
Advances for capacity and energy		4,055					4,055
Administrative expenditures	292	430					722
Interest paid					2,757		2,757
Interest paid on investment purchases	43					7	50
Premium paid on investment purchases	<u>163</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>163</u>
Total	<u>498</u>	<u>4,485</u>	<u>-</u>	<u>-</u>	<u>2,757</u>	<u>7</u>	<u>7,747</u>
Balance at June 30, 1991	<u>\$13,594</u>	<u>\$1,870</u>	<u>\$ -</u>	<u>\$510</u>	<u>\$ 718</u>	<u>\$3,617</u>	<u>\$20,309</u>

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and has been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable of \$208 and \$250 at June 30, 1991 and 1990, nor do they include total amortized net investment premiums of \$315 and \$290 at June 30, 1991 and 1990.

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

**MEAD-PHOENIX PROJECT**

**SUPPLEMENTAL BALANCE SHEET**

(In thousands)

	<u>June 30,</u>	
	<u>1991</u>	<u>1990</u>
<b><u>ASSETS</u></b>		
Utility plant:		
Construction work in progress	<u>\$14,149</u>	<u>\$14,078</u>
Special funds:		
Investments	.96	132
Cash and cash equivalents	<u>31</u>	<u>22</u>
	<u>127</u>	<u>154</u>
	<u>\$14,276</u>	<u>\$14,232</u>
<b><u>LIABILITIES</u></b>		
Long-term debt		<u>\$ 100</u>
Current liabilities:		
Long-term debt due within one year	\$ 100	
Accrued interest	1	1
Accounts payable and accrued expenses	<u>127</u>	<u>83</u>
	<u>228</u>	<u>84</u>
Advances from participants	<u>14,048</u>	<u>14,048</u>
Commitments and contingencies	<u>      </u>	<u>      </u>
	<u>\$14,276</u>	<u>\$14,232</u>

See Notes to Financial Statements.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

**MEAD-PHOENIX PROJECT**

**SUPPLEMENTAL STATEMENT OF CASH FLOWS**

(In thousands)

	<u>Year Ended June 30,</u>	
	<u>1991</u>	<u>1990</u>
Cash flows from operating activities	\$ -	\$ -
Cash flows from investing activities:		
Payments for feasibility study	(27)	(1,000)
Purchases of investments	(217)	(1,015)
Proceeds from sale of investments	<u>253</u>	<u>1,972</u>
Net cash provided by (used for) investing activities	<u>.9</u>	<u>(43)</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	9	(43)
Cash and cash equivalents at beginning of year	<u>22</u>	<u>65</u>
Cash and cash equivalents at end of year	<u>\$ 31</u>	<u>\$ 22</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest (net of amount capitalized)	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

**MULTIPLE PROJECT FUND**

**SUPPLEMENTAL BALANCE SHEET**

(In thousands)

	<u>June 30,</u>	
	<u>1991</u>	<u>1990</u>
<b><u>ASSETS</u></b>		
Special funds:		
Investments	\$603,005	\$603,796
Interest receivable	<u>22,160</u>	<u>21,943</u>
	<u>\$625,165</u>	<u>\$625,739</u>
 <b><u>LIABILITIES</u></b>		
Long-term debt	<u>\$601,024</u>	<u>\$600,372</u>
Arbitrage rebate payable	<u>3,501</u>	<u>1,287</u>
Current liabilities:		
Accrued interest	<u>20,640</u>	<u>24,080</u>
Commitments and contingencies	<u>          </u>	<u>          </u>
	<u>\$625,165</u>	<u>\$625,739</u>

See Notes to Financial Statements.



# SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

## MULTIPLE PROJECT FUND

### SUPPLEMENTAL STATEMENT OF CASH FLOWS

(In thousands)

	Year Ended June 30,	
	<u>1991</u>	<u>1990</u>
Cash flows from operating activities	\$ -	\$ -
Cash flows from investing activities:		
Interest received on investments	43,929	
Payment for interest on long-term debt	(44,720)	
Purchases of investments	(2,993)	(603,796)
Proceeds from sale of investments	<u>3,784</u>	<u>          </u>
Net cash used for investing activities	<u>-</u>	<u>(603,796)</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds and accrued interest	<u>-</u>	<u>603,796</u>
Net cash provided by capital and related financing activities	<u>-</u>	<u>603,796</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest (net of amount capitalized)	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY**

**MULTIPLE PROJECT FUND**

**SUPPLEMENTAL SCHEDULE OF RECEIPTS AND DISBURSEMENTS  
IN FUNDS REQUIRED BY THE BOND INDENTURE**

**YEAR ENDED JUNE 30, 1991**

(In thousands)

	<u>Proceeds Account</u>	<u>Debt Service Account</u>	<u>Earnings Account</u>	<u>Total</u>
Balance at June 30, 1990	<u>\$600,012</u>	<u>\$ 3,784</u>	<u>\$ -</u>	<u>\$603,796</u>
Additions:				
Investment earnings	43,856	73		43,929
Distribution of investment earnings	(43,856)	21,805	22,051	-
Transfer for interest payment	<u>          </u>	<u>19,058</u>	<u>(19,058)</u>	<u>-</u>
Total	<u>-</u>	<u>40,936</u>	<u>2,993</u>	<u>43,929</u>
Deductions:				
Interest paid	<u>          </u>	<u>(44,720)</u>	<u>          </u>	<u>(44,720)</u>
Balance at June 30, 1991	<u>\$600,012</u>	<u>\$ -</u>	<u>\$2,993</u>	<u>\$603,005</u>

This schedule summarizes the receipts and disbursements in funds required under the Bond Indenture and has been prepared from the trust statements. The balances in the funds consist of cash and investments at original cost. These balances do not include accrued interest receivable of \$22,160 and \$21,943 at June 30, 1991 and 1990, respectively.





Docket # 50-528  
Accession # 9206040244  
Date 5/27/92 of Ltr  
Regulatory Docket File

# 1991

## ANNUAL REPORT

### **-NOTICE-**

THE ATTACHED FILES ARE OFFICIAL RECORDS OF THE RECORDS & REPORTS MANAGEMENT BRANCH. THEY HAVE BEEN CHARGED TO YOU FOR A LIMITED TIME PERIOD AND MUST BE RETURNED TO THE RECORDS & ARCHIVES SERVICES SECTION P1-122 WHITE FLINT. PLEASE DO NOT SEND DOCUMENTS CHARGED OUT THROUGH THE MAIL. REMOVAL OF ANY PAGE(S) FROM DOCUMENT FOR REPRODUCTION MUST BE REFERRED TO FILE PERSONNEL.

### **-NOTICE-**

**El Paso Electric**

## **ANNUAL MEETING OF SHAREHOLDERS**

All shareholders are invited to attend the Annual Meeting of Shareholders on Monday, June 8, 1992, at 10 a.m., El Paso time in the El Paso Performing Arts Center, El Paso Room, 1 Civic Center Plaza (at the corner of Santa Fe Street and San Francisco Avenue in downtown El Paso).

Proxies for the meeting are being solicited by the Board of Directors in a communication being mailed in conjunction with the mailing of this Annual Report. This Annual Report is not a part of such proxy solicitation and is not intended to be used as such.

obligations. In other words, we will use this filing as an opportunity to develop a comprehensive plan that will allow our Company to emerge from bankruptcy with a balanced capital structure, fair utility returns and reasonable rates.

However, the bankruptcy proceeding also brings with it a substantial degree of uncertainty and a myriad of legal, regulatory, and financial issues for which there is little or no precedent. To assist it in this difficult effort, the Company has retained experienced bankruptcy counsel and financial advisors. The legal and financial advisors were selected because of their national experience and successful reorganization efforts.

#### REORGANIZATION

In bankruptcy, the Company has the first and exclusive right to propose a financial reorganization plan to the court. The deadline for the exclusive period for filing the plan is May 7, although the Company has requested an extension of the deadline to September 8, 1992.

Given the complexities of the Company's bankruptcy proceedings, our advisors believe this deadline will be extended by the bankruptcy court, giving the Company adequate time to formulate a plan. Important to the formulation of a reorganization plan is a thorough analysis of the Company's interest in Palo Verde, both directly and through the sale and leaseback transactions, and a determination of the appropriate treatment thereof, including whether to assume or reject the Palo Verde leases.

Toward this end, the Company is committed to working with community leaders and regulators in Texas and New Mexico, as well as with the various creditor and shareholder groups, to develop a plan which restructures the Company's debt and secures the highest value for investors and creditors, consistent with the interests of the Company's customers.

#### FINANCIAL RESULTS

In 1991, the Company reported a net loss applicable to common stock of \$564.3 million, or \$15.89 per common share. The loss was primarily the result of an extraordinary pre-tax charge of \$311.5 million related to the discontinuation of the application by the Company of an accounting stan-

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WE WILL USE  
THIS FILING  
AS AN OPPORTUNITY  
TO DEVELOP  
A COMPREHENSIVE  
PLAN  
THAT WILL ALLOW  
OUR COMPANY  
TO EMERGE  
FROM BANKRUPTCY  
WITH A  
BALANCED  
CAPITAL STRUCTURE,  
FAIR UTILITY RETURNS  
AND  
REASONABLE RATES.

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dard related to regulated entities and a non-operating pre-tax charge of \$288.4 million resulting from the letter of credit draws.

#### SERVICE AREA

Despite the bankruptcy and reported losses in 1991, the Company's oper-

ating results reveal a healthy and growing core business. The number of customers served, native system sales, total system sales, native system peak, and total system peak all increased over 1990. This growth, while not at the pace of the late-1980s, reflects the stable economy and continued growth in our service area.

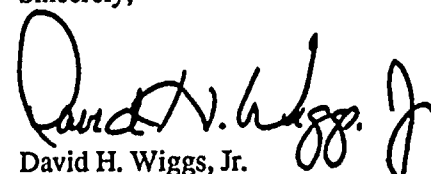
As a result, we continue to remain optimistic about our service area, and intend to be an active participant in the potential market for additional power sales to the Republic of Mexico. The Company is currently in the first year of a 5 1/2 year contract with Mexico to provide up to 150 megawatts. Mexico's dramatic growth, coupled with the possibility of a free trade agreement, presents a unique opportunity for additional sales of electricity to Mexico.

The continued strength and potential of the Company's service territory, including its access to Mexico, will play a significant role in the financial reorganization of the Company. The threat of bankruptcy that had been shadowing the Company over the past year has now become a reality. With that fact behind us, the Company will use this period of protection from creditors to explore and evaluate all of the Company's alternatives.

As I stated earlier, our goal is to emerge from bankruptcy as quickly as possible with a capital structure and costs that are in balance with the Company's revenues and that will result in the highest value for investors and creditors consistent with the interests of our customers.

We will keep you informed of developments. Thank you.

Sincerely,



David H. Wiggs, Jr.  
Chairman of the Board, President  
and Chief Executive Officer

## FELLOW SHAREHOLDERS:

April 27, 1992

**L**ast year at this time, I pointed with some pride to two years of hard work and to a series of significant accomplishments. Your new senior management team had returned the Company to its core utility business, obtained a revolving credit facility, signed a new power contract with Mexico, and restructured the Company's utility operations. In addition, the Palo Verde Nuclear Generating Station was again operating well and was producing record amounts of electricity.

But, I also pointed out that those accomplishments would not, taken alone, return the Company to profitability and financial health. Due to the cumulative effects of rate orders entered the past decade, the Company still needed to externally finance substantially all of its capital requirements. The Company also needed an adequate rate order in Texas related to its Palo Verde Unit 3 investment.

### RATE REQUEST

Against that background, the Company presented a rate case to the Public Utility Commission of Texas and began working with its lenders to extend and restructure the Company's existing debt and to obtain the necessary new funds for 1992.

The Company's rate request sought an increase in Texas rates of approximately \$131 million which included the next step increase in the Company's Palo Verde Unit 1 and 2 rate moderation plan and full inclusion of Palo Verde Unit 3. After months of discovery and hearings, the Hearing Examiners assigned to the case recommended an approximate \$82 million increase reflecting full inclusion of Palo Verde Unit 3. The Texas Commission, however, after extended final

order meetings of nearly four weeks, ordered an approximate \$47 million increase which completely excluded the capital costs of Unit 3 from current Texas rates but provided for its future inclusion in rates on a phased-in basis over a four year time-frame.

The timing of this order, as well as the unexpected nature of its terms, added serious complications to the closing of the financial restructuring of the Company's debt. Even so, the Company was able to reach agreement on a restructuring plan and for a new short-term loan with all of its lenders (both secured and unsecured), except the holders of letters of credit related to the Company's sale and leaseback transactions on Palo Verde Unit 2. On December 26 and 27, 1991, these holders drew and were paid the full available amount (approximately \$208 million) under those letters of credit.

### CHAPTER 11 FILING

Facing this immediate increased debt burden, which the Company could not pay, the planned restructuring could not be closed and thus the Company did not have access to new funds to meet current obligations. Under these circumstances, and as we had warned for many months, the Company had no realistic alternative but to file a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code.

Obviously, this was a difficult decision and one your new management team had fought hard to avoid. However, the Company strongly believed that a bankruptcy filing was the best alternative to protect the Company's operating assets and maximize shareholder value, while providing a stable, disciplined environment for restructuring all of the Company's financial

## **BOARD OF DIRECTORS**

David H. Wiggs, Jr. (4)  
Chairman of the Board, President  
and Chief Executive Officer

Wilfred E. Binns (9)  
President and Sole Shareholder,  
Binns Construction & Realty, Inc.,  
Las Cruces, N.M.

Sidney G. Baucom \*  
Of Counsel, Jones, Waldo, Holbrook  
& McDonough, Salt Lake City, Utah

James A. Cardwell (2)  
President and Principal Shareholder,  
Cardwell Properties, Inc.,  
El Paso, Texas (multi-business holding  
and investment company)

Curtis L. Hoskins (2) \*  
Executive Vice President  
and Chief Operating Officer

Josefina A. Salas-Porras (13)  
Educator, El Paso, Texas  
(consultant in second language and  
multi-cultural training)

Tom C. Simpson (9)  
President and Principal Shareholder,  
Simpson Farms, Inc., Las Cruces, N.M.

## **COMPANY OFFICERS**

David H. Wiggs, Jr. (4)  
Chairman of the Board, President  
and Chief Executive Officer

Curtis L. Hoskins (2)  
Executive Vice President  
and Chief Operating Officer

William J. Johnson (14)  
Senior Vice President-  
Financial Group  
and Chief Financial Officer

William W. Royer (11)  
Senior Vice President

Ignacio R. Troncoso (22)  
Senior Vice President-  
Operations Group

Lawrence M. Downum, Jr. (32)  
Vice President-  
Corporate Services

Frederic E. Mattson (22)  
Vice President-  
Power Supply

Eduardo A. Rodriguez (10)  
Vice President, Secretary  
and General Counsel

Julius F. Bates, Jr. (20)  
Vice President-  
Customer Services

John E. Droubay (2)  
Vice President and Treasurer

Russell G. Gibson (2)  
Controller

Gary R. Hedrick (14)  
Vice President-Financial Planning  
and Rate Administration

John C. Horne (19)  
Vice President-  
Transmission Systems Division

James A. Mayhew (12)  
Vice President-  
Rates and Energy Utilization

Robert C. McNiel (14)  
Vice President-  
New Mexico Division

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( ) Years of Service

\* Mr. Baucom and Mr. Hoskins were  
elected to the Board effective Jan. 7,  
1992, and April 1, 1992, respectively.

## **SHAREHOLDER INQUIRIES**

Shareholders should direct questions  
about the activities and operating  
results of the Company to:  
The Office of the Secretary  
El Paso Electric Company  
P.O. Box 982  
El Paso, Texas 79960.

Or call: 1-800-592-1634 or  
1-800-351-1621.

## **SECURITIES AND RECORDS**

The common stock of El Paso Electric  
Company is traded in the over-the-  
counter market and quoted on the  
NASDAQ National Market System.  
The ticker symbol for the common  
stock is ELPAQ. ("Q" indicates Com-  
pany operating under Chapter 11 pro-  
tection.)

El Paso Electric and The Bank of New  
York (BONY) act as co-transfer agents  
and co-registrars for the Company's  
common and preferred stock. BONY  
maintains all shareholder records of  
the Company.

## **SHAREHOLDER INFORMATION**

Shareholders may obtain information  
relating to their share position, divi-  
dends, transfer requirements, lost cer-  
tificates, and other related matters by  
telephoning BONY Shareholder Ser-  
vices at 1-800-524-4458.

This service is available to all share-  
holders Monday through Friday,  
8 a.m. to 6 p.m., Eastern Time.  
Shareholders also may obtain this  
information by writing to:  
Shareholder Relations Dept., BONY  
Church Street Station  
P.O. Box 11258  
New York, New York 10286-1258.

## **FORM 10-K REPORT**

A complete copy of the Company's  
1991 Form 10-K report, filed with  
the Securities and Exchange Com-  
mission, including Financial State-  
ments and Financial Statement  
schedules, will be provided to  
shareholders without charge upon  
written request to:  
Eduardo A. Rodriguez, Secretary  
El Paso Electric Company  
Post Office Box 982  
El Paso, Texas 79960.

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# Form 10-K

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)  
For the fiscal year ended December 31, 1991

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-296

### El Paso Electric Company

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of  
incorporation or organization)

74-0607870

(I.R.S. Employer  
Identification No.)

303 North Oregon Street, El Paso, Texas  
(Address of principal executive offices)

79901

(Zip Code)

Registrant's telephone number, including area code: 915-543-5711

None of the Registrant's Securities is Registered Pursuant to  
Section 12(b) of the Act

Securities Registered Pursuant to Section 12(g) of the Act:

COMMON STOCK, NO PAR VALUE  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO \_\_\_\_.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 23, 1992, the aggregate market value of the voting stock held by non-affiliates of the registrant was \$132,893,692.

As of March 23, 1992, there were outstanding 35,525,461 shares of common stock, no par value.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 1992 annual meeting of its shareholders are incorporated by reference into Part III of this report.

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Conformed copy reflecting amendments through Amendment No. 2

## DEFINITIONS

The following abbreviations, acronyms or defined terms used in this report are defined below:

<u>Abbreviations, Acronyms or Defined Terms</u>	<u>Terms</u>
ADR .....	Arizona Department of Revenue
AFUDC .....	Allowance for Funds Used During Construction
AIP .....	Arizona Interconnection Project
APB 11 .....	Accounting Principles Board Opinion Number Eleven
APS .....	Arizona Public Service Company
Bankruptcy Court .....	United States Bankruptcy Court for the Western District of Texas, Austin Division
Bankruptcy Code .....	United States Bankruptcy Code, 11 U. S. C. §101 et seq.
CCN .....	Certificate of Convenience and Necessity
CFE .....	Comision Federal de Electricidad — Mexico
Common Plant or Common Facilities .....	Facilities at or related to the Palo Verde Station that are common to all three Palo Verde Units
Company .....	El Paso Electric Company
CWIP .....	Construction Work in Progress
DOE .....	United States Department of Energy
EPA .....	United States Environmental Protection Agency
Equity Participants .....	The entities that participate as equity investors in the trusts that, through the Owner Trustee, purchased and leased back portions of the Company's interests in Palo Verde Units 2 and 3
FERC .....	Federal Energy Regulatory Commission
Four Corners .....	Four Corners Project or Four Corners Plant
Franklin or Franklin Land .....	Franklin Land & Resources, Inc., a former subsidiary of the Company
IID .....	Imperial Irrigation District, an irrigation district in Southern California
IRS .....	Internal Revenue Service
KV .....	Kilovolt(s)
KW .....	Kilowatt(s)
KWH .....	Kilowatt-hour(s)
MW .....	Megawatt(s)
MWH .....	Megawatt-hour(s)
NASDAQ .....	National Association of Securities Dealers Automated Quotation System
New Mexico Commission or NMPSC .....	New Mexico Public Service Commission
NMED .....	New Mexico Environment Department
NRC .....	Nuclear Regulatory Commission
Owner Trustee .....	The First National Bank of Boston, which acted as purchaser and lessor under the sale and leaseback transactions involving Palo Verde Units 2 and 3, in its capacity as trustee for the trusts established for the benefit of the Equity Participants
PCBs .....	Polychlorinated Biphenyls
Palo Verde Participants .....	Those utilities who share in power and energy entitlements, and bear certain allocated costs, with respect to PVNGS pursuant to the Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, as amended



**Abbreviations,  
Acronyms or Defined Terms**

**Terms**

Palo Verde Station or Palo Verde  
Project or Palo Verde or  
PVNGS.....

PasoTex.....

PNM.....

RCF.....

SFAS.....

SNMTS .....

TACB .....

Texas Commission.....

Texas District Court .....

TNP.....

TPHs.....

Tribe .....

TWC.....

Palo Verde Nuclear Generating Station

PasoTex Corporation, a former subsidiary of the Company

Public Service Company of New Mexico

Revolving Credit Facility pursuant to the Credit Agreement dated  
as of October 26, 1989, as amended, among El Paso Electric  
Company, each of the Banks signatory thereto, and Chemical  
Bank, as Agent Bank

Statement of Financial Accounting Standards

Southern New Mexico Transmission System

Texas Air Control Board

Public Utility Commission of Texas

State District Court of Travis County, Texas

Texas-New Mexico Power Company

Total Petroleum Hydrocarbons

Navajo Indian Tribe

Texas Water Commission

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## **PART I**

### **Item 1. Business**

#### **Introduction**

The Company was incorporated in Texas in 1901. Its principal business is the generation and distribution of electricity through an interconnected system to approximately 250,000 customers in El Paso, Texas and an area of the Rio Grande Valley in West Texas and Southern New Mexico, and to wholesale customers located in such diverse locations as Southern California and Mexico. The Company's principal offices are located at 303 North Oregon Street, El Paso, Texas 79901 (telephone 915/543-5711).

The Company's service area extends approximately 110 miles northwesterly from El Paso to the Caballo Dam in New Mexico and approximately 120 miles southeasterly from El Paso to Van Horn, Texas. The service area has an estimated population of 746,000, including approximately 602,000 people in the metropolitan area of El Paso. Copper smelting and refining, oil refining, garment manufacturing, cattle raising and agriculture are important industries in El Paso, which is also an important transportation and distribution center. At December 31, 1991, the Company's largest retail customers included a steel rolling mill and fabricator, a copper refinery, an oil refinery, a smelter in El Paso, and important military installations, namely the U.S. Army Air Defense Center at Ft. Bliss in El Paso, the White Sands Missile Range and Holloman Air Force Base in New Mexico. At December 31, 1991, the Company's largest wholesale customers included CFE, IID and TNP. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations."

The Company's major franchises are with the cities of El Paso, Texas, and Las Cruces, New Mexico. Such franchises expire in March 2001 and March 1993, respectively, and do not contain renewal provisions. Approximately 63% of the Company's total revenues for the year ended December 31, 1991 were generated from sales of electricity to Texas customers, principally in the City of El Paso, at rates approved by the Texas Commission. Sales of electricity to New Mexico customers, principally in the City of Las Cruces and to certain military installations, represent 17% of the Company's total revenues for such period. The balance of the Company's revenues are generated through: (i) negotiated long-term contracts which are approved by the FERC (15% of the Company's revenues for such period); (ii) sales to CFE pursuant to a long-term contract; and (iii) economy energy sales which are based upon current market prices. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations."

The Company had approximately 1,100 employees as of December 31, 1991. Approximately 28% of the employees are covered by a collective bargaining agreement that expires in February 1993.

#### **Bankruptcy Proceedings for Reorganization of the Company**

##### **Filing**

On January 8, 1992, the Company filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court. Upon the filing of the Company's Chapter 11 case, subject to further order of the Bankruptcy Court, actions to collect, assess or recover claims against the Company as well as litigation against the Company are generally stayed, and the Company is generally precluded from paying prepetition claims held by the Company's creditors. Unless otherwise specified, all obligations and indebtedness of the Company described herein generally represent prepetition claims or interests.

The Company's management has continued to manage the operations and affairs of the Company, subject to the authority of the Company's Board of Directors, as debtor in possession while the Company attempts to formulate a plan of reorganization. No trustee or examiner has been appointed, nor is a motion for a trustee or examiner currently pending. Certain actions of the Company during the pendency of the

bankruptcy proceedings, however, including, without limitation, transactions out of the ordinary course of business, are subject to the approval of the Bankruptcy Court, which also must approve any plan of reorganization.

The filing followed months of efforts between the Company and its primary lenders to restructure the Company's financial obligations, including (i) the extension of maturities of certain existing obligations through 1993; (ii) approximately \$83 million of additional secured financing; and (iii) renewals or replacements of existing letters of credit issued to Equity Participants in sale and leaseback transactions involving Palo Verde Units 2 and 3. During 1991, several extensions and waivers were granted to the Company by its lenders in the attempt to complete the restructuring. Negotiations continued through late December when, on December 26 and 27, the Equity Participants in the Unit 2 sale and leaseback transactions drew on their letters of credit since the renewal or replacement letters of credit contemplated by the restructuring could not be secured on a timely basis. As a consequence, the Company incurred a direct obligation to the letter of credit banks aggregating approximately \$208 million that had not been contemplated in the restructuring and for which the Company did not have sufficient funds when due. The Company continued its efforts to complete the financial restructuring without success. Since the additional financing contemplated in the restructuring was not available, the Company ceased paying principal, interest and fees on portions of its secured and unsecured debt and failed to make lease payments of approximately \$19.3 million on Palo Verde Units 2 and 3 due January 2, 1992. The Equity Participants in the Company's sale and leasebacks on Palo Verde Unit 3 drew amounts aggregating approximately \$80.4 million on their letters of credit on January 9, 1992. The non-payment of rent when due raised the possibility of termination of the Company's Palo Verde leases. The Company filed the bankruptcy petition to deal with its obligations in an orderly manner and to preserve its options regarding operating assets, including the portions of the Palo Verde Nuclear Generating Station that it leases, while it undertakes to restructure. For a discussion of the sale and leaseback transactions and for a description of the Company's investment in Palo Verde see "Facilities — Palo Verde Station."

Prior to the commencement of the bankruptcy proceedings, the Company relied for several years upon external financings for liquidity. The Company's prepetition financial difficulties were directly related to (i) the magnitude of its investment in Palo Verde; (ii) its inability to obtain current rates at levels designed to recover its cost of service, including recovery of and a return on its investment in Palo Verde and Palo Verde related deferrals; and (iii) substantial regulatory disallowances.

The Company ceased paying dividends on shares of its common stock in May 1989 and on shares of its preferred stock in September 1991. See Part II, Item 5, "Market for Registrant's Common Equity and Related Stockholder Matters."

Subsequent to the filing of the Company's Chapter 11 petition, the Bankruptcy Court entered orders allowing the Company: (i) to honor checks which had been issued, but were unpaid, as of the date the Company filed its Bankruptcy petition; (ii) to pay its trade vendors whose prepetition claims were less than, equal to, or reduced to, \$10,000; (iii) to pay certain customer refunds and deposits in the ordinary course of business; (iv) to pay prepetition taxes owed to various governmental entities in its service area through the first quarter of 1992; and (v) to settle the allocation of prepetition and postpetition amounts due under its Palo Verde participation agreement. The Company has been paying when due obligations which have arisen subsequent to its bankruptcy filing; however, the Company has not been paying obligations accruing under its (i) existing financing arrangements; and (ii) Palo Verde leases pending a determination as to the postpetition amounts accruing and owing with respect to such leases. The Bankruptcy Court has left open the possibility that a party-in-interest may seek an order to compel the Company to make Palo Verde lease payments at any time. The Company anticipates that, due to the deferral of payments, it will have adequate cash flow during the pendency of the bankruptcy proceedings to pay ongoing expenses and obligations.

To the extent that the funds of the Company are insufficient to meet its ongoing expenses and obligations, the Company may seek additional financing. Any financing by the Company during the bankruptcy proceedings and the granting of any lien on Company assets to secure such financing require the approval of the Bankruptcy Court and possibly other regulatory bodies. Any such financing and/or lien could be opposed by the Company's creditors or any other party-in-interest.

## Effect on Disclosures Contained Herein

The discussions and descriptions of Company events, and the resulting analysis of their potential financial impacts, are based on the historical results of Company operations in 1991. The evaluations and projections of Company planning and direction for the 1992 reporting year, as described in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," are premised on maintaining operations of the Company within existing financial and regulatory structures.

However, due to the Company's bankruptcy filing, the disclosures and discussions contained in this report must be read and understood in such context. The eventual plan of reorganization adopted in the bankruptcy proceedings may alter, compromise, or eliminate any of the existing financial and regulatory structures in a manner not currently discernible due to the bankruptcy process.

For this reason, estimates and evaluations based on the historical results of Company operations in 1991 could be subject to material changes as a result of the eventual resolution of the bankruptcy proceedings.

## Reorganization Plan and Other Case Developments

The Company's goal is to have a plan of reorganization confirmed by the Bankruptcy Court by December 31, 1992, although there is no assurance that the Company will meet this schedule. Until May 7, 1992 (and thereafter to the extent the Bankruptcy Court extends such date), the Company has the exclusive right to propose a plan of reorganization in the bankruptcy proceedings. The Company has filed a motion to extend the exclusive period to file its plan to September 8, 1992 and solicit acceptances thereof to November 9, 1992, but, as of the date hereof, the Bankruptcy Court has not ruled on the Company's request. A primary objective of the Company in formulating its reorganization plan is to allow the Company to emerge from bankruptcy with a capital structure and costs that are in balance with its future revenues and that will result in the highest value for investors and creditors consistent with the interests of its customers. The Company has begun the process of formulating its plan of reorganization, but it is at a preliminary stage of development at this time due to the complexity of the Company's bankruptcy proceedings. The plan could embody substantial restructuring of the Company's obligations and equity, could include or be preceded by a merger or other combination involving all or a portion of the Company or its assets and may involve modifications to the Company's rates. The Company cannot predict when any restructuring or other arrangements satisfactory to the Company, its creditors and shareholders will be reached. Any such arrangement will be subject to the approval of the Bankruptcy Court, and possibly the regulatory bodies with jurisdiction over the Company.

The Company is presently analyzing all of its executory contracts and unexpired leases, including, without limitation, the Palo Verde leases, to determine whether the Company should assume or reject all or a portion of these contracts and leases. The Bankruptcy Court has extended the period during which the Company can decide whether to assume or reject the Palo Verde leases, as well as the Company's real estate leases generally, to September 8, 1992. Important to the formulation of a reorganization plan is a thorough analysis of the Company's interest in Palo Verde, both directly and through the sale and leaseback transactions and a determination of the appropriate treatment thereof, including whether to assume or reject the Palo Verde leases. The Company may take the position, in its analysis of the Palo Verde leases in the bankruptcy proceedings, that the Palo Verde leases are real estate leases rather than leases of personal property. Generally, rejection of unexpired leases and executory contracts gives rise to a damage claim of the non-debtor party against the debtor's estate under applicable state law. To the extent that real estate leases are rejected, however, the lessor's damage claims with respect to such rejection may be limited by the Bankruptcy Code.

An official committee has been formed to represent the unsecured creditors of the Company in connection with the Company's bankruptcy proceedings. An official committee also has been authorized to represent the interests of the holders of shares of the Company's common and preferred stock. The official committee of equity holders has been authorized by the Bankruptcy Court to address only certain specified matters related to the Company's bankruptcy proceedings, including the Company's plan of reorganization.

## Regulation

### Overview

*Bankruptcy Effect on Regulation.* Substantially all of the Company's Texas and New Mexico rate matters relate to the regulatory treatment of the Company's investment in Palo Verde. That investment and related obligations have a material impact on the Company's financial position and results of operations and accordingly the appropriate treatment for rate purposes has been and continues to be the predominant regulatory issue for the Company. A central issue in the Company's formulation of a reorganization plan in its bankruptcy proceedings will be an analysis of its Palo Verde interests. The outcome of this analysis and its impact on the status of the Company's regulatory matters cannot presently be determined, and the discussion of regulation throughout this report should be considered in this light. See "Bankruptcy Proceedings for Reorganization of the Company" and "Facilities — Palo Verde Station."

The Bankruptcy Code provides that the Bankruptcy Court shall confirm the Company's plan of reorganization only if "any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor has approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval." With respect to Bankruptcy Court orders affecting the Company on matters not governed by the foregoing provision or other applicable law, the Company may argue that the provisions of the Bankruptcy Code, together with applicable provisions of other federal statutes, grant the Bankruptcy Court the authority to pre-empt otherwise applicable regulatory authority and regulatory process, although it is uncertain whether the Company would prevail in such arguments, if asserted.

*Texas.* The rates and services of the Company in Texas municipalities are regulated by those municipalities and in unincorporated areas by the Texas Commission. The Company's primary municipality in its service area in Texas is the City of El Paso. The Texas Commission has exclusive *de novo* appellate jurisdiction to review municipal orders and ordinances regarding rates and services, and its decisions are subject to judicial review.

*New Mexico.* The New Mexico Commission has authority over the Company's rates and services in New Mexico, the issuance of securities by the Company and other matters affecting the operations of the Company.

*Federal Energy Regulatory Commission.* The Company is subject to regulation by the FERC in certain matters, including rates for wholesale power sales and the issuance of securities. In addition, Congress has enacted energy legislation which, among other things, establishes national standards for consideration by state regulatory agencies in determining utility rates and imposes other requirements on the operations of utilities, including the Company. Under certain circumstances, the FERC may order interconnection, wheeling and pooling.

*Nuclear Regulatory Commission.* The Palo Verde Station is subject to the jurisdiction of the NRC, which has authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radiation hazards and to conduct environmental reviews pursuant to the National Environmental Policy Act. Before any nuclear power plant can become operational, an operating license from the NRC is required. The NRC has granted facility operating licenses for Unit 1, Unit 2 and Unit 3 at Palo Verde for terms of forty years each beginning December 31, 1984, December 9, 1985 and March 25, 1987, respectively. Full Power operating licenses for Units 1, 2 and 3 were issued by the NRC in June 1985, April 1986 and November 1987, respectively. In addition, the Company (along with the other Palo Verde Participants other than APS) is separately licensed by the NRC to own its proportionate share thereof. See "Facilities — Palo Verde Station."

*Accounting for the Effects of Regulation.* Historically, the financial statements of the Company have been prepared pursuant to the provisions of SFAS No. 71, as amended, "Accounting for the Effects of Certain Types of Regulation," which results in the recognition of the economic effects of regulation. The propriety, pursuant to SFAS No. 71, of recognizing such effects is based upon the Company's assessment of whether, in substance, the rates established by its regulators are designed to recover the Company's costs of providing service and that such rates can be charged to and collected from the Company's customers. The establishment

of such rates has become increasingly problematic as the Company has requested increases in rates to recover its costs related principally to its investment in and costs of operation of its 15.8% interest in PVNGS. As a result, the amount of cash increases in rates has been limited while the balance of costs approved by the regulators has been deferred for future recovery. The aggregate pre-tax amount of these deferrals, which pursuant to past actions of the Company's regulators are expected to be recovered through future rates, is approximately \$311 million. In order to provide liquidity, the Company for several years has been required to finance these deferrals together with their associated carrying costs.

The Company has determined that there is substantial doubt concerning whether the criteria for reflecting the economic effects of regulation continue to be met as a result of continuing cash flow problems arising from inadequate rate relief, and the uncertainty surrounding regulation during the reorganization process, including the regulatory treatment, if any, of the \$288.4 million letter of credit draws. The Company has concluded that it is not reasonable to assume that its rates are, or will be, without giving consideration to possible outcomes of the reorganization process, designed to recover its costs on a timely basis. Because of the uncertainty of the nature of any reorganization plan and the assessment of the nature of regulation, the Company has concluded that it does not currently have sufficient assurance to continue to reflect the economic effects of regulation in its financial statements and has, as required by generally accepted accounting principles, eliminated from its accompanying 1991 balance sheet the aggregate effects of such regulation as an extraordinary charge to results of operations for the year ended 1991.

Notwithstanding that the Company is required, pursuant to generally accepted accounting principles, to eliminate the net assets created by the actions of its regulators ("regulatory assets") from its general purpose financial statements, such regulatory assets are, subject to the outcome of the various matters discussed below, as well as the outcome of the reorganization process, expected to be recovered through rates. Accordingly, the Company will continue to reflect existing regulatory assets and prospectively record additional authorized regulatory assets in its regulatory books of account. A summary of the net regulatory assets at December 31, 1991, substantially all of which result from regulation in the Company's Texas jurisdiction, as reflected in the Company's regulatory books of account is as follows:

	Eliminated from Balance Sheet as Extraordinary Loss	Included on Regulatory Books of Account Only	Total
Regulatory Assets:			
Palo Verde deferred costs(1) .....	\$154,258	\$11,328	\$165,586
Sales/leasebacks prepaid taxes .....	79,167	—	79,167
Phase-in plan deferrals(1) .....	46,098	3,370	49,468
Other .....	43,500	—	43,500
Total regulatory assets .....	323,023	14,698	337,721
Regulatory Liabilities .....	11,556	—	11,556
Net regulatory assets .....	<u>\$311,467</u>	<u>\$14,698</u>	<u>\$326,165</u>

(1) See "Deferred Accounting Cases" below.

Although the Company intends to seek rate recovery, at some time in the future, of the loss attributable to the Palo Verde letter of credit draws aggregating approximately \$288.4 million, there can be no assurance that this cost, which has been expensed in accordance with generally accepted accounting principles, can be recovered in any of the Company's rate jurisdictions. Additionally, the Company is currently evaluating the impact of the letter of credit draws as part of its bankruptcy proceedings.

Although the outcome of the reorganization process cannot presently be determined, the Company believes that the cash rates established in conjunction with any reorganization plan will be designed to recover the Company's costs, including a return on equity, after the establishment of an appropriate capital structure as well as other changes that may result from the reorganization. The Company expects that, upon confirmation of any plan of reorganization, its regulated operations will meet the SFAS No. 71 criteria necessary to reflect the effects of regulation in its general purpose financial statements.

## Texas Rate Matters

*Rate Moderation Plan — Palo Verde Units 1 and 2.* On March 30, 1988, in Docket 7460, the Texas Commission adopted a rate moderation plan which provides for the inclusion in Texas rates, on a phase-in basis, of the Texas jurisdictional portion of the Company's investment in Palo Verde Unit 1, Common Plant and the Company's lease payments on its sales and leasebacks of its interest in Palo Verde Unit 2 (including one-third of such Common Plant) to the extent of the book value of the plant sold and leased back (which is approximately 83% of such lease payments).

The Texas Commission's order was based upon a stipulation entered in October 1987 among the Company, the staff of the Texas Commission and certain industrial customers. Three parties who did not join in the stipulation, the City of El Paso and two other intervenors representing public entities, opposed the adoption of the stipulation as the basis of the Texas Commission order and appealed the order to the Texas District Court. The Texas District Court upheld the order of the Texas Commission, and its decision was appealed by the same parties to the Court of Appeals for the 3rd Judicial District at Austin, Texas (the "Court of Appeals"). On May 8, 1991, the Court of Appeals issued its opinion affirming the Texas District Court's judgment upholding the Texas Commission's order in all respects. On August 14, 1991, however, acting on a Motion for Rehearing of its May 8 decision, the Court of Appeals reversed and remanded the portion of the Texas Commission's decision in Docket 7460 which provided for inclusion in rate base of certain Palo Verde operating and carrying costs incurred between the declaration of Units 1 and 2 of the plant as in-service for Texas regulatory purposes and the inclusion of those units in rates charged to Texas customers. See discussion below under "Deferred Accounting Cases."

The Court of Appeals has continued to uphold the balance of the Docket 7460 order and the rate moderation plan for Units 1 and 2. The stipulation and the Texas Commission's final order in Docket 7460 settled all issues regarding prudence of construction of Palo Verde Units 1 and 2 and Common Facilities and all issues involving the prudence of the Company's decisions to make the investment in the Palo Verde Project and to continue that investment, except, as to Unit 3 only, decision making relating to events occurring after the 1978 issuance by the Texas Commission of a CCN for the Palo Verde Project. See discussion below regarding the Unit 3 rate case under "Docket 9945." The stipulation also settled all issues of excess capacity relating to Units 1 and 2 for the duration of the ten-year rate moderation plan, and the Texas Commission has indicated that it will not consider excess capacity issues relating to Units 1 and 2 during such time period.

The Texas Commission's order in Docket 7460 provided for a series of four cash increases in base rates, set forth in the order as specified percentage increases in base revenues. The plan requires that the Company file rate cases periodically (no sooner than one year from the prior case) to establish the Company's revenue requirements and resulting right to the base rate increases. To the extent the Company's base revenue requirements recognized by the Texas Commission exceed the base rate increase provided for the period, the unrecovered revenue requirements are deferred on the Company's regulatory books of account for collection in later years of the plan. Pursuant to the plan, the Company is entitled to additional base rate increases for years subsequent to the scheduled fourth increase, if necessary, to recover all such deferrals by 1998. The amount of such additional increases was limited by the Texas Commission in Docket 9945. See discussion below under "Docket 9945." In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991, approximately \$46.1 million of "phase-in deferrals" previously recorded pursuant to this plan have been eliminated.

The Texas Commission has entered final orders providing for the first four scheduled base rate increases under the Docket 7460 plan. The first increase of approximately \$21 million, together with the deferral of approximately \$25 million, was ordered in Docket 7460. In May 1989, the Texas Commission entered its final order in Docket 8363, which granted the scheduled second increase in base rates of approximately \$7.3 million and ordered the deferral of approximately \$7.4 million. In Docket 8363, the Company had requested an increase in base revenues of approximately \$39 million. Rates based on the final order in Docket 8363 became effective in May 1989. The Texas Commission's order in Docket 8363 was appealed by the Company and other parties to the case to the Texas District Court, where the appeal remains pending. The outcome of the appeal and its results or the materiality thereof presently cannot be determined.



In August 1990, the Texas Commission entered its final order in Docket 9165, which granted the scheduled third base rate increase of approximately \$7.1 million and ordered deferral of approximately \$4.1 million. The Company had requested an increase in base revenues of approximately \$33.9 million. Rates based upon the final order in Docket 9165 became effective in September 1990. In connection with the final order, the Company wrote off approximately \$4 million of corporate restructuring costs, rate case expenses, and deferred tax benefits. The Company and the City of El Paso and two other intervenors have appealed the Texas Commission's order in Docket 9165 to the Texas District Court, where the appeal remains pending. The outcome of the appeal and its results or the materiality thereof presently cannot be determined.

For a discussion of the fourth scheduled base rate increase under the Docket 7460 plan, see "Docket 9945" below.

*Palo Verde Unit 3.* Palo Verde Unit 3 began commercial operation in January 1988. The unit did not, however, satisfy Texas Commission criteria for in-service status and consequent eligibility for inclusion in Texas rates until after the AIP transmission facilities were energized in April 1990. The Texas Commission in Docket 9652 ruled that Unit 3 met the Texas criteria for in-service status for ratemaking purposes as of May 4, 1990. For a description of the AIP transmission facilities, see "Facilities — Transmission Lines."

*Deferred Accounting Cases.* The Company received its first deferred accounting order in 1986 (Docket 6350) and consequently deferred operating costs and accrued related carrying charges on Palo Verde Units 1 and 2 from the date the units met the Texas in-service criteria to May 1988, when such costs were included in rates. As ordered by the Texas Commission in Docket 7460 and all subsequent Texas rate orders, the aggregate amount of these costs (\$103 million, net of fuel savings) has been included in rate base and is being amortized in cost-of-service over the lives of the units (approximately 40 years).

In September 1989, the Company filed an application with the Texas Commission for an additional deferred accounting order to allow the Company to defer substantially all Unit 3 operating costs and to accrue a carrying charge on its ownership interest in Unit 3 from the date Unit 3 satisfied the Texas in-service criteria (May 1990) until the Texas Commission issued its rate order addressing the Company's investment in Unit 3. On September 6, 1990, the Texas Commission in Docket 9069 approved the Company's application for the accounting order. An appeal of the case is pending in the Texas District Court. Its outcome cannot be predicted at this time. Because of the uncertainty of the ultimate recovery of such deferred costs due to the Court of Appeals' decision discussed below, the Company discontinued deferring for financial reporting purposes Palo Verde Unit 3 operating and carrying costs effective July 1, 1991. In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991, approximately \$94 million of Unit 1 and 2 accounting deferrals and \$60.3 million of Unit 3 accounting deferrals have been eliminated.

In its August 14, 1991 opinion reversing a portion of the order of the Texas Commission in Docket 7460, the Court of Appeals concluded that the Texas Commission was not legislatively authorized to include in rate base operating and carrying costs on Palo Verde Units 1 and 2 incurred between their declaration as in-service for Texas purposes and their inclusion in rates charged to Texas customers. The Court of Appeals' opinion was founded upon the section of the Texas Public Utility Regulatory Act which generally describes invested capital (rate base). In remanding the case, the Court of Appeals ordered the Texas Commission to revise its order in Docket 7460, with instructions that the Texas Commission exclude from the rate base of the Company the costs which had previously been deferred and that the Texas Commission conduct such further proceedings as may be necessary or appropriate to implement the Court of Appeals' judgment. On September 13, 1991, the Company filed a Motion for Rehearing with the Court of Appeals urging it to reconsider its decision. A Motion for Rehearing also was filed with the Court of Appeals by the Texas Commission and *amicus curiae* briefs supporting the Company's Motion for Rehearing were filed by almost all of the investor owned utilities in Texas, some of which may be adversely affected if the current decision stands. On February 26, 1992, the Court of Appeals requested all parties to file briefs addressing the question of whether the Company's filing under federal bankruptcy law served to stay any further action by the Court of Appeals. The briefs were filed on March 26 and 27, 1992. The Company's position is that the automatic stay provided under federal bankruptcy law applies, but the Company has agreed to lift the stay, subject to the approval of

the Bankruptcy Court. Other parties to the appeal have taken the position that the stay does not apply. On April 6, 1992, the Court of Appeals, due to the Company's agreement to cooperate, expressed its intention to await the lifting of the stay by the Bankruptcy Court. If the stay is lifted, an opinion on the respective Motions for Rehearing would be expected shortly thereafter. The Company will appeal the Court of Appeals' decision to the Texas Supreme Court if the Court of Appeals does not reverse its decision in response to these Motions for Rehearing. The ultimate results of the appeal cannot be predicted at this time.

Depending upon the outcome of the appeal and resultant action by the Texas Commission on remand, if any, the Company presently estimates that it could be required to write off deferred costs from its regulatory books of account of up to \$166 million. In addition, the Company may be required to write off additional amounts of phase-in plan deferrals from its regulatory books of account as a result of the inclusion of operating and carrying costs deferrals in rate base since May 1988. Through December 31, 1991, such amounts approximate \$49.5 million.

*Docket 9945.* On December 28, 1990, the Company filed with the Texas Commission a combined request for the scheduled fourth base rate increase under the Docket 7460 rate moderation plan on Palo Verde Units 1 and 2 and the recovery, also on a moderated basis, of the Texas jurisdictional portion of the Company's investment in Palo Verde Unit 3, including the lease payments, net of deferred gain, on the Company's sales and leasebacks of a portion of its interest in Unit 3. The Company's combined request was for \$131.3 million, which included approximately \$49 million related to the Unit 1 and 2 rate moderation plan and approximately \$82.3 million related to Unit 3. Of the total request, approximately \$38 million was to be in cash with the balance deferred for subsequent recovery. The Texas Commission issued its final order in Docket 9945 on November 12, 1991, approving a total increase in Texas base revenues of approximately \$47 million, with \$37 million in cash and \$10 million of phase-in deferrals, which will be recorded on the Company's regulatory books of account.

In the Docket 9945 order, the Texas Commission adopted the recommendation of the Hearing Examiners as to the revenue requirements on Units 1 and 2 of Palo Verde and approved, as part of the \$37 million increase discussed above, a cash increase of approximately \$7 million as the fourth increase under the Unit 1 and 2 rate moderation plan with a phase-in deferral, also as discussed above, of \$10 million for future recovery in rates. The Texas Commission adopted the Hearing Examiners' recommendation that increases in base rates under the Unit 1 and 2 plan be limited to 3.5% each year, but in response to the Company's First Motion for Rehearing, also approved a regulatory non-cash revenue adjustment recommended by the Hearing Examiners, which the Hearing Examiners found was necessary to provide for full recovery of the phase-in deferrals during the remaining term of the Unit 1 and 2 plan.

The balance of the \$37 million cash increase (approximately \$30 million) related to the Company's request for Unit 3, and represented operating and maintenance expenses, decommissioning expenses and ad valorem taxes on the Unit as well as an allowance for purchased power capacity, but did not include any current return of or return on the owned or leased portions of Unit 3. Recovery of these costs was "held in abeyance" to be included in Texas rates subsequently, as discussed below.

The Texas Commission disallowed approximately \$32 million of Unit 3 capitalized costs, on a total Company basis, as imprudently incurred. The Texas Commission also disallowed \$9.8 million, on a total Company basis, of previously deferred costs related to the 1989-90 outages of Units 1 and 2. The Company recorded pre-tax write-offs of \$24.1 million and \$6.3 million, respectively (the Texas jurisdictional amounts of these disallowances), in results of operations for the third quarter of 1991.

With respect to the rate base treatment of Unit 3, the Texas Commission, contrary to the Hearing Examiners' recommendation to include the Unit in rates, adopted an inventory plan, pursuant to which the Company's investment in Unit 3 was neither included in rate base nor expressly disallowed, but instead "held in abeyance" to be included subsequently in Texas rate base over a scheduled period of time. In justifying the inventory plan, the Texas Commission found (i) the Company was imprudent in not attempting to sell an interest in Palo Verde between 1978 and 1981; (ii) the Company failed to demonstrate that it would have been unable to sell such interest if it had attempted to do so; and (iii) as a result of such imprudent action, the addition of Unit 3 to the Company's system would result in unacceptable excess capacity at this time.

However, the Texas Commission further found that the Unit would become "used and useful" to the Texas jurisdiction in the following percentages, 0% the first year, 40% the second year, 65% the third year, 85% the fourth year and 100% the fifth year. During the period Unit 3 is held in inventory, the Company will recover the operating and maintenance expenses, decommissioning expenses and ad valorem taxes associated with Unit 3, along with an allowance for purchased power capacity. In subsequent years, but subject to possible changes that could result from a reorganization plan, the Company expects to recover, pursuant to the final order, the following at the applicable inventoried percentages: a return on the Unit 3 plant costs, the amount of lease payments due under the sale and leaseback transactions the Company entered into in connection with Unit 3, and depreciation on Unit 3. Under the order, the Company will retain the benefits of its sales to CFE for at least the first year of the inventory plan. For a discussion of the sales to CFE see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations."

The Palo Verde Unit 3 deferred costs, as reflected on the Company's regulatory books of account, were not addressed in Docket 9945 and, accordingly, the Company is required to substantiate such costs in its next Texas rate filing. In addition to the uncertainty related to the Court of Appeals' decision discussed above, the Company believes the issue of applying the inventory concept to the Unit 3 deferred costs will be raised in the filing to attempt to limit deferrals to amounts allowed for collection pursuant to the inventory plan. The Company does not believe that such a challenge would be successful.

The Company disputes there was any imprudence, either in connection with the Unit 3 capitalized costs or in retaining its full investment in Palo Verde, and challenged both aspects of the Texas Commission's order in the Company's Motions for Rehearing and will continue such challenges on appeal. The inventory plan was not included in the Hearing Examiners' Report, which recommended that Unit 3 be included in rates subject to the disallowance of capitalized costs discussed above, and was not raised as a possible result until the final order hearings. The Company does not believe the evidence presented in the case supports the inventory plan and intends to appeal the Texas Commission's adoption of the inventory plan as well as its findings of imprudence. The Company must file its appeal with the Texas District Court by April 22, 1992 and has indicated its intent to do so. The Company has been informed that other parties to the action also intend to appeal in opposition to the Company. The ultimate outcome of the appeals and their results or the materiality thereof cannot be predicted at this time.

*Rate Case Expenses Incurred in Docket 7460.* Expenses incurred by the Company and the City of El Paso in connection with Docket 7460 were severed from the issues ruled upon by the Texas Commission in that Docket and were assigned to a new Docket 8018 for consideration. On September 20, 1991, the Texas Commission issued its final order in the case adopting the Examiner's Report with regard to the Company's requested expenses. The Hearing Examiner's report recommended the Company be reimbursed for approximately \$10.8 million and the City of El Paso be reimbursed for approximately \$1.1 million of such rate case expenses, and such amounts be surcharged to the Company's Texas customers over a one-year period. The Company commenced the surcharge in November 1991. In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991, the unrecovered balance of all rate case expenses previously deferred, including additional cases other than Docket 7460 (\$18.4 million as of December 31, 1991), was eliminated. The Company expects that these costs will be collected in full from the ratepayers. The City of El Paso filed an appeal of the Texas Commission's order with the Texas District Court. The ultimate outcome of the appeal and its result or the materiality thereof cannot be predicted at this time.

*Texas Recognition of Palo Verde Sales and Leasebacks.* In its Docket 8363 order and a separate order issued in August 1989 (Docket 8078), the Texas Commission found the Company's Unit 2 and Unit 3 sales and leasebacks to be in the public interest. The rulings ensure that the Texas Commission will consider those transactions in connection with the Company's rate cases. The City of El Paso appealed the Texas Commission's order with respect to the Unit 3 transactions to the Texas District Court. The Company believes that the Texas District Court will uphold the Texas Commission's order. The finding on the Unit 2 sales and leasebacks is a part of the City's appeal of the Docket 8363 order. The ultimate outcome of the appeals and their results or the materiality thereof cannot be predicted at this time.

*Performance Standards for Palo Verde — Texas.* In June 1989, the Company filed an application with the Texas Commission to establish performance standards in its Texas jurisdiction for the operation of the Palo Verde units. On March 27, 1991, the Texas Commission issued its final order in the case, Docket 8892, which resulted in standards based on a three-year rolling average of performance applied on a unit specific basis. As a consequence, each Palo Verde unit will be evaluated annually, based upon a three-year rolling average capacity factor (the ratio of actual generation to maximum possible generation), against performance bands measured from a target capacity factor of 70%. The "deadband," where neither a penalty nor a reward would be triggered, runs from 62.5% to 77.5%. Penalties or rewards will result from worse or better performance, respectively, and will be calculated as a function of incremental replacement power costs. If a unit performs at an annual capacity factor of less than 35%, it can be reviewed by the Texas Commission, under the performance standards, to determine whether the unit should continue to be included in Texas rates. These standards were not applied to unscheduled outages of Units 1 and 2 that occurred in 1989 and 1990 as a result of problems with the Units' atmospheric dump valves and emergency lighting systems. However, because these standards are effective as of the initial date of rate base inclusion of the respective units, calculation of rewards and penalties will cover the 1989 and 1990 outages at Palo Verde, as part of the three-year rolling averages. The Company calculated an initial penalty of approximately \$2.5 million for Units 1 and 2. An additional \$2 million penalty for Units 1 and 2 is projected for the second year of the standard's operation, based upon the use of the three-year rolling average. Provision for loss for such penalties was made in the Company's 1990 financial statements. In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991 approximately \$4.5 million of provision for performance standards penalties was netted against the assets eliminated. Treatment of the penalties will be addressed in the next Texas fuel reconciliation filing.

*Texas Recovery of Fuel Expenses.* In its Texas jurisdiction, the Company recovers its fuel expenses and purchased power costs pursuant to a fuel factor set by the Texas Commission. The Texas Commission has the authority to order proceedings periodically for the purpose of reconciling the Company's fuel revenues against actual fuel expenses. In June 1989, the Company filed an application with the Texas Commission in Docket 8588 to reconcile its fuel expenses and revenues for the period August 1, 1985 through March 31, 1989, which included over \$200 million in Texas fuel costs. Reconciliation was required by Texas Commission rules and the Texas Commission's final order in Docket 7460. On August 15, 1990, the Texas Commission rendered its final order, which was modified in response to motions for rehearing and resulted in a refund to Texas customers, to be made over a twelve-month period, of approximately \$7.1 million, plus interest at the Company's composite cost of capital. The refund to customers began in February 1991. The Company and the City of El Paso appealed the Texas Commission's order to the Texas District Court. On November 25, 1991, the Texas District Court entered judgment on the appeals, upholding the Texas Commission's order on all points except the Company's appeal of the treatment of certain purchased power capacity costs during 1985-86. With regard to those costs, totaling approximately \$4.2 million, the Texas District Court held that the Texas Commission erred in not allowing the Company to recover such costs through its reconcilable fuel account. The Texas District Court remanded the case to the Texas Commission with instructions to allow the Company to recoup such costs. Both the Texas Commission and the City of El Paso have appealed the Texas District Court's judgment to the Court of Appeals. Briefs have been filed in the Court of Appeals. The ultimate outcome of the appeal cannot be predicted at this time.

As part of Docket 9945, in addition to a request for the establishment of a new fixed fuel factor, the Company applied for reconciliation of its fuel costs, after giving effect to adjustments in Docket 8588, covering the period from April 1989 through September 1990. The Company requested that the Texas Commission determine that the Company under-recovered its fuel costs during such reconciliation period by \$11.4 million. Based on the decision in the Texas performance standards case discussed above, the Company was allowed to withdraw its request for a fuel reconciliation from Docket 9945. The Company is considering filing a fuel reconciliation case during 1992. In that case the 1989 and 1990 outages of Palo Verde Units 1 and 2 will probably be an issue because the Company incurred expenses for fuel and purchased power in excess of fuel rates set in its Texas jurisdiction during those outages. The Company believes that the performance standards discussed above are intended to compensate ratepayers fully for the increase in fuel expense during the outage periods, but cannot at this time assess the outcome or the ultimate level of recovery of the Company's fuel

expense through the regulatory process. The Company currently intends to resort to the judicial process if it is denied adequate recovery of its fuel expense through the regulatory process. In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991, net fuel overrecoveries aggregating approximately \$1.6 million were netted against the assets eliminated.

*Rate-making Treatment of Federal Income Taxes.* The Texas Supreme Court has determined that, under certain circumstances, it is appropriate to allow only "actual taxes paid" for ratemaking purposes. *Public Utility Commission of Texas v. Houston Lighting & Power Company*, 748 S.W.2d 439 (Tex. 1987). The Court of Appeals has recently applied the Supreme Court decision to another utility. *Public Utility Commission v. GTE-Southwest*, No. 3-90-084-CV (Tex. App. 1992). The Company last paid federal income taxes for the tax year 1987, however, those taxes were refunded to the Company based upon the carryback of 1990 tax losses to that year. The Company's regulated utility operations have not generated taxable income since 1986. The Texas Commission has historically granted rates which include an income tax component based on a "stand-alone basis" and the utility's return on equity. Dockets No. 7460, 8363, 9165 and 9945 include federal income tax components based on this methodology.

Dockets No. 7460, 8363 and 9165 have each been appealed on multiple issues; each appeal includes a challenge to the treatment of federal income taxes for ratemaking purposes. The Company anticipates that the appeal of Docket No. 9945 will also raise this issue.

Depending on the outcome of the pending appeals, the Company may be required to refund certain amounts collected in rates since 1988. The likelihood and amount of any refund is uncertain at this time because the ultimate outcome of the pending appeals is unknown and the Company cannot predict the effect of mitigating factors not addressed in the pending appeals.

#### New Mexico Rate Matters

*Rate Moderation Plan — Palo Verde Units 1, 2 and 3.* In March 1987, the New Mexico Commission adopted a rate moderation plan, based on a stipulation between the Company and several of its major New Mexico intervenors, which provides for the regulatory treatment of the New Mexico jurisdictional portion of the Company's investment in all three units at Palo Verde, with Unit 3 and one-third of Common Facilities being deregulated. Similar to the Texas plan for Units 1 and 2 (see "Rate Moderation Plan — Palo Verde Units 1 and 2" above), the New Mexico plan provides that, to the extent the Company's base revenue requirements determined by the New Mexico Commission exceed the cash base rate increase provided for the period, the unrecovered revenue requirements are deferred on the Company's regulatory books of account for collection in later years of the plan. However, the New Mexico plan provides that any deferred revenue requirements not recovered by December 31, 1994 will be lost. The Company eliminated phase-in deferrals of approximately \$8.5 million in 1990 and discontinued reporting for its accompanying general purpose financial statements the unrecovered revenue requirements deferred for collection under the plan. However, to the extent the Company's base rates in New Mexico exceed its New Mexico base revenue requirements during the term of the New Mexico plan, through 1994, the Company is entitled to collect such differences in cash rates for application to unrecovered revenue requirements pertaining to earlier years of the plan. On March 20, 1992, the Company made a compliance filing with the New Mexico Commission required under the New Mexico rate moderation plan, reflecting that its base revenue requirements exceed base rates. The purpose of the filing is to provide the parties to the New Mexico rate moderation plan with sufficient information to determine the Company's current New Mexico cost of service.

The Company will be required to recover the New Mexico jurisdictional portion of the Company's investment in Unit 3, which is deregulated under the New Mexico rate moderation plan, through off-system sales in the economy energy market. For several years, market prices for economy energy sales have not been at levels sufficient to recover the New Mexico portion of the Company's current operating expenses related to Unit 3, including decommissioning costs and lease payments. However, the Company believes that over the useful life of Unit 3, based upon its current forecast of plant operating costs and performance, power needs of other utilities and alternative fuel prices, the Company will be able to recover the New Mexico portion of its

Unit 3 costs through such sales of power. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

*Performance Standards for Palo Verde New Mexico.* The Company also is subject to performance standards in its New Mexico jurisdiction for the operation of the Palo Verde units. The standards measure performance of the three units annually, viewed as a single generating station, against designated levels of capacity factors. Any penalty or reward is then based on two-thirds of the station results, reflecting the deregulation of Unit 3 in New Mexico. If the annual capacity factor of the station exceeds 75%, the Company is entitled to a monetary reward based upon the additional fuel costs avoided, calculated with reference to the Company's weighted average fuel and purchased power costs (other than Four Corners, Palo Verde and purchases from Southwestern Public Service Company). If the annual capacity factor falls below 60%, the Company is penalized based upon the additional fuel costs incurred using the same formula. If annual performance falls between 60% and 75%, no consequences result. In 1991, the Palo Verde units, viewed as a single generating station, performed within the reward band, resulting in a nominal reward which is reflected in the Company's 1992 fixed fuel factor.

*New Mexico Recovery of Fuel Expenses.* In its New Mexico jurisdiction, the Company recovers its fuel expenses and purchased power costs through a fuel factor set by the New Mexico Commission. The stipulation in New Mexico Case No. 1833 requires that fuel costs be reconciled and the fuel factor be fixed each year. On January 31, 1992, the Company filed a request with the New Mexico Commission for a new, lower fuel factor and for reconciliation of fuel costs for the period of January 1, 1990 through December 31, 1991, which request was approved effective March 1, 1992.

#### **Federal Energy Regulatory Commission Rate Matters**

The majority of the Company's rates for wholesale power and transmission services are subject to regulation by the FERC. Sales of wholesale power subject to FERC regulation make up a significant portion, approximately 15% in 1991, of the Company's operating revenues. Although rates to wholesale customers require FERC approval, the Company and its wholesale customers generally have established such rates through negotiations, based on certain cost of service assumptions, subject to FERC approval.

The Company has a long-term firm power sales agreement with IID providing for the sale of 100 MW of firm capacity to IID through April 2002. Additionally, the agreement provides for the Company to provide contingent capacity of 50 MW to be made available to IID beginning in May 1992 and continuing through the end of the contract. The agreement generally provides for level sales prices over the life of the agreement which were intended to fully recover the Company's projected costs, as well as a return. The agreement provides that the Company may seek increases in the sales price if sufficient evidence exists to determine that certain operating costs have increased above those used in determining the original sales price. Because of the levelized rate, such costs and return were anticipated to exceed revenues for a number of the up-front years of the agreement with a reciprocal effect in the latter years of the agreement. The Company has accrued revenues under the terms of the agreement in the amounts of \$4.9 million, \$5.8 million and \$7.3 million in 1991, 1990 and 1989, respectively. Such accrued amounts, which aggregate \$27.2 million as of December 31, 1991, are recorded as a long-term contract receivable on the Company's balance sheets.

The Company has a firm power sales agreement with TNP, providing for sales to TNP ranging from 74 MW to 79 MW through 2002. Sales prices, which are declining over the life of the agreement, are based on substantially the same scheduled and projected costs and return as the IID agreement discussed above.

Certain costs have increased significantly over those projected at the time these agreements were entered into. The Company has not attempted to increase the sales prices under the IID agreement based on these increased costs. Because of these increases and the significance of such increases, the Company has determined that if the Company does not pursue increases under the agreements as discussed above and, should costs increase above those currently anticipated, the Company may be required to recognize a loss on such contract for financial reporting purposes in future periods.

Rate tariffs currently applicable to IID and TNP contain appropriate fuel and purchased power cost adjustment provisions designed to recover the Company's fuel and purchased power costs.

### Other Wholesale Customers

The Company has a sales agreement to provide capacity and associated energy to CFE through the end of 1996. The Company provided CFE with 40 MW of capacity in 1991 which was the first year of the agreement. The amount of capacity increased to 80 MW at the beginning of 1992 and is scheduled to increase to 120-150 MW later this year and continue at that level through the remaining term of the agreement. Pricing for the agreement includes an escalating capacity charge and full recovery of energy costs and is based on market conditions in the southwestern United States.

To meet the requirements of the agreement with CFE, the Company expects to secure additional purchased power capacity, possibly as early as 1992. Any purchased power capacity agreement may require Bankruptcy Court approval. The Company has begun preliminary discussions concerning such purchased capacity and believes that such capacity is available.

### Construction Program

The Company has no current plans to construct any new base load generating facilities through the end of the millennium. This, however, is subject to change depending on the outcome of the Company's analysis of Palo Verde in connection with the bankruptcy proceedings. See "Bankruptcy Proceedings for Reorganization of the Company" above. Utility construction expenditures reflected in the table below consist primarily of the cost of betterments and improvements relating to the Palo Verde Station and the cost of expanding and updating the electric transmission system and utility distribution systems. The Company's estimated cash construction costs for 1992 through 1995 set forth in the table below are approximately \$180.5 million. Actual costs may vary from the construction program estimates set forth below. Such estimates are reviewed and updated from time to time to reflect changed conditions.

By Year(1) (In thousands)		By Function (In thousands)	
1992.....	\$ 42,600	Transmission.....	\$ 24,200
1993.....	39,200	Distribution.....	74,300
1994.....	46,200	General .....	9,800
1995.....	52,500	Production(1) .....	72,200
Total .....	<u>\$180,500</u>	Total .....	<u>\$180,500</u>

(1) Does not include acquisition costs for nuclear fuel. See "Energy Sources — Nuclear Fuel."

Net utility plant at December 31, 1986 was \$1,387,859,000. Gross additions to plant, including CWIP, for the five years ended December 31, 1991, totaled \$530,008,000 (the largest portion of which was \$273,638,000 for PVNGS). Net utility plant at December 31, 1991 (which reflects the sales of plant in the Palo Verde sale and leaseback transactions), was \$1,386,270,000 (including nuclear fuel of approximately \$54,806,000). See "Energy Sources — Nuclear Fuel."

### Facilities

As described below, the Company currently has a net generating capacity of 1,497 MW, consisting of 246 MW at Rio Grande, 478 MW at Newman, 69 MW at Copper, an entitlement of 104 MW from Four Corners Units 4 and 5 and an entitlement of 600 MW from Palo Verde Units 1, 2 and 3.

## Palo Verde Station

The Company owns or leases a 15.8% interest in each of the three 1,270 MW nuclear generating units and Common Plant at the Palo Verde Station near Phoenix, Arizona (owned as to Unit 1 and approximately 60% of Unit 3, and leased as to Unit 2 and approximately 40% of Unit 3). The Palo Verde Participants include the Company and six other utilities: APS, Southern California Edison Company, PNM, Southern California Public Power Authority, Salt River Project Agricultural Improvement and Power District and the Los Angeles Department of Water and Power. Palo Verde Participants share costs and generating entitlements in the same proportion as their percentage interests in the generating units. APS serves as operating agent for the Palo Verde Station.

In August and December 1986, the Company sold and leased back all of its 15.8% undivided interest in Unit 2 and one-third of its undivided interest in certain Common Plant at Palo Verde for approximately \$684.4 million cash. In December 1987, the Company sold and leased back approximately 40% of its undivided 15.8% interest in Unit 3 for approximately \$250 million cash.

The sales were to the Owner Trustee as trustee for the Equity Participants. Of the total sales price of approximately \$934.4 million, the Equity Participants paid approximately \$192 million. The balance of the sales price was obtained by the Owner Trustee securing debt financing through a pledge of its rights under the leasebacks to the Company.

The Company's investment in Palo Verde, both directly and through the sale and leaseback transactions, has a material impact on the Company's financial position and results of operations. Accordingly, an analysis of this investment and related obligations will be a central issue in the Company's formulation of a reorganization plan. See "Bankruptcy Proceedings for Reorganization of the Company" above.

Operation of each of the three Palo Verde units requires an operating license from the NRC. Full power operating licenses for Units 1, 2 and 3 were issued by the NRC in June 1985, April 1986 and November 1987, respectively. The full power operating licenses, each valid for a period of approximately 40 years, authorize APS, as operating agent for Palo Verde, to operate the three Palo Verde units at full power.

By letter dated February 3, 1992, the NRC sent a Notice of Violation and Proposed Imposition of Civil Penalties (the "NRC Notice") notifying APS, as operating agent at Palo Verde, that the NRC proposes to impose civil penalties in the cumulative amount of \$162,500 for several violations categorized as two "Severity Level III" problems (on a scale of I to V). The first Severity Level III event involved the partial loss of offsite power due to a crane boom contacting a transmission line, and the second Severity Level III event involved the failure to ensure that reactor core alteration activities were supervised by a senior reactor operator. For the first event, the NRC increased the base civil penalty of \$50,000 to \$112,500 due to inadequate corrective actions by APS and prior notice of similar events. For the second event, the NRC proposed a civil penalty of \$50,000, reflecting a mitigation of the base civil penalty because of APS's identification and reporting of the violation, and a corresponding escalation of the base civil penalty because, although corrective actions were prompt, APS did not adequately address issues of responsibility and control. By letter dated March 2, 1992, APS responded to the NRC Notice, admitted the violations and paid the \$162,500 penalties. The Company's proportionate share of this civil penalty is 15.8% thereof or \$25,675.

*Water Supply.* Assured supplies of water are important both to the Company (for its generating plants) and to its customers. However, conflicting claims to limited amounts of water in the southwestern United States have resulted in numerous court actions in recent years.

In connection with the construction and operation of Palo Verde, APS, as operating agent, has entered into contracts with certain municipalities granting APS the right to purchase effluent for cooling purposes at Palo Verde. The validity of the primary effluent contract has been challenged in a suit filed by the Salt River Pima-Maricopa Indian Community (the "Community") against the United States Department of the Interior (the federal agency alleged to have jurisdiction over the use of such effluent) and additional defendants, including APS and the Company. The portion of the action challenging the effluent contract has been stayed while the Community litigates its claims against the Department of the Interior and other defendants for wrongful exclusion from Salt River Project, a federal reclamation project. On October 21, 1988, federal



legislation was enacted conforming to the requirements of a proposed settlement that would terminate this case without affecting the validity of the primary effluent contract. However, certain contingencies remain before the settlement is finalized and the suit is dismissed. One of these contingencies is the approval of the settlement by the court in the Lower Gila River Watershed litigation (see below). The court approved the settlement November 7, 1991, and the action was dismissed with prejudice in December 1991.

A summons served on APS in early 1986 required all water claimants in the Lower Gila River Watershed in Arizona to assert any claims to water on or before January 20, 1987, in an action pending in Maricopa County Superior Court. Palo Verde is located within the geographic area subject to the summons, and the rights of the Palo Verde Participants, including the Company, to the use of groundwater and effluent at Palo Verde is potentially at issue in this action. APS, as project manager of Palo Verde, filed claims that dispute the court's jurisdiction over the Palo Verde Participants' groundwater rights and their contractual rights to effluent relating to Palo Verde and, alternatively, seeks confirmation of such rights. No trial date has been set in this matter.

Although the foregoing matters remain subject to further evaluation, APS has advised the Company that APS expects that the described litigation will not have a materially adverse impact on the operation of Palo Verde.

**Liability and Insurance Matters.** The Palo Verde Participants have insurance for public liability payments resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of \$200 million and the balance by an industry-wide retrospective assessment program. The maximum assessment per reactor under the retrospective rating program for each nuclear incident is approximately \$66 million, subject to an annual limit of \$10 million per incident. Based upon the Company's 15.8% interest in the three Palo Verde units, the Company's maximum potential assessment per incident is approximately \$31.28 million, with an annual payment limitation of \$4.74 million.

The Palo Verde Participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at Palo Verde in the aggregate amount of \$2.515 billion, a substantial portion of which must first be applied to stabilization and decontamination. The Company has also secured insurance against portions of any increased cost of generation or purchased power resulting from the accidental outage of any of the three units if the outage exceeds 21 weeks.

**Decommissioning.** For information regarding the obligations of the Company to plan and fund, over the service life of Palo Verde, its share of the estimated costs to decommission Palo Verde, see Part II, Item 8, "Financial Statements and Supplementary Data — Note E of Notes to Financial Statements." The Company is currently collecting some portion of decommissioning costs for its investment in Palo Verde Units 1 and 2 in all three jurisdictions, and for Unit 3 in its Texas and FERC jurisdictions. The Company must fund the decommissioning requirements for its New Mexico jurisdictional portion of Unit 3 through off-system sales of economy energy as this portion of Unit 3 is deregulated. Because the Company is under fixed price contracts with its FERC customers, the amount of decommissioning costs received in current rates is not sufficient to fund the FERC portion of decommissioning costs, and therefore, the Company must fund this shortfall.

**Participation Agreement Stipulation.** Pursuant to an agreement among the Palo Verde Participants, each Palo Verde Participant is required to fund its proportionate share of operation and maintenance, capital and fuel costs of PVNGS. The Company's total monthly share of these costs is estimated to be approximately \$9 million. The agreement provides that if a Palo Verde Participant fails to meet its payment obligations, each non-defaulting Palo Verde Participant shall pay its proportionate share of the payments owed by the defaulting Palo Verde Participant. On February 13, 1992, the Bankruptcy Court approved a stipulation between the Company and APS, as the operating agent of PVNGS, pursuant to which the Company agreed to pay its proportionate share of all PVNGS invoices delivered to the Company after February 6, 1992. The Company agreed to make these payments until such time as an order is entered by the Bankruptcy Court, if ever, authorizing or directing the Company's rejection of the participation agreement governing the relationship among the Palo Verde Participants. As long as the Company continues to make these payments, APS and the other Palo Verde Participants have agreed not to file a motion prior to December 31, 1992, seeking a deadline

for the assumption or rejection of the participation agreement. If the Company defaults, APS and the other Palo Verde Participants may take steps to pursue other remedies. The stipulation also specifies that approximately \$9.2 million of the Company's PVNGS payment obligations invoiced prior to February 7, 1992, are to be considered pre-petition general unsecured claims of the other Palo Verde Participants.

#### Four Corners Project

The Company has an undivided 7% interest in Units 4 and 5 at Four Corners located in northwestern New Mexico. Each of the coalburning generating units has a 739 MW capability. For emergencies each unit is rated at 784 MW. Both units are located adjacent to a surface-mined supply of coal and are jointly owned by the Company, APS (which is the operating agent for Four Corners), Tucson Electric Power Company, PNM, Southern California Edison Company and Salt River Project Agricultural Improvement and Power District.

Pursuant to an agreement among the participants in Four Corners Units 4 and 5, each participant is required to fund its proportionate share of operation and maintenance, capital and fuel costs of Four Corners Units 4 and 5. The Company's total monthly share of these costs is estimated to be approximately \$1 million. The agreement provides that if a participant fails to meet its payment obligations, each non-defaulting participant shall pay its proportionate share of the payments owed by the defaulting participant. Unlike the Bankruptcy Court approved stipulation entered into between the Company and the other Palo Verde Participants with regard to the cost sharing agreement for PVNGS, the Company has not entered into any stipulation or other Bankruptcy Court approved arrangement with regard to the Four Corners cost sharing agreement. The Company has been paying operating and maintenance, capital and fuel costs related to Four Corners incurred after the date of the Company's bankruptcy petition, but has not paid any amounts incurred prepetition. The Company and the other Four Corners participants have been discussing assumption of the agreement, although there is no assurance whether and when such assumption will occur.

The Four Corners Plant is located on land held under easements from the federal government and also under a lease from the Tribe. Certain of the transmission lines and almost all of the contracted coal sources for the Four Corners Plant are also located on Indian reservations.

On October 8, 1990, the Navajo Supreme Court ruled that the anti-nepotism policy at the Four Corners Plant violates the Navajo Preference in Employment Act ("NEPA") and that the Tribe may abrogate prior lease provisions which preclude such tribal regulation. APS believes that a March 1985 letter agreement between it and the Tribe, which is an exhibit to the plant-site leases, governs employment relations at the plant, rather than the NEPA, which was adopted by the Navajo Tribal Council in August 1985 and used by the Tribal court as the basis for its decision. The letter agreement provides, among other things, that APS shall determine qualifications for employment and promotion at the plant. APS has challenged the Navajo Supreme Court's decision in federal district court, and on December 12, 1991, the court upheld the lease provisions, including the letter agreement, as precluding the application of Navajo tribal labor laws to the operation of Four Corners; however, a final judgment has not yet been entered by the court. APS reports that it cannot currently predict the ultimate outcome of this matter.

The participants in Four Corners are among the defendants in a suit filed by the State of New Mexico in March 1975 in state district court in New Mexico against the United States of America, the City of Farmington, New Mexico, the Secretary of the Interior as Trustee for the Navajo and other Indian tribes, and certain other defendants. The suit seeks adjudication of the water rights of the San Juan River Stream System in New Mexico, which, among other things, supplies the water used at Four Corners. No trial date has been set in this matter. An agreement reached with the Tribe in 1985, however, provides that if Four Corners loses a portion of its rights in the adjudication, the Tribe will provide sufficient water from its allocation to offset the loss.

### **Rio Grande Power Station**

The Rio Grande Power Station, located in Dona Ana County, New Mexico, adjacent to El Paso, Texas, consists of three steam-electric generating units which have an aggregate capability of 246 MW when operating entirely on natural gas. When interstate natural gas at the station is curtailed, the units operate primarily on fuel oil. See "Energy Sources."

### **Newman Power Station**

The Newman Power Station, located in El Paso, Texas, consists of three steam-electric units with an aggregate capability of 266 MW and one combined-cycle unit with a capability of 212 MW. The units regularly operate on natural gas, but also are capable of operating on fuel oil. See "Energy Sources."

### **Copper Power Station**

The Copper Power Station, consisting of a 69 MW combustion turbine capable of operating on fuel oil or natural gas and used for peaking purposes, was placed in service in June 1980 in El Paso, Texas. The combustion turbine and other generation equipment at the station was sold and leased-back by the Company in 1980. As a result, such lease is subject to review as an executory contract and may be assumed or rejected by the Company in the course of its bankruptcy proceedings. See "Bankruptcy Proceedings for Reorganization of the Company." The station has been classified under the Fuel Use Act as an existing facility, which allows the station to burn natural gas. Since such classification, the station has operated primarily on intrastate natural gas. See "Energy Sources — Natural Gas."

### **Transmission Lines**

In December 1989, the Company completed construction of a 313 mile long, 345 KV, transmission line and associated substation equipment, known as the AIP, which provides access to the Company's generation entitlement from the Palo Verde units and the Four Corners Plant. The transmission line originates at the Springerville Generating Station in Springerville, Arizona, and terminates at the Company's Rio Grande Power Station. AIP enables the Company to import low cost energy from the Arizona and New Mexico power grid, enhances the Company's transmission system reliability, better equips the Company to meet future strategic generating resource mix requirements and further enables the Company to benefit from economy energy purchases.

The Company owns a 230-mile, 345 KV transmission line from the Newman Power Station to Albuquerque, New Mexico, at which point the Company's entitlement from Four Corners is delivered from 150 miles of transmission lines owned by PNM. This 345 KV transmission line regularly carries power from Four Corners where the Company has a major interconnection with the other five participants in Four Corners. The Company also owns an undivided interest in a 200-mile, 345 KV transmission line from the Newman Power Station across southern New Mexico to Greenlee, Arizona. These lines provide interconnections with Tucson Electric Power Company to provide transmission for the Company's entitlements from Four Corners and Palo Verde and also provide added stability, flexibility and reliability to the Company's system.

### **Environmental Matters**

The Company is subject to regulation with respect to air and water quality, solid waste disposal and other environmental matters, by various federal, state and local authorities. These authorities govern current facility operations and exert continuing jurisdiction over facility modifications. Environmental regulations are changing at a rapid pace. The effect of future regulation upon existing and proposed facilities and operations cannot presently be determined. Environmental standards regulate the construction of new facilities and may require substantial expenditures to control emissions or discharges from the Company's facilities and operations, which could have a significant adverse effect on the Company's financial position. There can be no assurance that the capital expenditures and operating costs incurred in response to environmental considerations will be fully allowable for ratemaking purposes.

## Air Quality

Air quality standards and emission limitations in Texas and New Mexico are subject to the jurisdiction of the TACB and NMED, respectively, with oversight by the EPA. Compliance with such standards and limitations has resulted, and is expected to continue to result, in substantial expense to the Company.

In November 1990, the Clean Air Act Amendments of 1990 (the "Clean Air Act") became law. The Clean Air Act establishes new regulatory and permitting programs which will be administered by EPA or delegated states. Although the substantive requirements of these programs cannot be determined until implementing regulations have been promulgated, the Company anticipates that additional expenditures may be required for any new generating units that may be constructed in the future or for modifications to existing generating units.

The Company has begun an initial evaluation of the impact of the Clean Air Act on the Company's operations. However, because the EPA and the states are still defining the programs which implement the Clean Air Act, the Company is unable to assess the ultimate effect of the Clean Air Act on the Company.

## Water Quality and Solid Waste Disposal

The Company is subject to federal and state regulation of all wastewater discharges into the navigable waters of the United States and state waters, and of all aspects of handling solid wastes from generation to final disposal. A summary of potentially significant matters relating to the Company's regulation in these areas is set forth below.

*Santa Fe Station.* In August 1990, in the course of capping several unused water wells located at the Company's Santa Fe Station site in El Paso, Texas, the Company discovered the presence of oil within one of the water wells. Upon testing the water/oil residue, the Company detected the presence of PCBs in the residue. In accordance with the rules and regulations of the TWC, the Company notified the TWC of the presence of PCBs. The source of the oil and the PCBs in the well is not known. The TWC requested that the Company perform a site assessment study and report its findings to the TWC. Reports indicate the presence of PCBs and TPHs in the soil and water. Based upon test results obtained to date, the Company believes that the PCB contamination is relatively contained, but the presence of TPHs appears to be more extensive. At the direction of the TWC, the Company continues to monitor the site. The extent and nature of any required remediation cannot be determined at this time.

The Santa Fe Station property was the site of a coal gasification plant in the late nineteenth century. In August 1989, the TWC notified the Company that the TWC, together with the EPA, had conducted a study of 33 coal gasification sites in Texas. The TWC stated that while by-products from coal gasification plants may or may not result in hazardous substances being present in the soil, no apparent threat to human health, safety or the environment exists, and the TWC required no action with respect to the coal gasification plant at the Santa Fe Station site. One of the factors relied upon by the TWC is that the area is covered by buildings and asphalt. Activities required to remediate PCB contamination could disturb the asphalt cover causing the TWC to require remediation of the entire site, including the coal gasification plant. In this event the total cost to the Company could exceed \$2 million. The Company does not expect the TWC to require remediation of the entire site.

The Company does not believe that any penalties or fines will be assessed against the Company as a result of these matters.

*Rio Grande Power Station.* The Company has notified NMED of a spill of approximately 510 barrels of light grade fuel oil which occurred at the Rio Grande Power Station in August 1986. Because the location of the spill is close to the Rio Grande River, and the depth of ground water is known to be relatively shallow, the Company commenced a site assessment. The New Mexico Water Quality Act provides for a potential penalty of \$1,000 for each day of violation, which for a five-year period could result in a penalty of approximately \$2 million. The Company has been in close communication with the NMED and does not believe that a penalty of such magnitude will be assessed. Potential clean-up costs cannot be estimated until a site assessment has been finished.

**COL-TEX Refinery Site.** In November 1991, the Company, along with other entities with activities in the area of the site, received a notice of potential responsibility and a request for information regarding the Col-Tex Refinery located along the Colorado River in Colorado City, Texas. In response to this inquiry about the Company's historic activities at the site, the Company is conducting a limited document and site review. While the Company does not believe that it has engaged in any conduct which contributed to the environmental contamination of the site, the Company cannot make any prediction of potential liability at this time and does not believe that it will become a primary target of the TWC's investigation.

## Energy Sources

### General

The following table lists the percentage contribution of coal, gas, uranium, and purchased power to the total energy mix of the Company and the average cost to the Company in cents per KWH.

	Uranium		Gas		Coal		Purchased Power	
	Percent of Energy Mix	Average Cost	Percent of Energy Mix	Average Cost	Percent of Energy Mix	Average Cost	Percent of Energy Mix	Average Cost
1987 .....	12%	.96¢	30%	2.10¢	13%	1.04¢	45%*	2.03¢
1988 .....	34	1.06	25	2.21	11	1.00	30	2.10
1989 .....	16	.99	45	2.09	11	1.05	28	2.31
1990 .....	33	1.10	33	2.29	11	1.09	23	2.19
1991 .....	46	.96	31	2.01	11	1.10	12	2.20

\* Prior to ratemaking treatment of the Company's investment in Palo Verde as described in "Regulation," the Company included under purchased power the major portion of energy generated by Palo Verde.

For a discussion of the recovery by the Company of its fuel costs, either in base rates or through fuel adjustment clauses, see "Regulation — Texas Rate Matters — Texas Recovery of Fuel Expenses," "Regulation — New Mexico Rate Matters — New Mexico Recovery of Fuel Expenses" and "Regulation — Federal Energy Regulatory Commission Rate Matters."

Upon the filing of the Company's Chapter 11 petition, at the request of the Company, the Bankruptcy Court entered an order providing generally, pursuant to the Bankruptcy Code, that all utilities which supply power and fuel to the Company must continue supplying such power and fuel to the Company on the same terms and conditions as such items were provided to the Company prior to the filing of its bankruptcy petition. Utility suppliers have complied with the Court Order and the Company has not experienced any significant disruption in its fuel or power supplies to this point during its bankruptcy proceedings.

### Nuclear Fuel

The fuel cycle for Palo Verde is comprised of the following stages: (i) the mining and milling of uranium ore to produce uranium concentrates; (ii) the conversion of uranium concentrates to uranium hexafluoride; (iii) the enrichment of uranium hexafluoride; (iv) the fabrication of fuel assemblies; (v) the utilization of fuel assemblies in reactors; and (vi) the storage of spent fuel and the disposal thereof. The Palo Verde Participants, including the Company, have made arrangements through contract flexibilities to obtain quantities of uranium concentrate anticipated to be sufficient to meet operational requirements through 1997. Existing contract options could be utilized to meet approximately 30% of requirements from 1998 through 2000. Spot purchases in the uranium market will be made, as appropriate, in lieu of any uranium that might be obtained through contract flexibilities and options. The Palo Verde Participants, including the Company, have contracted for all conversion services required through 1994 and for up to 65% of conversion services required through 1998, with options to continue through the year 2000. The Palo Verde Participants, including the Company, have an enrichment services contract with DOE which obligates DOE to furnish the enrichment services required for the operation of the three Palo Verde units over a term expiring in November 2014, with annual options to terminate each year of the contract with ten years prior notice. The Palo Verde Participants have exercised this

option, terminating 30% of requirements for 1996 and 1997 and 100% of requirements during the years 1999 through 2002. In addition, existing contracts will provide fuel assembly fabrication services for at least ten years from the operation date of each Palo Verde unit and, through contract options, approximately fifteen additional years are available.

Spent fuel storage facilities at Palo Verde have sufficient capacity with certain modifications to store all fuel expected to be discharged from normal operation of all of the Palo Verde units through at least the year 2003. Pursuant to the Nuclear Waste Policy Act of 1982, as amended in 1987 (the "Waste Act"), DOE is obligated to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by all domestic power reactors. The NRC, pursuant to the Waste Act, also requires operators of nuclear power reactors to enter into spent fuel disposal contracts with DOE. APS, on behalf of itself and the other Palo Verde Participants, including the Company, has executed a spent fuel disposal contract with DOE. The Waste Act also obligates DOE to develop the facilities necessary for the permanent disposal of all spent fuel generated and to be generated by domestic power reactors and to have the first such facility in operation by 1998 under prescribed procedures. In November 1989, DOE reported that such permanent disposal facility will not be in operation until 2010, seven years later than previously reported. As a result, under DOE's current criteria for shipping allocation rights, Palo Verde would begin spent fuel shipments to the DOE disposal facility in 2017. The Company believes that alternative interim spent fuel storage methods will be available for use by Palo Verde until DOE's scheduled shipments from Palo Verde begin.

Pursuant to the Participation Agreement among the Palo Verde Participants, the Company has an undivided interest in nuclear fuel purchased and to be purchased in connection with Palo Verde. The Company has a nuclear fuel purchase contract with an independent trust for the purpose of financing the Company's purchases of nuclear fuel. Prior to the filing of the Company's bankruptcy petition, the trust generally financed nuclear fuel and all costs in connection with the acquisition of the Company's share of nuclear fuel for use at Palo Verde. The Company had the option of either paying for the fuel from the trust at the time the fuel was loaded into the reactor or paying for the fuel at the time heat was generated by the fuel. The Company had elected to pay for the fuel as the heat was produced from the fuel. No payments of any kind are currently being made to the trust because of the Company's bankruptcy proceedings. At December 31, 1991, the aggregate book investment of the trust in such nuclear fuel and related materials was approximately \$60,500,000, including approximately \$39,500,000 for fuel loaded at Palo Verde. To finance its obligations, the trust has a credit agreement providing for borrowings up to \$125,000,000. The borrowing facilities under the credit agreement are supported by a bank letter of credit in the amount of \$125,000,000. Since the Company filed its bankruptcy petition, the Company has not sought to finance its fuel costs from the trust, but has instead paid for nuclear fuel with its own funds. The trust contends that it has an enforceable property interest in Palo Verde nuclear fuel, power, energy and revenues, which the Company is disputing in the bankruptcy proceedings.

#### Natural Gas

The Company is supplied with natural gas from both interstate and intrastate pipeline systems. The interstate pipeline owned by El Paso Natural Gas Company ("EPNG") transports the Company's Rio Grande Station natural gas requirements. Meridian Oil Transportation ("MoTrans") supplies the Company's Newman and Copper Stations with a firm natural gas supply made up of both intrastate and spot natural gas purchases.

In 1991, the Company's interstate natural gas requirements consisted solely of spot natural gas supplied by various suppliers. The Company and EPNG have successfully negotiated a new firm gas transportation agreement, which replaces the Company's commodity gas contract. The transportation agreement became effective September 1, 1991 and expires in 2001.

The intrastate natural gas requirements at Copper and Newman are supplied and transported pursuant to an intrastate natural gas contract with MoTrans, which is effective through December 31, 1995. In addition, interstate natural gas can be supplied to Newman Power Station, which allows for a back-up natural gas supply when operational constraints on the intrastate gas system dictate the need for an alternate fuel supply.

The MoTrans agreement and the firm interstate gas transportation agreement provide the Company continuing flexibility in scheduling its natural gas requirements while allowing for the maximization of the use of inexpensive economy purchased power and generation from its remote resources at Four Corners and Palo Verde. The Company's agreements to purchase natural gas are generally executory contracts subject to assumption or rejection in the Company's bankruptcy proceedings. The Bankruptcy Court has allowed the Company at least until September 8, 1992 to assume or reject the MoTrans Agreement. The Company has not decided whether to assume or reject any of its natural gas agreements. MoTrans has an unsecured prepetition claim against the Company for approximately \$6.2 million for sales of natural gas prior to the date of filing of the Company's bankruptcy petition.

During 1991, the Company experienced supply curtailments of intrastate natural gas due to pipeline pressure problems caused by severe natural gas demand on the pipeline as a result of cold weather. The impacts of the curtailments were minimal because the Company was able to shift load to other generating plants, purchase additional natural gas on the interstate system, or purchase off-system power. The Company does not expect any significant curtailments during 1992 with respect to either interstate or intrastate gas supplies.

### Coal

The Company believes that the Four Corners Plant has sufficient reserves of low sulfur coal (the sulfur content of which is currently running at 0.8%) committed to the plant to continue operating it for its useful life. APS purchases all of the coal which fuels the Four Corners Plant from a coal supplier with a long-term lease of coal reserves owned by the Tribe. In 1991, the prices paid for coal were relatively stable, although applicable contract clauses permit escalations under certain conditions. In addition, major price changes from time to time result from contract renegotiation.

## Executive Officers of the Company

<u>Name</u>	<u>Age</u>	<u>Current Position and Business Experience</u>
David H. Wiggs, Jr. ....	44	Chairman of the Board since May 1989; Chief Executive Officer since March 1989; President and a Director since January 1988; Chief Operating Officer from January 1988 to March 1989; for more than 5 years prior to January 1988, chief regulatory legal counsel and shareholder in Kemp, Smith, Duncan & Hammond, P.C., El Paso, Texas.
Curtis L. Hoskins .....	54	Director since April 1992; Executive Vice President and Chief Operating Officer since May 1990; Executive Vice President, PacifiCorp (Utah Power and Light Division), Salt Lake City, Utah, from January 1989 to April 1989; Executive Vice President (Administration), Utah Power and Light Company, Salt Lake City, Utah, from June 1982 to January 1989.
William J. Johnson .....	50	Senior Vice President — Financial Group since December 1987; Chief Financial Officer since December 1986; Vice President — Treasurer from December 1986 to December 1987; Vice President — Controller from May 1984 to December 1986.
William W. Royer .....	47	Senior Vice President since January 1990; Senior Vice President — Corporate Services from January 1988 through March 1989; General Counsel from March 1981 to January 1988; Vice President from December 1985 to January 1988; President, Franklin Land from March 1989 to January 1990; President, Triangle Electric Supply Company, El Paso, Texas from October 1988 to March 1989.
Ignacio R. Troncoso .....	45	Senior Vice President — Operations Group since May 1989; Senior Vice President — Transmission and Distribution/Engineering from December 1987 to May 1989; Vice President — Engineering, Transmission and Distribution from May 1982 to December 1987.
Lawrence M. Downum, Jr. ....	53	Vice President — Corporate Services since July 1989; Vice President since December 1983.
Eduardo A. Rodriguez .....	36	Vice President since April 1992; Corporate Secretary since January 1989; General Counsel since February 1988; Assistant Secretary from June 1986 to January 1989; Assistant General Counsel from December 1984 to February 1988.
Frederic E. Mattson .....	47	Vice President — Power Supply since June 1989; Assistant Vice President — Energy Resource and Planning from August 1988 to June 1989; Manager — Resource Development/Contracts from March 1981 to August 1988.
J. Frank Bates .....	42	Vice President — Customer Services since June 1989; Assistant Vice President — Customer Services from November 1987 to June 1989; Manager — Engineering Department from September 1983 to November 1987.



<u>Name</u>	<u>Age</u>	<u>Current Position and Business Experience</u>
John E. Droubay .....	53	Vice President and Treasurer since September 1990; President, Chief Executive Officer and Chairman of the Board, Energy Mutual Insurance Company and Electric Life Insurance Company, Salt Lake City, Utah, from May 1989 to September 1990; Treasurer, Utah Power & Light Company, Salt Lake City, Utah, from May 1981 to January 1989.
Russell G. Gibson .....	39	Controller since September 1989; for more than 3 years prior thereto, partner and member, Coopers & Lybrand (certified public accountants).
Gary R. Hedrick .....	37	Vice President — Financial Planning and Rate Administration since September 1990; Treasurer from February 1988 to September 1990; Assistant Vice President, Finance from February 1990 to September 1990; Assistant Treasurer from June 1986 to December 1986; Manager — Financial Planning from October 1985 to December 1986; Vice President, Treasurer and Chief Financial Officer of PasoTex from December 1986 to February 1988; Treasurer of Franklin Land from November 1986 to February 1988.
John C. Horne .....	43	Vice President — Transmission Systems Division since August 1989; Group Manager — Transmission and Distribution from November 1987 to August 1989; Manager — Systems Operations from June 1985 to November 1987.
Robert C. McNiel .....	45	Vice President — New Mexico Division since December 1989; Assistant Vice President — New Mexico Division from July 1989 to December 1989; Manager — Energy Marketing from February 1988 to July 1989; Manager — Customer Accounting from November 1985 to February 1988.
James A. Mayhew .....	37	Vice President — Rate and Energy Utilization since September 1990; Vice President — Rates & Regulatory Affairs from August 1989 to September 1990; Assistant Vice President — Rates & Regulatory Affairs from June 1989 to August 1989; Manager — Rates & Regulation from April 1987 to June 1989; Assistant Manager — Rates & Regulation from June 1986 to April 1987; Supervisor — Rate Research from March 1982 to June 1986.

The executive officers of the Company are elected no less often than annually and serve at the discretion of the Board of Directors.

# Operating Statistics

	December 31,		
	1991	1990	1989
Operating Revenues (In thousands):			
Retail:			
Residential .....	\$ 130,260	\$ 126,240	\$ 122,598
Commercial and industrial, small .....	127,504	121,917	117,272
Commercial and industrial, large .....	47,931	44,295	42,250
Sales to public authorities .....	65,625	64,773	63,886
Provision for refund .....	46	(331)	62
Other .....	3,023	2,846	2,438
	<u>374,389</u>	<u>359,740</u>	<u>348,506</u>
Wholesale:			
Sales for resale .....	75,443	72,760	77,742
Economy sales .....	12,573	12,809	7,222
Total operating revenues .....	<u>\$ 462,405</u>	<u>\$ 445,309</u>	<u>\$ 433,470</u>
Number of customers (End of year):			
Residential .....	223,684	218,753	214,664
Commercial and industrial, small .....	22,417	22,135	21,762
Commercial and industrial, large .....	68	60	52
Other .....	3,156	2,788	2,659
Total .....	<u>249,325</u>	<u>243,736</u>	<u>239,137</u>
Average annual use and revenue per residential customer:			
KWH .....	6,063	6,082	6,124
Revenue .....	<u>\$ 588.11</u>	<u>\$ 582.35</u>	<u>\$ 577.60</u>
Average revenue per KWH:			
Residential .....	9.70¢	9.57¢	9.43¢
Commercial and industrial, small .....	8.44	8.21	8.08
Commercial and industrial, large .....	<u>5.55</u>	<u>5.65</u>	<u>5.53</u>
Energy supplied, net, KWH (In thousands):			
Generated .....	6,128,171	5,277,127	4,753,236
Purchased and interchanged .....	1,273,440	1,726,525	1,794,492
Total .....	<u>7,401,611</u>	<u>7,003,652</u>	<u>6,547,728</u>
Energy sales, KWH (In thousands):			
Retail:			
Residential .....	1,342,830	1,318,471	1,299,768
Commercial and industrial, small .....	1,511,550	1,484,207	1,450,817
Commercial and industrial, large .....	864,025	784,177	763,650
Sales to public authorities .....	956,691	954,441	947,948
	<u>4,675,096</u>	<u>4,541,296</u>	<u>4,462,183</u>
Wholesale:			
Sales for resale .....	1,717,850	1,442,799	1,411,162
Economy sales .....	637,425	640,399	348,429
Total sales .....	<u>7,030,371</u>	<u>6,624,494</u>	<u>6,221,774</u>
Losses and company use .....	371,240	379,158	325,954
Total .....	<u>7,401,611</u>	<u>7,003,652</u>	<u>6,547,728</u>
Native system:			
Peak load, KW .....	929,000	920,000	916,000
Net generating capacity for peak, KW .....	1,497,000	1,497,000	1,497,000
Load factor .....	<u>62.6%</u>	<u>61.6%</u>	<u>61.0%</u>
Total system:			
Peak load, KW .....	1,142,000	1,098,000	1,076,000
Net generating capacity for peak, KW .....	1,497,000	1,497,000	1,497,000
Load factor .....	<u>67.9%</u>	<u>66.7%</u>	<u>67.0%</u>

## **Item 2. Properties**

The principal properties of the Company are described in Item 1 of this report, and such descriptions are incorporated herein by reference thereto. Transmission lines are located either on private rights-of-way, easements or on streets or highways by public consent. See Part II, Item 8, "Financial Statements and Supplementary Data — Note H of Notes to Financial Statements" for information regarding encumbrances against the principal properties of the Company.

## **Item 3. Legal Proceedings**

### **Grand Jury Indictment**

On June 4, 1991 a Grand Jury of El Paso County, Texas, issued an indictment against the Company alleging that the Company conspired and combined with others to commit theft from certain persons who purchased annuities from First Service Life Insurance Company (First Service), an offense that constitutes a felony under Texas criminal law. On July 26, 1991 the State District Judge who was hearing the case ordered the District Attorney to amend the indictment to give the defendants clear notice of the charges alleged against them and to delete surplusage in the indictment. The District Attorney filed an amended indictment on August 5, 1991. The indictment was quashed by the District Judge on August 23, 1991 following a hearing. The Grand Jury issued a new indictment (the "Indictment") against the Company on August 24, 1991, which does not differ materially from the charges set forth in the original indictment. The Company has asserted its innocence against the charges contained in the Indictment, has entered a plea of "not guilty" and intends to defend vigorously against the charges alleged therein.

The Federal Deposit Insurance Corporation ("FDIC") in late November 1991, as receiver for one of the indicted entities, removed the criminal case from state court (the "State Court") to the U.S. District Court for the Western District of Texas, El Paso Division (the "Federal Court"), pursuant to federal statute providing for removal of any "action, suit or proceeding" involving the FDIC (Federal Docket No. EP-91-CR-339B), which was challenged by the State of Texas (the "State"). On November 21, 1991, the Federal Court denied the State's motion to remand the action. The State filed an appeal of the decision and petitioned for a writ of mandamus to the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit").

On January 15, 1992, the Fifth Circuit issued an order denying the State's Petition for Leave to File an Interlocutory Appeal. The Fifth Circuit subsequently denied the State's Petition for a Writ of Mandamus.

The case is currently subject to the jurisdiction of the Federal Court. While it is possible that the case will be remanded to the State Court, the Company has been informed that the State intends to proceed to a trial before the Federal Court. Legal counsel to the Company believes that the possibility of a remand to the State Court is remote. The Federal Court has not issued a trial setting, however, the Company has been informed that the case may proceed to trial in the Federal Court as early as July 13, 1992.

The charges set forth in the Indictment and the actions described in the Indictment as the basis for the Indictment relate to the sale of annuities from 1984 to 1987 by First Service Life Insurance Company to various persons, including the Company. The issuance of the annuities is the subject of civil litigation brought by the Company in 1988 against First Service Life Insurance Company and its state-appointed receiver. The Company is seeking a declaratory judgment that it has valid and perfected security interests in and to certain assets that had been pledged by the insurance company to the Company to secure performance of the annuities. See "First Service Life Civil Litigation" below.

Two former non-utility subsidiaries of the Company, Franklin Land and PasoTex and three individuals who formerly served as officers or directors of the Company, Mr. Evern Wall, Mr. Billye Bostic and Mr. Tad Smith, also were named as defendants in the Indictment, as well as fifteen other corporations and eight other individuals. The two subsidiary corporations were sold by the Company in January 1990. Mr. Wall retired as Chairman of the Board and Chief Executive Officer of the Company in June 1989. Mr. Bostic last held office with the Company in 1987 and retired as an officer of PasoTex in March 1989. Mr. Smith resigned from the Board of Directors in March 1990. Mr. Smith is the senior attorney at Kemp, Smith, Duncan & Hammond, P.C., the law firm that has served as the Company's long-time outside legal counsel, and which also was

named as a defendant in the Indictment. The Company indemnified Mr. William W. Royer, Senior Vice President, for expenses incurred in connection with the proceedings of the grand jury prior to the Indictment of the Company. The Company may have indemnification obligations to its former officers and directors in connection with the defense of the charges set forth in the Indictment in accordance with the provisions of the Company's bylaws and standard indemnity agreements with its officers and directors. The Company has entered into additional agreements with Mr. Wall and Mr. Bostic with regard to advancement of legal expenses in connection with the Indictment. A final determination of the Company's obligation and authority to indemnify its former officers named in the Indictment will be made upon the ultimate disposition of the criminal proceedings. In addition, the Company has entered into an agreement with the two former subsidiary corporations pursuant to which the Company agreed to pay the legal fees and expenses incurred by such subsidiaries in connection with the defense of the charges alleged against them. The Company has made no payments pursuant to the Agreement since the filing of its Chapter 11 bankruptcy petition. The Company has made no provision for an indemnity payment in the 1991 financial statements. For a discussion of the effect of the Company's bankruptcy proceedings on possible indemnity obligations see "Indemnification of Current and Former Officers and Directors" below.

The Company's assessment of the Indictment and its allegations is ongoing. Counsel for the Company have commenced a legal review of the possible consequences of the Indictment or a conviction for the charges alleged therein, which the Company does not expect to occur. The possible consequences identified to date include; (i) involuntary dissolution of the Company if the Company or a high managerial agent is convicted of the charges alleged in the Indictment and it is established that the Company or such high managerial agent has engaged in a persistent course of felonious conduct and that the public interest requires such dissolution in order to prevent future felonious conduct of the same character; (ii) receivership for the property and assets of the Company; (iii) amendment or revocation of licenses, rights, permits, approvals, consents and authority pursuant to which the Company owns its properties and conducts its business as an electric utility and the possible imposition of liens against the properties and assets of the Company in connection with violations of applicable law; (iv) suspension and/or debarment of the Company under its existing contracts for electric utility service to certain United States military facilities; (v) action by the State of Arizona under its organized crime and fraud prevention criminal statutes; (vi) breach of covenants or default under various of the Company's material agreements, including material financing agreements containing covenants related to compliance with all applicable laws and unpaid or unstayed judgments in excess of specified amounts; and (vii) adverse actions taken by regulatory authorities (including state utility commissions), including actions taken pursuant to broad discretionary authority possessed by those authorities in light of the public interest nature of the Company's business. Based upon its review to date, including the review of counsel and the discovery to date in the First Service Life Civil Litigation (discussed below), the Company believes that it is more likely than not that the Company and its business and properties will not be materially adversely affected by the Indictment or a conviction.

If the Company is found guilty of the charges alleged in the Indictment and if the trial court finds that the Company gained money or property or caused loss through the commission of the crime, the Company could face the payment of a fine in an amount fixed by the trial court, but not to exceed double the amount gained or caused to be lost, whichever is greater.

The Company has made no provision for loss for the effects, if any, of the ultimate outcome of the criminal proceedings related to the Indictment.

#### First Service Life Civil Litigation

*Pending Actions Involving the Company's Collateral.* On September 26, 1988, the Company filed a declaratory judgment action in the 345th Judicial District Court, Travis County, Texas, against First Service Life Insurance Company, a corporation organized under the laws of the Cayman Islands ("First Service"), and R. B. Ashworth, as Conservator for the affairs of First Service under the Texas Insurance Code for a determination that (i) the Company has legal, valid, duly perfected and enforceable security interests in certain collateral (the "Collateral") granted to the Company by First Service to secure payment of certain

annuities purchased by the Company from First Service, the present balance of which is approximately \$20 million; and (ii) that events of default have occurred under the collateral security documents pertaining to these annuities, which entitle the Company to enforce its security interests. On May 27, 1988, the Company notified First Service that First Service was in default under the annuities and the collateral agreements and that the Company intended to enforce its security interests. The Conservator, who was appointed by the Texas Commissioner of Insurance in June 1988, notified the Company that First Service was not in default, expressed doubt as to the validity and enforceability of the security interests held by the Company and demanded the Company return to the Conservator all of the Collateral.

On September 29, 1988, the Conservator, in conjunction with his answer and denial of the Company's declaratory judgment action, countersued the Company on behalf of First Service, and two affiliated corporations, First Service Life, a Turks & Caicos corporation ("FSL") and Knickerbocker Life Insurance Company ("Knickerbocker"), for actual damages of at least \$50 million, plus punitive damages of at least \$300 million. The Conservator's counterclaim seeks (i) an injunction against the Company's enforcement of its security interests in the Collateral; (ii) an accounting from the Company as to all payments on and transfers of property to the Company from First Service with respect to the Company's annuity investment; (iii) a declaratory judgment that the Company's security interests are illegal and unenforceable, and that the sale and purchase of the annuities was an illegal transaction under the Texas Insurance Code by a company doing business in Texas without authorization; and (iv) disgorgement by the Company of all payments on its annuities and all collateral therefor. The counterclaim alleges several causes of action against the Company including principally fraud, conversion and breach of duty of good faith and fair dealing (based upon an alleged affiliate or "insider" relationship between the Company and First Service).

On December 1, 1988, a receiver (the "Receiver") was appointed for First Service, and on December 13, 1988, the Receiver in his capacity as Receiver for First Service was substituted as a party for the Conservator. The Company then filed a Plea in Intervention to the Receivership Proceedings to protect the interest of the Company. On January 18, 1989, the Receiver was appointed as receiver for FSL as well. On May 5, 1989, the Receiver was appointed as receiver for Knickerbocker. On July 6, 1989, the Receiver, in his capacity as receiver for Knickerbocker only, non-suited without prejudice its claims against the Company.

On February 16, 1990, the Receiver joined as parties defendant Maury Page Kemp, Jean Kemp, the accounting firm of Coopers & Lybrand, and the law firm of Kemp, Smith, Duncan & Hammond, which served as general counsel to the Company. The "Defendants Second Amended Answer and Counterclaim", in addition to carrying forward many of the allegations of the prior counterclaim, alleges that the Company, Maury Page Kemp, Jean Kemp, the accounting firm of Coopers & Lybrand and the law firm of Kemp, Smith, Duncan & Hammond, participated in a "conspiracy, participation and breach of trust" to injure First Service and the other policyholders and creditors of First Service through the purchase of Triangle Electric Supply Company, Inc. ("Triangle") by First Service's indirect parent, First Financial Enterprises, Inc. ("FFE"), payment by Triangle of a \$3 million dividend to FFE upon Triangle's acquisition, and a loan by First Service to the Company's former non-utility subsidiary, Franklin Land of \$5 million, which the Receiver alleges was not supported by adequate collateral.

Discovery is ongoing, however, the Company's legal counsel, Small, Craig & Werkenthin, P.C., has reviewed the basic facts of the case with the Company's management and other parties familiar with various aspects of the transactions involved in the litigation, examined documents and records of the Company and other parties which relate to such transactions, and evaluated the allegations against the Company made in the counterclaim. From the discovery conducted to date, Counsel has stated that it has not learned what facts, if any, exist to substantiate the contention that the Company entered into a conspiracy to injure First Service or the annuitants.

The Company believes that the Company's security interests in the Collateral are valid and enforceable, and the Company intends to recover amounts owed to it on the annuities through enforcement of its rights to the Collateral. The Company strongly denies the allegations of the counterclaim, believes the counterclaim is without merit and intends to defend vigorously against it. At June 30, 1989, the Company recorded a provision

for loss of \$7 million based upon the value of the Collateral. The Company has made no provision for loss for the effects, if any, of the ultimate outcome of the litigation.

*Claims by Annuitants.* On May 16, 1990, Beatrice Meneses, and certain other parties filed their Plea in Intervention in *Pedro Meneses v. First Financial Savings Association of El Paso, et al.* in the County Court of El Paso, Texas, Cause No. 88-9254. The plaintiffs (the "Annuitants") are allegedly holders of annuities purchased from First Service and/or Knickerbocker and/or Security Southwest Life Insurance Company. The defendants include the beneficial principal shareholders and officers and directors of First Service and Knickerbocker, certain affiliated companies of the principal beneficial shareholders of First Service and Knickerbocker, the Company, its former non-utility subsidiaries, PasoTex and Franklin, the accounting firm of Coopers & Lybrand, the law firm of Kemp, Smith, Duncan & Hammond, which served as general counsel to the Company, and two individual attorneys who are shareholders in such firm, including Tad R. Smith, formerly a director of the Company. The Company and other defendants removed the case to the United States District Court for the Western District of Texas, El Paso Division, on June 11, 1990, Civil Action No. EP-90-CA-247H (the "RICO Action").

The RICO Action alleges that the defendants violated the Racketeer Influenced and Corrupt Organizations Act ("RICO"), conspired to violate RICO, violated Federal and Texas securities laws, committed common law fraud, civil conspiracy to defraud, and asserts violations of the Texas Deceptive Trade Practices Act, the Texas Insurance Code and the Texas Penal Code. The claims made against the Company and its former subsidiaries are based upon allegations that the Company controlled and/or conspired with First Service. The RICO Action alleges that the Company joined in a conspiracy to defraud annuitants of First Service, which conspiracy is alleged to have been initiated in 1982 by the ultimate shareholder of First Service and other defendants, by the Company engaging in the purchase, collateralization and redemption of First Service annuities, the Company attempting to initiate foreclosure on the Collateral, a \$5 million loan being made by First Service to Franklin, which was then a subsidiary of the Company, and the payment of a "finder's fee" of \$175,000 by First Service to Franklin. These allegations state that the defendants violated certain provisions of the Texas Penal Code relating to theft, false statements to obtain property or credit, fraud in insolvency, receiving deposit, premium or investment in a failing financial institution, commercial bribery and misapplication of fiduciary property or property of a financial institution. The Plaintiffs are seeking damages in the amount of their lost annuities, plus interest, multiplication of actual damages, punitive and exemplary damages, and attorneys fees and costs. The complaint in the RICO Action alleges sales of annuities to the Plaintiffs in excess of \$11 million, and the total claim for damages exceeds \$59 million.

The Company vigorously denies any liability in respect of the RICO Action and believes that all related claims are without merit. No formal discovery has been conducted by any of the parties to the RICO Action. Based upon the limited evaluation and investigation of Small, Craig & Werkenthin, P.C., the Company's legal counsel in connection with the RICO Action and the Pending Actions involving the Company's Collateral described above, and subject to the results of discovery, such counsel has stated that it has not learned what facts, if any, exist to substantiate the contention that the Company entered into a conspiracy to injure either First Service or the annuitants. The Company has made no provision for loss for the effects, if any, of the ultimate outcome of the litigation.

The RICO Action names as a defendant Billye E. Bostic, formerly an executive officer of the Company, who would be entitled to indemnity under the Company's bylaws and other applicable agreements to the same extent as indemnification is afforded by the Company to all of its officers and directors with respect to service on boards of directors of other companies. However, whether Mr. Bostic will be entitled to such indemnity from the Company with regard to the RICO Action has not yet been determined and such determination will be dependent on all the facts and circumstances which may surface during the course of this litigation. Mr. Bostic has advised the Company that he denies any liability in respect of the RICO Action and believes that the claims asserted against him therein are without merit. Mr. Bostic is represented by counsel separate from the Company's counsel. The Company stopped advancing Mr. Bostic's legal expenses upon the commencement of the bankruptcy proceedings. Mr. Bostic's indemnity claims, if any, may be asserted against the Company as a prepetition claim in the bankruptcy proceedings. No provision for an indemnity payment is included in the Company's 1991 financial statements.

*Suit Against Directors of First Service.* On February 3, 1989, the Receiver filed suit in the 345th Judicial District Court, Travis County, Texas, against certain individuals who were alleged to be directors of First Service and/or FSL, including Mr. Bostic.

The Receiver alleges that First Service engaged in the sale of annuities in Texas without authorization to do so and that such actions constituted illegal insurance transactions under the Texas Insurance Code. The Receiver further alleges that the alleged illegal sale of annuities by First Service constitutes a breach by the directors of First Service of their fiduciary duty to exercise due care in the management of the affairs of First Service and/or FSL and resulted in unspecified losses to First Service. The suit seeks actual damages of at least \$33 million and, in addition, exemplary damages of at least double the actual damages. No significant discovery has been conducted at this time.

Mr. Bostic has advised the Company that he denies that he served as a director of First Service or FSL during the period of the alleged activities complained of, denies any liability in respect of the Receiver's suit and intends to vigorously defend against it. Mr. Bostic is represented by counsel separate from the Company's counsel in the First Service litigation. Mr. Bostic would be entitled to indemnity with respect to the Receiver's suit to the extent indemnification is afforded by the Company to all of its officers and directors with respect to service on certain outside boards. However, whether Mr. Bostic will be entitled to such indemnity from the Company with regard to this lawsuit has not yet been determined and such determination will be dependent on all the facts and circumstances which may surface during the course of this litigation.

Because no significant discovery has been conducted, counsel for Mr. Bostic is unable to express an opinion as to the ultimate outcome of the suit. The Company stopped advancing Mr. Bostic's legal expenses upon the filing of the bankruptcy proceedings. No provision for an indemnity payment is included in the Company's 1991 financial statements.

There are numerous parties who purchased annuities from First Service, not included as parties to the First Service Life Litigation who may assert additional claims, similar in nature to the claims asserted by the current parties against the Company. These claims, if asserted, could result in additional suits against the Company.

*Potential Effect of Indictment on Civil Litigation.* Due to the similarity of the allegations made against the Company in the Indictment and in the First Service Life Civil Litigation and of the purported facts which form the basis of such allegations, a final conviction of the Company under the Indictment which occurs prior to the resolution of the First Service Life Civil Litigation would have a potentially adverse impact on the Company's position in the First Service Life Civil Litigation. Due to the higher burden of proof necessary for a conviction in a criminal proceeding, as compared to the burden of proof necessary for an adverse finding in a civil proceeding, a conviction of the Company under the Indictment could possibly be introduced in the First Service Life Civil Litigation as evidence which conclusively establishes those facts necessary to the findings leading to the conviction under the Indictment. However, if the Company is found "not guilty" under the Indictment, such finding could not be introduced by the Company in the First Service Life Civil Litigation as evidence conclusively establishing that the facts and elements necessary for a conviction of the Company in the Indictment were not present or did not occur.

At this time, it appears likely that the criminal proceedings under the Indictment will conclude before the resolution of the First Service Life Civil Litigation.

#### P & C Lacelaw Trust Litigation

On September 26, 1990, P & C Lacelaw Trust ("Lacelaw") filed suit in the 346th District Court of El Paso County, Texas against the Company, Franklin, a former subsidiary of the Company, and DDG, Inc. ("DDG"), the party which purchased all of the capital stock of Franklin from the Company in January 1990. Lacelaw alleges that Franklin acted in bad faith and participated in self-dealing in connection with Franklin's management, as general partner, of a limited partnership between Franklin and Lacelaw, the purpose of which was to acquire, own and operate an office building in downtown El Paso. Lacelaw further alleges that the Company is responsible for the actions of Franklin because Franklin was the alter ego of the Company and

that the Company breached fiduciary duties to Lacelaw in connection with the mismanagement and self-dealing by Franklin and through the sale of Franklin to DDG. Lacelaw seeks a declaratory judgment that the Company is a general partner in the partnership; a judgment declaring Lacelaw's rights as a limited partner; an accounting of all financial transactions involving the partnership; and a dissolution of the partnership. Lacelaw alleges actual damages of \$3.2 million and punitive damages of at least \$10 million. The Company vigorously denies any liability with respect to this lawsuit and believes that the claims are without merit. Investigation and evaluation of the suit by counsel for the Company is in its preliminary stages and only a minimal amount of discovery has been conducted; therefore, the outcome of the suit cannot be determined at this time.

#### Arizona Tax Matters

*Arizona Transaction Privilege ("Sales") Tax.* In 1986 and 1987, the Company entered into sale and leaseback transactions with respect to its interest in Unit 2 and 40% of Unit 3 at PVNGS. Pursuant to the participation agreements and leases in such transactions (the "Palo Verde Leases"), the Company is obligated to hold the Owner Trustee and Equity Participants harmless against certain tax events. The ADR conducted an audit in 1990-1991 of the sales taxes paid on lease payments made pursuant to the Palo Verde Leases during the audit period of August 1, 1988 through July 31, 1990. On March 10, 1992, the Company received copies of Notices of Proposed Assessment (the "Sales Tax Notices") issued by the ADR to each of the taxpayer owner trusts in care of the Owner Trustee. The Sales Tax Notices proposed total deficiency assessments for the audit period of approximately \$8.8 million, plus related interest of \$2.5 million computed through March 31, 1992, for a total of \$11.3 million.

The Company has forwarded copies of the Sales Tax Notices to the Owner Trustee, so the Owner Trustee and Equity Participants can contest the matter. The Sales Tax Notices do not set forth the specific basis for the proposed deficiency assessments; however, the Company believes that the proposed deficiency assessments relate to the percentage of property subject to lease payments that is classified as commercial lease real property for Arizona sales tax purposes versus personal property subject to an exemption. The Company believes the proposed deficiency assessments are based on a calculation that 100% of the leased property is classified and taxable as commercial lease real property, rather than the 8% that has been reported by the Company as real property and the basis for taxes paid with respect to the Palo Verde Leases during the period from August 1, 1988 (the effective date of the imposition of the tax) through the date of the last Palo Verde Lease payment in October 1991.

If the ADR is successful and the Owner Trustee or Equity Participants incur additional tax liability, the Owner Trustee and Equity Participants would have a claim against the Company for indemnification against such tax liability. The Company estimates that the amount of the indemnification claim would be approximately \$17 million (\$14 million in tax computed through the date of the last lease payment made in October 1991, plus related interest of \$3 million computed through March 31, 1992). The Company cannot predict whether a contest of the proposed deficiency assessments will be successful or the outcome of any claim for indemnification arising out of such contest. The Company would seek to recover any increased expenses through rates.

*Arizona Income Tax.* By Notice of Proposed Correction of Income Tax dated February 9, 1990 ("Income Tax Notice"), the ADR, in connection with an audit examination of the Company's Arizona corporate income tax returns for taxable years 1984 through 1987, informed the Company that the ADR has determined that the gains from the 1986 and 1987 sales of the Company's interest in Palo Verde Unit 2 and a portion of the Company's interest in Unit 3 are allocable to Arizona for state income tax purposes on the grounds that the units constitute non-business assets with a situs in Arizona, resulting, according to the ADR, in a proposed deficiency assessment, including related interest and penalties, of approximately \$39.5 million (\$46.5 million if interest is extended through December 31, 1991), exclusive of any Arizona net operating loss ("NOL") carryforwards. On March 28, 1990, the Company filed a protest to the proposed deficiency assessment. The Company believes Palo Verde Units 2 and 3 constituted business assets at the time of the respective sales and, in accordance with Arizona law, it apportioned rather than allocated the corresponding gains in calculating and reporting the Arizona income tax on the transactions.



A formal administrative hearing with the Appeals Section of the ADR was held on October 19, 1990, at which time the Hearing Officer allowed the ADR, over the Company's objections, to raise issues not contained in the Income Tax Notice. The two primary issues so raised by the ADR are: (i) whether the Company properly excluded from the Arizona sales factor computation in 1986 and 1987 the gross proceeds from the sale and leaseback transactions involving Palo Verde Units 2 and 3, respectively; and (ii) whether carryovers of Arizona NOL generated in the taxable years 1979 through 1983 can be used by the Company to offset Arizona taxable income in the taxable years 1984 through 1987. The Company filed an Opening Post-Hearing Memorandum and Taxpayer's Proposed Findings of Fact with the Appeals Section on September 3, 1991. In this Memorandum the Company stated its position regarding three primary issues: (i) the gains from the sale and leaseback of Palo Verde Units 2 and 3 constitute business income subject to apportionment; (ii) the Company has substantiated net operating loss carryovers from 1979 through 1983; and (iii) the ADR erroneously asserted a late payment penalty. The Company also objected to the ADR bringing any issues other than the three primary issues before the Hearing Officer.

The ADR filed its Post-Hearing Response Memorandum in October 1991, which brought forth its position on four primary issues: (i) the gains on the sales of Palo Verde Units 2 and 3 should be fully allocated to Arizona; (ii) the Company's apportionment factors as reported distort the Company's income in Arizona; (iii) the net operating losses generated in the taxable years 1979 through 1983 have not been substantiated; and (iv) the ADR properly assessed a late payment penalty.

The Company filed its final Post-Hearing Reply Memorandum in December 1991 objecting to each issue brought forth by the ADR and presenting support for the Company's position.

As a result of the stay imposed by the Bankruptcy Code, the Company cannot predict when the Appeals Section of the ADR will be able to issue a decision on the case. The Company does not expect to incur any material liability with respect to this matter.

*Arizona Property Tax.* On June 29, 1990, the Arizona legislature enacted legislation effective December 31, 1989, which requires the school district in which Palo Verde is located to levy additional property taxes on utility and mining property. On December 20, 1990, the Palo Verde Participants, including the Company, filed a lawsuit in the Arizona Tax Court, a division of the Maricopa County Superior Court, against the ADR, the Treasurer of the State of Arizona, and various Arizona counties, claiming, among other things, that portions of the new tax law are unconstitutional. Discovery is ongoing and the Company cannot currently predict the outcome of this matter.

#### **Other Legal Proceedings**

Information regarding legal proceedings relating to the Company's bankruptcy filing, Palo Verde, Four Corners, rates and regulation and environmental matters is described under the subcaptions "Bankruptcy Proceedings for Reorganization of the Company," "Regulation," "Facilities" and "Environmental Matters" under "Business" in Item 1 of this report and is incorporated herein by reference thereto.

The Company is a party to various other claims, legal actions and complaints, the ultimate disposition of which, in the opinion of management, will not have a material adverse effect on the operations or financial position of the Company.

#### **Automatic Stay of Litigation Due to Bankruptcy**

Upon the filing of the Company's bankruptcy petition, the provisions of the Bankruptcy Code operate as a stay, applicable to all entities, of, among other things, the commencement or continuation of judicial, administrative, or other actions or proceedings against the Company that were or could have been commenced before the bankruptcy petition was filed. This stay is subject to certain exceptions — criminal actions and actions by governmental units to enforce police or regulatory powers are, for example, not stayed. The Bankruptcy Court also has discretion to terminate, annul, modify or condition such stay for "cause."

## **Indemnification of Current and Former Officers and Directors**

During 1991, the Company provided indemnification and advanced legal expenses to certain of its current and former officers and directors pursuant to the Company's bylaws and other applicable agreements. Based on the ultimate outcome of each legal proceeding giving rise to the advancement of legal expenses, the Company may be entitled to repayment of amounts previously paid or advanced; or may be obligated for further indemnity payments in amounts which cannot currently be determined.

During 1991, the Company advanced legal expenses of \$108,603 and \$18,781 on behalf of Mr. Evern R. Wall, a former officer and director of the Company, and Mr. David H. Wiggs, Jr., Chairman of the Board, President and Chief Executive Officer of the Company, respectively.

In addition, during 1991, the Company expended \$262,524 for indemnification and advancement of legal expenses on behalf of other current and former officers of the Company.

The Company has made no payments for indemnification or advancement of expenses to its current or former officers and directors since the Company's Chapter 11 bankruptcy filing. The Company has filed a motion with the Bankruptcy Court requesting that it be allowed to continue advancing defense costs and expenses, including legal fees, to Messrs. Wall and Bostic in connection with their personal defense of the Indictment, but it is uncertain whether the Bankruptcy Court will grant the Company's motion.

### **Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

## **PART II**

### **Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

The Company's common stock is traded in the over-the-counter market (NASDAQ Symbol: ELPAQ) and quoted on the NASDAQ National Market System.

Under the terms of Company's listing agreement with the National Association of Securities Dealers, Inc. (the "NASD") and the bylaws of the NASD, the NASD may, as a result of the Company's Chapter 11 bankruptcy filing, apply additional or more stringent criteria for continued inclusion of the Company's common stock in the NASDAQ system or suspend or terminate the stock's inclusion in NASDAQ. The NASD has not indicated an intention to implement any of the aforementioned measures based on the Company's bankruptcy filing.

In addition, because the Company does not meet certain net worth requirements set forth in Schedule D to the bylaws of the NASD, the NASD may delist the Company's common stock from NASDAQ unless it grants the Company a temporary exception from the requirements. The Company has submitted its written request for a hearing on the issue of obtaining such an exception in accordance with NASD requirements, but has not received any notification of when a hearing will be granted. The Company cannot predict whether an exception will be granted or the possible terms and conditions thereof. If the Company's common stock is delisted, the holders thereof will lose the ability to transfer the stock through the public market.

Upon the Company's Chapter 11 bankruptcy filing, the NASD changed the Company's NASDAQ symbol for its common stock from "ELPA" to "ELPAQ" to indicate that the Company is the subject of bankruptcy proceedings.

The Company paid no dividends on shares of its common stock in 1990 or 1991. The high and low per share sale prices for the Company's common stock, as reported by NASDAQ, for the periods during 1990 and 1991 indicated below, were as follows:

	Sale Price	
	High	Low
<u>1990</u>		
First Quarter .....	\$9 1/8	\$8
Second Quarter .....	8 3/8	6 1/4
Third Quarter .....	7 3/8	5 1/4
Fourth Quarter .....	5 3/4	3 1/2
<u>1991</u>		
First Quarter .....	8 1/8	3 3/4
Second Quarter .....	8 1/4	6
Third Quarter .....	7 1/8	4 3/4
Fourth Quarter .....	6 1/2	3

At March 23, 1992, there were 27,146 holders of record of the Company's common stock.

In May 1989, the Board of Directors eliminated the second quarter 1989 common stock dividend and no common stock dividends have been paid since then. On September 19, 1991, the Board of Directors voted to suspend payment of dividends on the Company's outstanding cumulative preferred stock, as well as sinking fund payments on the preferred stock, commencing with dividend and redemption payments due October 1, 1991. The Board based its decisions to suspend the dividends on its analysis and review of the Company's earnings position, cash flow and liquidity needs.

As a result of the suspension of the preferred stock dividends and sinking fund payments, no dividends can be paid on shares of the Company's common stock until the Company has made the sinking fund payments and paid the dividend arrearage on its preferred stock. In addition, under certain provisions of the Federal Power Act regarding the payment of dividends on capital stock, as interpreted by the staff of the FERC, the Company is permitted to pay dividends on its capital stock only out of retained earnings. The Company currently has no retained earnings out of which to pay dividends.

The Company cannot predict when the preferred stock dividends and sinking fund payments will be resumed, but such payments are precluded by the Bankruptcy Code during the Company's Chapter 11 bankruptcy proceedings. Resumption of these payments also will depend on the plan of reorganization ultimately adopted in the Company's bankruptcy proceedings, which could substantially alter or eliminate the rights of the preferred and common stockholders.

If dividends on any of the outstanding preferred stock accumulate and remain unpaid in a cumulative amount equal to four quarterly dividends, the holders of the preferred stock will be entitled to elect two additional directors to the Board of Directors until all dividends on preferred stock have been fully paid or until dividends on any of the outstanding preferred stock accumulate and remain unpaid in an amount equal to twelve full quarterly dividends. If preferred stock dividends in an amount equal to twelve full quarterly dividends are unpaid, the holders of the preferred stock will be entitled to elect the smallest number of directors necessary to constitute a majority of the full Board of Directors until all dividends of preferred stock have been fully paid. When the right to elect directors accrues to the holders on preferred stock, such holders vote as a class. Assuming no full or partial dividends are paid on the Company's outstanding preferred stock, the holders of preferred stock will have the right (subject to satisfaction of certain procedural requirements) to elect two additional directors on July 1, 1992 and a majority of the Board on July 1, 1994. The preferred shareholders' ability to exercise the voting rights described above may also be affected by the Company's bankruptcy proceedings as well as by the plan of reorganization confirmed in the bankruptcy proceedings.

The Public Utility Holding Company Act of 1935, as amended (the "Holding Company Act"), defines a "holding company" as, among other things and except as therein provided (i) any company that directly or

indirectly owns, controls or holds with power to vote 10% or more of the outstanding "voting securities" of a public utility company or another "holding company;" or (ii) any person or company which the Securities and Exchange Commission determines, directly or indirectly, to exercise (either alone or pursuant to an arrangement or understanding with one or more persons) such a controlling influence over the management or policies of any public utility as to make it necessary or appropriate in the public interest or for the protection of investors or consumers that such person or company be subject to the regulation of the Holding Company Act. A "voting security" is defined as, among other things, any security presently entitling the owner or holder thereof to vote in the direction or management of the affairs of a company. Currently, the shares of the Company's common stock are the only "voting securities" outstanding. At such time as the holders of the Company's preferred stock have the voting rights described in the preceding paragraph, shares of the preferred stock also may constitute "voting securities" under the Holding Company Act. Holders of significant positions in the preferred stock (if such shares constitute "voting securities" under the Holding Company Act) or in the common stock could, depending on the circumstances, be deemed to be "holding companies." Any holder so deemed to be a "holding company" would, subject to certain exceptions, be required to register as such under the Holding Company Act and, if such registration were required, such holder, as well as the Company, would become subject to extensive regulation under the Holding Company Act.

All of the dividends paid on shares of the Company's preferred stock during 1991 may have been from sources other than available "earnings and profits" as defined in the Internal Revenue Code. The dividends would not be subject to current taxation in the year received, but would be treated as a return of capital and would be required to be applied as a reduction in the shareholders' tax basis for the investment in the shares. A reduction in tax basis would increase the amount of gain, or decrease the amount of loss, realized by a shareholder on any subsequent sale, exchange, redemption or other disposition of the shares. Return of capital distributions in excess of a shareholder's adjusted tax basis for such shares would be treated as gain from the sale or exchange of such shares. The terms of the Preferred Stock Purchase Agreements related to two series of the Company's preferred stock provide for indemnification of holders of the stock for any "loss" (as defined in the agreements) attributable to dividends being treated as a return of capital. There have been no claims for indemnification asserted against the Company based on such provisions. There is an issue as to whether any such claims would be unsecured prepetition claims or equity interests in the Company's bankruptcy proceedings.

## Item 6. Selected Financial Data

As of and for the years ended December 31:

	1991	1990	1989	1988	1987
	(In thousands except per share data)				
Operating revenues .....	\$ 462,405	\$ 445,309	\$ 433,470	\$ 401,870	\$ 343,640
Operating income .....	50,722	44,799	56,511	81,533	92,592
Income (loss) from continuing operations before extraordinary item .....	(266,912) (1)	(21,864)	1,956	63,877	47,431 (2)
Extraordinary item .....	(289,102) (3)	—	—	—	—
Income (loss) from continuing operations before extraordinary item per weighted average share of common stock .....	(7.75) (1)	(0.96)	(0.28)	1.48	0.98 (2)
Extraordinary item per weighted average share of common stock .....	(8.14) (3)	—	—	—	—
Dividends declared per share of common stock .....	—	—	0.38	1.52	1.52
Total assets .....	1,569,549 (3)	1,901,928	1,808,802	1,824,329 (4)	2,308,300
Additions to utility plant, before allowance for equity funds used for construction .....	63,394	80,139	143,956	91,263	69,813
Debt in default .....	1,287,197	—	—	—	—
Long-term, financing and capital lease obligations .....	—	798,111	755,761	624,343 (4)	816,334
Preferred stock — redemption required .....	67,266 (5)	79,360	100,710	108,460	110,610
Common stock equity (deficit) ..	<u>(191,434)</u>	<u>371,690</u>	<u>404,309</u>	<u>533,898</u>	<u>573,619</u>

- (1) Includes \$221.1 million after-tax loss attributable to letters of credit draws and \$25.2 million after-tax write-off primarily for regulatory disallowance in Texas Docket 9945.
- (2) Includes \$24.4 million after-tax write-off for regulatory disallowance of plant costs and \$17.6 million charge for realized and unrealized investment losses.
- (3) Reflects the after-tax effect resulting from the discontinuance of the application of SFAS 71.
- (4) The reduction in 1988 from 1987 is a result of the Company's decision to discontinue and dispose of its non-utility operations.
- (5) Includes \$3.3 million of dividends in arrears.

The selected financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data," below.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Liquidity and Capital Resources

#### Overview

For several years, the Company's liquidity has been dependent upon its access to external financings. During 1991, several extensions and waivers were granted to the Company by its lenders in attempts to complete a financial restructuring. Negotiations on the Company's financial restructuring continued through

December 1991 when, on December 26 and 27, 1991, Equity Participants in the Company's Palo Verde Unit 2 sale and leaseback transactions chose to draw on their letters of credit. The draws on the letters of credit resulted in the Company having \$208 million of additional currently due indebtedness. Considering the new indebtedness created by the letter of credit draws and its inability to consummate the financial restructuring, the Company concluded that it had no other practical alternative than to seek protection under Chapter 11 of the Bankruptcy Code on January 8, 1992.

The Company filed the bankruptcy petition to deal with its obligations in an orderly manner and to preserve its options regarding its operating assets, including the portions of the Palo Verde Nuclear Generating Station that it leases, while it undertakes to restructure. The Company is now operating its business as a debtor in possession. See Part I, Item 1, "Business — Bankruptcy Proceedings for Reorganization of the Company."

The Company is in default on most of the financial covenants in various financing agreements. Such defaults are related to the additional debt associated with the draws on the letters of credit and the elimination of the regulatory assets due to the discontinuance of application of SFAS No. 71. These defaults entitle the creditors to accelerate the outstanding principal amounts of debt. The Company's petition for protection under Chapter 11 is considered an event of default under substantially all of the agreements evidencing the Company's long-term and short-term indebtedness. The Company is also in default with respect to certain agreements because of the cessation of interest and principal payments. Because of cross default provisions in substantially all of these agreements, the Company is expected to remain in default on these agreements until a reorganization is completed pursuant to the bankruptcy proceedings. The terms and provisions of the Company's financing arrangements, including the maturity dates, are subject to modification pursuant to a plan of reorganization confirmed in the Company's bankruptcy proceedings.

In late December 1991, the Company ceased paying principal, interest and fees on portions of its secured and unsecured debt. The Company also failed to make lease payments of approximately \$19.3 million on Palo Verde Units 2 and 3 due January 2, 1992. Subsequent to the filing of the Company's Chapter 11 petition, the Bankruptcy Court entered orders allowing the Company: (i) to honor checks which had been issued, but were unpaid, as of the date the Company filed its bankruptcy petition; (ii) to pay its trade vendors whose prepetition claims were less than, equal to, or reduced to, \$10,000; (iii) to pay certain customer refunds and deposits in the ordinary course of business; (iv) to pay prepetition taxes owed to various governmental entities in its service area through the first quarter of 1992; and (v) to settle the allocation of prepetition and postpetition amounts due under its Palo Verde participation agreement. The Company has been paying when due obligations which have arisen subsequent to its bankruptcy filing; however, the Company has not been paying obligations accruing under its (i) existing financing arrangements; and (ii) Palo Verde leases pending a determination as to the postpetition amounts accruing and owing with respect to such leases. The Bankruptcy Court has left open the possibility that a party-in-interest may seek an order to compel the Company to make Palo Verde lease payments at any time. The Company anticipates that, due to the deferral of payments, it will have adequate cash flow during the pendency of the bankruptcy proceedings to pay ongoing expenses and obligations.

To the extent that the funds of the Company are insufficient to meet its ongoing expenses and obligations, the Company may seek to obtain additional financing. Any financing by the Company during the bankruptcy proceedings and the granting of any lien on Company assets to secure such financing requires the approval of the Bankruptcy Court and possibly other regulatory bodies. Any such financing and/or lien could be opposed by the Company's creditors or any other party-in-interest.

#### **Obligations in Default**

The Company currently has a total of approximately \$849.9 million of secured debt and approximately \$439.1 million of unsecured debt outstanding. All of the Company's debt is currently in default.

The Company has approximately \$299.2 million of First Mortgage Bonds outstanding. The Company did not make a \$10.4 million final maturity principal payment due February 1, 1992 on one series of First Mortgage Bonds, along with approximately \$240,000 of related interest. Additionally, approximately \$1.7 million of interest due on April 1, 1992 was not made. During 1992 approximately \$6.9 million in cash sinking

fund payments will be due under the Indenture to the First Mortgage Bonds although there is no assurance that the Company will make any of these payments when due. Assuming no principal repayments on any First Mortgage Bonds are made, approximately \$30 million of interest accrues annually on the First Mortgage Bonds outstanding.

The Company has \$165 million of Second Mortgage Bonds outstanding. Approximately \$20.3 million of interest accrues annually on the Second Mortgage Bonds outstanding. The Company has approximately \$159.8 million tax exempt Pollution Control Bonds, which are secured by Second Mortgage Bonds. On January 2, 1992, the Company did not make an interest payment of approximately \$2.1 million on one of the Pollution Control Bond issues. Two of the Pollution Control Bond issues aggregating approximately \$96.3 million of principal, may be subject to mandatory redemption on their annual remarketing dates, June 1, 1992 and June 25, 1992, respectively, absent further efforts by the Company and others. Pursuant to the bond documents, such redemptions might be funded by draws on letters of credit securing such bonds, and the letter of credit issuing banks would assert a liquidated claim against the Company in at least the amounts so drawn. Such reimbursement obligations would accrue at prime rates of interest pursuant to letter of credit reimbursement agreements, although there is an issue as to whether such interest would constitute an allowable claim in the bankruptcy case. The Company is currently in discussions with the letter of credit banks to amend the bond documents, subject to the approval of the issuer and the Bankruptcy Court, to permit the remarketing of such bonds notwithstanding the bankruptcy proceedings and to preserve the tax exempt financings in connection with the Company's plan of reorganization. Assuming current interest rates on the pollution control issues, which are remarketed with new interest rates established on an annual basis, approximately \$9.8 million of interest accrues annually on the Second Mortgage Bonds outstanding. However, because of the Company's bankruptcy proceedings, there is no assurance that the Pollution Control Bonds can be remarketed at current interest rates.

The Company currently has a total of \$150 million of debt outstanding under its RCF. The RCF, which involves a syndicate of money center banks, provided for substantially all of the Company's short-term borrowing during the last three years. The RCF became due and payable on January 9, 1992. The RCF is secured by \$50 million of First Mortgage Bonds and \$100 million of Second Mortgage Bonds. Interest on the RCF is calculated at the administrating bank's currently quoted prime rate plus 1%. Approximately \$2.6 million of interest had accrued and was unpaid on the RCF's expiration date and approximately \$11.3 million of interest will accrue on the RCF in 1992 assuming no change in the current prime rate.

The remaining secured debt of the Company consists of a nuclear fuel financing of approximately \$60.5 million, a note payable to banks of approximately \$9.8 million and a fuel oil financing of approximately \$5.6 million.

The Company's unsecured debt consists of notes payable to banks of approximately \$288.4 million associated with the Palo Verde letter of credit draws, a Pollution Control Bond issue of approximately \$35.8 million, a term loan note of \$25 million, a financing obligation of approximately \$79.2 million associated with the Palo Verde Unit 2 lease and a lease obligation of approximately \$10.7 million.

Under the terms of the Company's sale and leaseback transactions for Palo Verde Units 2 and 3, the Company was required to support certain of its lease obligations with letters of credit. The letters of credit supporting the sales and leasebacks by the Company of its interest in Palo Verde Unit 2 were to expire on December 31, 1991. All such letters of credit were required to be renewed or replaced prior to their expiration in order to avoid default under the related leases.

On December 26 and 27, 1991, the Equity Participants holding the letters of credit related to the Unit 2 sale and leaseback transactions drew and were paid the full \$208 million available thereunder, asserting that the Company failed to provide required replacement letters of credit. As a consequence, the Company incurred a direct obligation to the letter of credit banks for at least the amount of the draws. On January 9, 1992, Equity Participants holding the letters of credit issued in connection with the Palo Verde Unit 3 sale and leaseback drew and were paid the full \$80.4 million available thereunder, which also created a direct obligation by the Company to the issuing banks.

As discussed above, the Company failed to make lease payments of approximately \$19.3 million on Palo Verde Units 2 and 3 due January 2, 1992. The Bankruptcy Court has extended the period during which the Company can decide whether to assume or reject the Palo Verde leases, as well as the Company's real estate leases generally, to September 8, 1992. Since the Bankruptcy Court did not require the Company to make the lease payments during this period, the April 2, 1992 payment of approximately \$24.6 million on the Unit 2 leases was not made.

Important to the formulation of a plan of reorganization in the bankruptcy proceedings is a thorough analysis of the Company's interest in Palo Verde, both directly and through the sale and leaseback transactions, and a determination of the appropriate treatment thereof, including whether to assume or reject the Palo Verde leases.

#### **Preferred Stock Dividends and Sinking Fund Payments**

Dividends of approximately \$1.9 million on the Company's outstanding cumulative preferred stock are due each January 1, April 1, July 1 and October 1. Mandatory sinking fund redemption payments are also due on certain series of the Company's preferred stock on these quarterly dates. On September 19, 1991, the Board of Directors voted to suspend payment of dividends and sinking fund payments on the Company's preferred stock, commencing with dividend and sinking fund payments due October 1, 1991.

Accordingly, the Company has defaulted on its obligation to pay the October 1, 1991, January 1, 1992 and April 1, 1992 preferred stock dividends. The Company also defaulted on its obligation to make approximately \$1.35 million of mandatory sinking fund redemption payments due on October 1, 1991. The Company's aggregate mandatory sinking fund redemption payments due during 1992 is approximately \$16.75 million, none of which has been or is anticipated to be paid.

The Company cannot predict when the preferred stock dividends and sinking fund payments will be resumed, but such payments are precluded by the Bankruptcy Code during the Company's Chapter 11 bankruptcy proceedings. Resumption of these payments also will depend on the plan of reorganization ultimately adopted in the Company's bankruptcy proceedings, which could substantially alter or eliminate the rights of the preferred and common stockholders. See Part I, Item 1, "Business — Bankruptcy Proceedings for Reorganization of the Company" and Part II, Item 5, "Market for Registrant's Common Equity and Related Stockholder Matters."

#### **Results of Operations**

The information contained in this section should be read in conjunction with "Liquidity and Capital Resources" discussed above.

The Company recorded a net loss applicable to common stock in the amount of \$564.3 million or \$15.89 per share in 1991. This compares to a net loss of \$33.7 million (\$0.96 per share) and \$117.6 million (\$3.35 per share) in 1990 and 1989, respectively. The principal factors that give rise to the loss in 1991 are: (i) write-off of \$311 million of regulatory assets as an extraordinary item; (ii) expensing \$288.4 million resulting from the Palo Verde sale and leaseback letters of credit draws; and (iii) incurring regulatory disallowances in the amount of \$31 million, principally the result of Docket 9945.

Until May 7, 1992 (and thereafter to the extent the Bankruptcy Court extends such date), the Company has the exclusive right to propose a plan of reorganization in the bankruptcy proceedings. The Company has filed a motion to extend the exclusive period to file its plan to September 8, 1992 and solicit acceptances thereof to November 9, 1992, but, as of the date hereof, the Bankruptcy Court has not ruled on the Company's request. The Company has begun the process of formulating its plan of reorganization, but it is at a preliminary stage of development at this time due to the complexity of the Company's bankruptcy proceedings. The plan could embody substantial restructuring of the Company's equity and obligations (including its lease obligations on Palo Verde Units 2 and 3 which require annual lease payments of approximately \$92 million), could include or be preceded by a merger or other combination involving all or a portion of the Company or its assets and may involve modifications to the Company's rates. It is not possible



at this time to predict the nature of any such plan, the amount of recovery achieved by the Company's creditors and shareholders, the likelihood of the plan's acceptance by the Company's creditors and shareholders or its approval by the Bankruptcy Court and other regulatory bodies with jurisdiction over the Company, or the length of time it will take to implement such a plan. A primary objective of the Company in formulating its reorganization plan is to allow the Company to emerge from bankruptcy with a capital structure and costs that are in balance with its future revenues and that will result in the highest value for investors and creditors consistent with the interests of its customers.

The Texas Commission issued its final order in Docket 9945 on November 12, 1991, approving a total increase in Texas base revenues of approximately \$47 million, with \$37 million in cash and \$10 million in phase-in deferrals. In addition, on a motion for rehearing, the Texas Commission approved a regulatory non-cash revenue adjustment of approximately \$5 million annually. However, because management believes the Company no longer meets the criteria of SFAS No. 71 (see Part II, Item 8, "Financial Statements and Supplementary Data — Note C of Notes to Financial Statements"), the Company has not accrued any additional rate moderation plan deferrals or amounts subject to the non-cash revenue adjustment pursuant to Docket 9945.

Docket 9945 also provided for additional cash base rate increases, if necessary, to fully recover amounts deferred under the Palo Verde Unit 1 and 2 rate moderation plan. Such potential future increases were limited by the Texas Commission's order to 3.5%. Additionally, the final order in Docket 9945 indicated that, although Palo Verde Unit 3 currently represented excess capacity, it would become used and useful over five years in the following amounts: 0% the first year, 40% the second year, 65% the third year, 85% the fourth year and 100% by the fifth year. The Company believes that this order entitles the Company to seek recovery of capital costs related to the portions of Unit 3 deemed by the Docket 9945 order to have become used and useful to Texas jurisdictional customers. However, because of the preliminary stage of formulating a plan of reorganization, the Company is unable currently to predict when, or in what amounts, if any, changes in the Company's Texas rates will occur.

As discussed in Part I, Item 1, "Business — Regulation — New Mexico Rate Matters," the Company made a compliance filing on March 20, 1992 with the New Mexico Commission required under the New Mexico rate moderation plan. The purpose of the filing is to provide the parties to the New Mexico rate moderation plan with sufficient information to determine the Company's current New Mexico cost of service. Due to the preliminary stage of formulating a plan of reorganization, the Company is unable currently to predict when or in what amounts, if any, changes in the Company's New Mexico rates will occur.

The New Mexico portion of the Company's investment in Unit 3 and one-third of Common Facilities, including the Unit 3 lease payments, is deregulated under the New Mexico rate moderation plan. The Company, therefore, is required to recover the investment through off-system sales in the economy energy market. Although the Company believes that over the useful life of Unit 3 the investment will be recovered, market prices for economy energy sales have not been in recent years and are not presently at levels needed by the Company to recover the New Mexico portion of the Company's current operating expenses related to Unit 3, including lease payments. Such market conditions will continue to affect the Company's results of operations. See Part I, Item 1, "Business — Regulation — New Mexico Rate Matters."

The Company's major franchises are with the Cities of El Paso, Texas, and Las Cruces, New Mexico. Such franchises expire in March 2001 and March 1993, respectively, and do not contain renewal provisions. The Company believes, but has no assurance, that both franchises will be renewed. In July 1989, the City of Las Cruces joined with the City of Albuquerque, New Mexico, which is served by PNM in a task force to study possible alternatives to a renewal of the city's electrical franchises. In February 1990 the task force engaged outside consultants to assist in the review. On February 11, 1991, the consultants issued a feasibility report dealing with certain alternatives, including municipalization and acquisition of the Company's distribution system through a negotiated sale or condemnation as well as the feasibility of constructing a competing distribution system. On February 10, 1992 the consultants issued a follow-up report. The first report concluded that the City of Las Cruces could achieve savings under the sale and condemnation option

but not under the competing system option. The follow-up report concluded that the City would achieve savings under all three options.

In response to the first report, the Company also commissioned an independent study for the purpose of providing the task force and the Las Cruces City Council a second, independent opinion of energy alternatives available to the City. This study determined that lower electric rates would not result from the establishment of a municipal utility by the City of Las Cruces. The reports are under review by both the City of Las Cruces and the Company. The City has passed an ordinance creating a paper electric utility, which currently is not operating and which has no assets.

On March 24, 1992, the new mayor of the City of Las Cruces announced the appointment of a five member *ad hoc* committee to study energy options available to the City of Las Cruces. The committee reports directly to the mayor and is composed of business, education and community leaders.

The Company believes that the franchise with the City of Las Cruces will be renewed, perhaps on renegotiated terms. However, the outcome of the City's review of its alternatives and the ultimate impact of the review on renewal of the franchise cannot be determined at this time. The City of Las Cruces represents approximately 8% of the Company's operating revenues.

On April 3, 1991, the Company and CFE, the national electric utility of Mexico, entered into an agreement providing for firm power sales of electricity by the Company to CFE for consumption by the City of Juarez, Mexico. The agreement provides for firm sales of capacity and associated energy to CFE over a 5½ year term, commencing May 1, 1991 and expiring December 31, 1996. During 1991 the Company recorded revenues pursuant to the contract in the amount of \$7.4 million. The obligations of CFE under the agreement are subject to continued budgetary authorization by the Ministry of Programming and Budgeting of Mexico for each calendar year. The amount of capacity initially was 40 MW, currently is 80 MW and will increase to 120-150 MW during 1992, and continue at that level over the remaining term of the agreement. The increase to 120-150 MW capacity is dependent upon the completion of construction and upgrading of certain transmission facilities by each party, which are expected to be completed by May 1, 1992. Pricing for the power sales includes an escalating demand charge and full recovery of energy costs and is based on the current market conditions in the southwestern United States. The Company will require certain regulatory approvals for its construction and upgrading requirements, including a Presidential permit from the DOE, which approvals the Company expects to be able to obtain. The costs to the Company of construction and upgrading are not expected to exceed \$1 million. The Company expects to secure a purchase power agreement, providing for a minimum of 50 MW of capacity to meet the requirements of the agreement with CFE, beginning with the increase in sales to 120-150 MW, which is expected to be as early as 1992. In the Docket 9945 filing, the Company requested that it be allowed to retain the full economic benefit of the sales to CFE to offset the shortfall arising from deferral of cash rate relief. The Texas Commission granted that request for the first year of the inventory plan related to Unit 3; however, the treatment of revenues from sales to CFE in future years was not addressed.

The Company believes that the Mexico market has the potential for continued growth. Because of the potential, the Company continues to follow the energy opportunities in Mexico. Subject to the Company's available financial resources and approval by the Bankruptcy Court, if required, the Company intends to be an active competitor in any future energy opportunities in the Mexico market.

One of the Company's major retail customers is a steel rolling mill and fabricator which represented approximately 1.3% of the Company's total revenues in each of the years ended 1991, 1990 and 1989. The Customer has notified the Company that it is experiencing financial difficulties. The Company is continuing to work with the customer, but is unable to assess whether there will be any impact upon the level of sales to this customer.

The Company's contracts to provide firm electric power to Holloman Air Force Base and White Sands Missile Range are scheduled to expire in early 1994. Pursuant to such contracts the Company recorded aggregate revenues in 1991 of approximately \$10.3 million. The Company expects to approach the military installations in order to begin negotiation of the agreements in the near future. One of the military installations

has indicated that it intends to request bids for renewal of the all source requirement currently being provided by means of the existing contracts with the Company. The Company does not believe that such bidding is authorized under existing federal statutory procurement law applicable to the acquisition of utility services by federal government installations. Though the Company expects to renew the agreements in view of the existing law, there can be no assurance that renewal of the agreements will occur. In addition, should the Company be convicted under the pending criminal indictment the Company could be debarred from providing electric service to the military installations if an alternative source of electric supply is available. See Part I, Item 3, "Legal Proceedings — Grand Jury Indictment."

The primary reasons for increases (decreases) in results of operations for the year ended December 31, 1991 compared to the year ended December 31, 1990 and the year ended December 31, 1990 compared to the year ended December 31, 1989 are discussed below.

### Operating Revenues

Approximately 63% of the Company's total revenues for the year ended December 31, 1991 were generated from sales of electricity to Texas customers, principally in the City of El Paso, at rates approved by the Texas Commission. Sales of electricity to New Mexico customers, principally in the City of Las Cruces and to certain military installations, represent 17% of the Company's total revenues for such period. The balance of the Company's revenues are generated through: (i) negotiated long-term contracts which are approved by the FERC (15% of the Company's revenues for such period); (ii) sales to CFE pursuant to a long-term contract and economy energy sales which are based upon current market prices. Sales to (i) residential customers; (ii) small commercial and industrial customers; (iii) large commercial and industrial customers; and (iv) public authorities accounted for approximately 35%, 34%, 13% and 18%, respectively, of the Company's operating revenue from retail sales.

The effect of seasonal sales by quarter are insignificant to the Company's annual operating revenues due to the climate in the Company's service area. In 1991, IID, a wholesale customer, accounted for 8.9% of operating revenues. No retail customer accounted for more than 3% of operating revenues. See "Financial Statements and Supplementary Data — Note M of Notes to Financial Statements."

Total system firm energy sales increased from 5,984,095 MWH in 1990 to 6,392,946 MWH for 1991. Native system firm sales increased 133,800 MWH over the same time period. The number of customers from December 31, 1990 to December 31, 1991 increased by approximately 2.3%. The Company achieved record peak demands in 1991, recording an all-time total system peak load of 1,142 MW on June 26, 1991, which was a 4% increase over 1990's record peak of 1,098 MW primarily related to an additional 36 MW to CFE. The Company's 1991 native system peak demand of 929 MW, which was also a new record, was a 1% increase from the previous record of 920 MW set in 1990. The projected annual native and total system peak load growth rate for the Company's service area during 1992-2001 time period is approximately 2.2% and approximately .4%, respectively.

Base revenues increased approximately \$32.8 million for 1991 over 1990, due to an increase in base rates in New Mexico and Texas effective May 1990 and from bonded rates in June 1990, respectively, and from bonded rates for Texas, effective August 1991 and September 1991. Increased KWH sales and the commencement of sales on May 1, 1991 to the Comision Federal de Electricidad (CFE) also contributed to the increased base revenues in 1991. Base revenues increased for 1990 over 1989 approximately \$10.2 million, due primarily to an increase in KWH sales (volume) and an increase in base revenues resulting from rate increases for Texas, effective May 1989 and from bonded rates effective June 1990, and for New Mexico, effective in May 1990. Base revenues from wholesale customers were \$54.1 million in 1991, including CFE; \$49.9 million in 1990; and \$52.3 million in 1989.

The reduction in fuel revenues is a result of the change in fuel and purchased and interchanged power costs, as discussed below under "Fuel and Purchased and Interchanged Power Expenses."

Economy sales remained approximately the same for 1991 from 1990 and increased approximately \$5.6 million for 1990 over 1989.

### **Fuel and Purchased and Interchanged Power Expenses**

Fuel and purchased power expenses decreased in 1991 compared to 1990 approximately \$21.7 million due to a decrease in the amount of Palo Verde power accounted for as purchased power, decreases in the cost and volume of gas consumed and decreased purchases of electricity from others. These decreases are partially offset by an increase in the average volume of nuclear fuel consumed.

Fuel expenses increased in 1990 compared to 1989 approximately \$4 million, due to increased KWH sales. Purchased and interchanged power decreased in 1990 compared to 1989 approximately \$3.7 million due to decreased purchases of electricity from others, partially offset by an increase in the amount of Palo Verde power accounted for as purchased power related to the Texas portion of Palo Verde Unit 3.

### **Operations and Maintenance Expense**

Operating and maintenance expense increased in 1991 primarily due to increased non Palo Verde costs and expensing the operating costs associated with the Texas jurisdictional portion of Palo Verde Unit 3 beginning in May 1990 as a result of Unit 3 being placed in service in the Texas jurisdiction.

Operating and maintenance expense increased in 1990 over 1989 primarily due to increased costs at Palo Verde during the first half of 1990.

### **Depreciation and Amortization Expense**

Depreciation expense increased in 1991 over 1990 due to depreciation taken on the AIP transmission line which was placed in service in April 1990 and increased levels of decommissioning costs during 1991. Depreciation expense increased in 1990 over 1989 due to depreciation taken on the AIP transmission line.

Amortization expense decreased in 1991 from 1990 as a result of fully amortizing the New Mexico portion of Palo Verde deferred costs as of October 1990, partially offset by the amortization of Docket 8018 rate case expenses which began in October 1991. Amortization expense remained constant in 1990 from 1989.

### **Palo Verde Deferred Costs and Carrying Charges**

Palo Verde deferred costs and carrying charges decreased in 1991 over 1990 as a result of discontinuing to defer, for financial reporting purposes, effective July 1991, the Texas portion of Unit 3 operating and carrying costs because of the uncertainty of the ultimate recovery of such deferred costs due to a recent Court of Appeals decision. Palo Verde deferred costs and carrying charges increased in 1990 over 1989 as a result of deferring the Texas portion of Palo Verde Unit 3 operating and carrying costs beginning May 1990 in accordance with the Texas Commission's deferred accounting order for Unit 3.

### **Phase-In Plan Deferrals and Deferred Return**

Phase-in plan deferrals and deferred return (RMP deferrals) decreased in 1991 over 1990 due to discontinuing recording, for financial reporting purposes, additional RMP deferrals beginning July 1, 1991, pending the outcome of the Motion for Rehearing on the Final Order to Docket No. 9945 requesting the Texas Commission to reverse its position with respect to the Unit 1 and 2 rate moderation plan to comply with SFAS No. 92. Although the Texas Commission amended the Final Order to ensure compliance with SFAS No. 92, the Company, effective December 31, 1991 concluded that its Texas operations no longer meet the criteria for accounting pursuant to SFAS No. 71, as amended, and accordingly has eliminated all regulatory assets, including Unit 1 and 2 phase-in plan deferrals from its balance sheet. See "Extraordinary Item" herein. Phase-in deferrals decreased in 1991 from 1990 due to a decrease in phase-in deferrals allowed in Docket 8363 of \$7.4 million to \$4.1 million in Docket 9165, and a discontinuance of recording phase-in deferrals for Texas beginning July 1, 1991. Phase-in deferrals decreased in 1990 from 1989 due to a decrease in phase-in deferrals allowed in Docket 7460 of \$24.7 million to \$7.4 million in Docket 8363, discontinuing the recording of phase-in deferrals for the New Mexico jurisdiction, and a change in the methodology of calculating the return on the overall balance of phase-in deferrals. This decrease is offset by an overall increase in the balance of phase-in deferrals accruing a return.

## **Federal Income Taxes (Benefit)**

Federal income taxes (benefit) generally differ from the amount computed by applying the statutory rate of 34% to net operating loss for financial reporting purposes due to the recognition of permanent differences (primarily the equity component of AFUDC and its depreciation) and adjustments to tax expense such as the amortization of deferred investment tax credits and the amortization of excess deferred taxes.

In 1991, the Company could not recognize the full tax benefits of the book taxable loss incurred. This book taxable loss is being carried forward to offset book taxable income in future years. In accordance with APB 11, tax benefits of a book loss carryforward can be recognized only to the extent there are deferred tax credits amortizing in the loss carryforward period of fifteen years. Under this limitation, the Company was unable to recognize tax benefits on \$108.8 million of the 1991 book loss carryforward. This resulted in the recognition of total tax benefits that are \$37 million lower than would have been expected. Additionally, the Company was unable to recognize \$44.8 million of tax benefits related to the extraordinary loss.

## **Taxes Other Than Federal Income Taxes**

Taxes other than federal income taxes increased by \$4.7 million in 1991 as compared to 1990 primarily due to an increase in property taxes. Arizona property taxes increased by \$2.2 million in 1991 as a result of legislation effective December 31, 1989. This year's increase represented the second of three phased-in increases in the property tax rates in Arizona. Additionally, the Company discontinued capitalizing Arizona property tax in 1991 on Palo Verde Unit 3 which resulted in an increase in expenses over 1990 of \$.9 million. Texas and New Mexico property taxes increased by a total of \$.7 million in 1991 as compared to 1990 pursuant to an increase in property tax rates in Texas and additional property placed in service in New Mexico. See Part I, Item 1, "Business — Arizona Tax Matters — Arizona Property Tax." The Company received recovery of the new level of taxes to be recovered in 1991 and 1992, in Docket 9945. (See Part I, Item 1, "Business — Regulation — Texas Rate Matters.")

## **Allowance for Equity and Borrowed Funds Used During Construction**

AEFUDC decreased in 1991 from 1990 due to the balance of short-term debt exceeding CWIP resulting in no accrual of AEFUDC. ABFUDC decreased in 1991 from 1990 due to a decrease in the cumulative balance subject to ABFUDC as a result of placing in service in April 1990 the AIP transmission line and the Texas jurisdictional portion of Palo Verde Unit 3. AEFUDC and ABFUDC decreased in 1990 from 1989 due to an overall decrease in the cumulative balance subject to AFUDC as previously discussed.

## **Regulatory Disallowance**

Regulatory disallowance for 1991 is comprised of disallowances in Texas Docket No. 9945 in the amount of \$24.1 million related to Palo Verde Unit 3 capitalized costs and \$6.5 million related primarily to outage costs related to Palo Verde Units 1 and 2 recorded in the third quarter of 1991.

Regulatory disallowance for 1990 represents write-offs in connection with the Texas fuel reconciliation case, which represents: fuel cost adjustments through March 1989, related adjustments through July 1990, interest on the refund and unamortized costs related to a nuclear fuel joint venture; Texas Docket 9165 write-offs of corporate restructuring costs, rate case expenses, and deferred tax benefits; and, previously recorded New Mexico phase-in deferrals as of June 30, 1990 due to the inability of the Company to amend its New Mexico rate moderation plan to be in conformity with SFAS No. 92.

## **Restructuring Costs**

For a discussion of restructuring costs, see "Financial Statements and Supplementary Data — Note A of Notes to Financial Statements."

## **Investment Income**

Investment income increased in 1991 compared to 1990 due to interest of approximately \$2.4 million received on an income tax refund in January 1991 and interest of approximately \$1 million related to a note receivable, partially offset by a decrease in the average investment return. Investment income increased in 1990 compared to 1989 due to the effect of recording an unrealized loss on the Company's investment in annuities recorded in 1989 with no comparable amount in 1990 partially offset by decreased average investment balances and decreased average investment return.

## **Loss Attributable to Letter of Credit Draws**

For a discussion of Palo Verde sale and leaseback letter of credit draws, see "Financial Statements and Supplementary Data — Note B of Notes to Financial Statements."

## **Other Income, Net**

Other income, net, increased in 1991 compared to 1990 as a result of income received in March 1991 on a note receivable partially offset by an adjustment recorded in 1990 with no comparable adjustment in 1991 which decreased the provision for an expected performance penalty incurred by the Company under the Palo Verde performance standards in its New Mexico jurisdiction.

Other income, net, increased in 1990 compared to 1989 as a result of an adjustment recorded in 1990 with no comparable amount in 1989 which decreased the provision for an expected performance penalty incurred by the Company under the Palo Verde performance standards in its New Mexico jurisdiction.

## **Interest on Long-Term and Financing and Capital Lease Obligations**

Interest on long-term and financing and capital lease obligations increased in 1991 over 1990 due principally to the issuance of the 12.63% and 11.58% Series Second Mortgage Bonds in December 1990 and the 12.02% Series Second Mortgage Bonds in June 1991, partially offset by the redemption of two floating rate notes in November 1990 and February 1991, respectively, as well as a decrease in the financing obligation related to nuclear fuel. Interest on long-term and financing and capital lease obligations increased in 1990 over 1989 due principally to the issuance in January 1990 of the 11.1% Series First Mortgage Bonds. The increase was partially offset by a decrease in interest expense due to the redemption in November 1989 of the 14% Series First Mortgage Bonds, the redemption in August 1989 of the 14½% Series First Mortgage Bonds and the redemption in May 1989 of the 12¾% Series First Mortgage Bonds.

The Company's interest expenses may, in certain instances and circumstances, be subject to modification or disallowance, in whole or in part, in connection with the bankruptcy proceedings, depending, in part, on whether such interest obligations are fully secured. Further, the Company has not reflected its accruing interest obligations herein at a default rate, although it is possible that Bankruptcy Court may allow a claim for interest at the default rate.

## **Other Interest Expense**

Other interest expense increased in 1991 over 1990 due to increased borrowings under the revolving credit facility and increased interest charges on the unpaid balance of the Docket No. 8588 fuel refund partially offset by a decrease in the short-term debt rate. Other interest expense decreased in 1990 over 1989 due to a decrease in the average short-term debt rate and was partially offset by an increase in the average short-term debt outstanding.

## **Interest Capitalized and Deferred**

Interest capitalized decreased in 1991 over 1990 primarily due to a decrease in the average nuclear fuel balance. Interest capitalized increased in 1990 over 1989 due to interest capitalized on the Texas portion of Unit 3, and its related deferred operation and maintenance expenses beginning in May 1990 which was discontinued as of June 30, 1991.

### **Extraordinary Item**

See "Financial Statements and Supplementary Data — Note C of Notes to Financial Statements" for a discussion of the discontinuance of application of SFAS No. 71.

### **Preferred Stock Dividend Requirements**

Preferred stock dividend requirements decreased in 1991 compared to 1990 due to scheduled redemptions and settlement of a claim by the \$11.375 preferred stockholders of \$1.5 million paid in June 1990 pursuant to a tax indemnity agreement. The claim arose from the reduction in the dividends received deduction due to the enactment of the Tax Reform Act of 1986 and the Revenue Act of 1987.

Preferred stock dividend requirements increased in 1990 compared to 1989 due to the above claim settlement, which was partially offset by scheduled redemptions.

### **Effects of Inflation**

In contrast to the analysis of increases in base revenues included at the beginning of "Results of Operations," it is sometimes difficult, in the case of operation and maintenance expenses, to distinguish between effects of volume increases and rises in unit costs (which, for purposes of this discussion, are all attributed to inflationary pressures).

Price changes in fuel costs are passed through to certain FERC customers pursuant to fuel cost adjustment provisions. Fuel price changes in the Company's Texas and New Mexico jurisdictions and two FERC customers require fuel reconciliation hearings for the over or under recovery of fuel costs. There are a number of other major expense items such as maintenance costs, payroll costs and other operating costs that are beyond the scope of the fuel reconciliation hearings and the fuel cost adjustment provisions. Inflationary pressures on these items have given rise to earnings attrition between general rate increases. See Part I, Item 1, "Business — Regulation."

### **Environmental Matters**

For a discussion of environmental matters, see Part I, Item 1, "Business — Environmental Matters."

### **Effect of Recently Issued Accounting Standards**

See "Financial Statements and Supplementary Data — Note D of Notes to Financial Statements" regarding the effect of SFAS No. 109, Accounting for Income Taxes and SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.

**Item 8. Financial Statements and Supplementary Data**

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## INDEPENDENT AUDITORS' REPORT

The Shareholders and Board of Directors  
El Paso Electric Company:

We have audited the accompanying balance sheets of El Paso Electric Company (a debtor-in-possession as of January 8, 1992) as of December 31, 1991 and 1990, and the related statements of operations, retained earnings (deficit), and cash flows for each of the years in the three-year period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of El Paso Electric Company as of December 31, 1991 and 1990, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1991 in conformity with generally accepted accounting principles.

As discussed in Note K of Notes to Financial Statements, El Paso Electric Company is a defendant in various litigation and, pursuant to indemnity provisions, is contingently liable with respect to certain related as well as non-related litigation. The ultimate outcome of these matters cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication of these matters has been made in the accompanying financial statements.

The accompanying financial statements have been prepared assuming that El Paso Electric Company will continue as a going concern which contemplates, among other things, the realization of assets and liquidation of liabilities in the ordinary course of business. As discussed in Note A of Notes to Financial Statements, El Paso Electric Company filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code on January 8, 1992. The Chapter 11 case is administered by the U.S. Bankruptcy Court for the Western District of Texas. The Company is operating its business as debtor-in-possession which requires certain of its actions to be approved by the Bankruptcy Court. Continuation of the Company as a going concern and realization of its assets and liquidation of its liabilities are dependent upon, among other things, the confirmation of a plan of reorganization (which may, among other things, result in significant adjustments and reclassifications in the amounts reflected as assets, liabilities and stockholders' equity (deficit) in the accompanying financial statements) and the Company's ability to generate sufficient cash from operations, including its operations which are subject to regulation of the rates it is allowed to charge (See Note C), and obtain financing sources to meet its obligations. The uncertainty of the outcome of these matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might result from any plans or other actions arising from this uncertainty and the reorganization proceedings.

KPMG PEAT MARWICK

El Paso, Texas  
April 13, 1992

**EL PASO ELECTRIC COMPANY**  
**(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)**  
**BALANCE SHEETS**

**ASSETS**

	December 31,	
	1991	1990
	(In thousands)	
<b>Utility plant (Notes C, D and E):</b>		
Electric plant in service .....	\$1,581,399	\$1,555,505
Less accumulated depreciation and amortization .....	<u>302,160</u>	<u>266,384</u>
Net plant in service .....	1,279,239	1,289,121
Construction work in progress .....	52,225	56,601
Nuclear fuel; includes fuel in process of \$11,288,000 and \$11,834,000, respectively .....	117,826	135,200
Less accumulated amortization .....	<u>63,020</u>	<u>65,742</u>
Net utility plant .....	<u>1,386,270</u>	<u>1,415,180</u>
<b>Current assets:</b>		
Cash and temporary investments .....	5,991	12,122
Accounts receivable, principally trade, net .....	50,440	44,343
Inventories .....	42,668	35,167
Federal income taxes refundable (Note I) .....	3,268	10,860
Net undercollection of fuel revenues (Note C) .....	—	9,733
Prepayments and other .....	<u>17,257</u>	<u>22,912</u>
Total current assets .....	<u>119,624</u>	<u>135,137</u>
Long-term contract receivable (Note C) .....	<u>27,199</u>	<u>22,290</u>
<b>Deferred charges and other assets:</b>		
Regulatory assets:		
Palo Verde deferred costs (Note C) .....	—	128,455
Taxes paid on Palo Verde sales and leasebacks .....	—	80,203
Other .....	—	85,320
Other .....	<u>36,456</u>	<u>35,343</u>
Total deferred charges and other assets .....	<u>36,456</u>	<u>329,321</u>
 <b>Total assets .....</b>	 <u><u>\$1,569,549</u></u>	 <u><u>\$1,901,928</u></u>

See accompanying notes to financial statements.

**EL PASO ELECTRIC COMPANY**  
**(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)**

**BALANCE SHEETS**

**CAPITALIZATION AND LIABILITIES**

	December 31,	
	1991	1990
	(In thousands)	
<b>Capitalization (Notes A, F, G and H):</b>		
Common stock, no par value, 100,000,000 shares authorized. Issued and outstanding 35,525,461 and 35,352,211 shares, respectively .....	\$ 339,047	\$ 338,302
Retained earnings (deficit) .....	(530,481)	33,388
Common stock equity (deficit) .....	(191,434)	371,690
Preferred stock, cumulative, no par value, 2,000,000 shares authorized:		
Redemption required .....	67,266	79,360
Redemption not required .....	14,198	14,198
Debt in default (Note H) .....	1,287,197	—
Long-term obligations .....	—	663,348
Nuclear fuel financing .....	—	45,724
Financing and capital lease obligations .....	—	89,039
Total capitalization .....	<u>1,177,227</u>	<u>1,263,359</u>
<b>Current liabilities:</b>		
Current maturities of long-term, financing and capital lease obligations (Note H) .....	—	115,590
Revolving credit facility (Note H) .....	—	5,000
Accounts payable, principally trade .....	15,858	14,701
Taxes accrued other than federal income taxes .....	28,462	22,720
Interest accrued .....	9,920	15,248
Refund of fuel revenues, including interest .....	—	10,580
Other .....	32,029	42,490
Total current liabilities .....	<u>86,269</u>	<u>226,329</u>
<b>Deferred credits and other liabilities:</b>		
Accumulated deferred income taxes (Note I) .....	47,785	148,888
Accumulated deferred investment tax credit (Note I) .....	77,374	81,220
Deferred gain on sales and leasebacks (Note B) .....	156,642	169,570
Other .....	24,252	12,562
Total deferred credits and other liabilities .....	<u>306,053</u>	<u>412,240</u>
<b>Commitments and contingencies (Notes A, B, C, J, K and L)</b>		
Total capitalization and liabilities .....	<u>\$1,569,549</u>	<u>\$1,901,928</u>

See accompanying notes to financial statements.

**EL PASO ELECTRIC COMPANY**  
**(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)**

**STATEMENTS OF OPERATIONS**

For the years ended December 31, 1991, 1990 and 1989  
(In thousands except per share data)

	1991	1990	1989
Operating revenues .....	\$ 462,405	\$445,309	\$ 433,470
Operating expenses:			
Operations:			
Fuel .....	82,418	84,598	80,607
Purchased and interchanged power .....	18,326	37,806	41,483
	100,744	122,404	122,090
Operations .....	203,233	189,614	161,452
Maintenance .....	31,467	32,023	28,375
Depreciation and amortization .....	57,926	47,428	43,234
Palo Verde deferred costs (Note C) .....	(18,296)	(25,125)	(5,859)
Phase-in plan deferrals (Note C) .....	(1,585)	(4,470)	(9,030)
Taxes:			
Federal income taxes (benefit) (Note I) .....	(10,844)	(5,533)	1,531
Other .....	49,038	44,169	35,126
	411,683	400,510	376,919
Operating income .....	50,722	44,799	56,551
Other income (deductions):			
Allowance for equity funds used during construction .....	68	4,853	12,578
Phase-in plan deferred return (Note C) .....	1,719	2,825	10,513
Regulatory disallowance (Note C) .....	(30,978)	(37,378)	(22,229)
Restructuring costs (Note A) .....	(10,773)	—	—
Investment income .....	5,529	2,534	1,093
Loss attributable to letter of credit draws (Note B) .....	(288,416)	—	—
Other, net .....	696	634	(8,034)
Federal income tax benefits applicable to other income (Note I) .....	73,835	9,611	1,997
	(248,320)	(16,921)	(4,082)
Income (loss) before interest charges .....	(197,598)	27,878	52,469
Interest charges (credits):			
Interest on long-term and financing and capital lease obligations .....	79,809	73,412	66,270
Other interest .....	13,067	10,582	11,010
Palo Verde deferred costs — carrying charges .....	(13,393)	(15,244)	—
Other interest capitalized and deferred .....	(6,393)	(9,688)	(9,448)
Allowance for borrowed funds used during construction .....	(3,776)	(9,320)	(17,319)
	69,314	49,742	50,513
Income (loss) from continuing operations before extraordinary item .....	(266,912)	(21,864)	1,956
Discontinued operations (Note O) .....	—	—	(107,789)
Extraordinary item, less applicable income tax benefits of \$22,365 (Notes C and I) .....	(289,102)	—	—
Net loss .....	(556,014)	(21,864)	(105,833)
Preferred stock dividend requirements (\$3,725 unpaid in 1991) .....	8,274	11,881	11,812
Net loss applicable to common stock .....	\$(564,288)	\$(33,745)	\$(117,645)
Net loss per weighted average shares of common stock:			
Loss from continuing operations before extraordinary item .....	\$ (7.75)	\$ (0.96)	\$ (0.28)
Discontinued operations .....	—	—	(3.07)
Extraordinary item .....	(8.14)	—	—
Total .....	\$ (15.89)	\$ (0.96)	\$ (3.35)

See accompanying notes to financial statements.

# EL PASO ELECTRIC COMPANY

(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)

## STATEMENTS OF RETAINED EARNINGS (DEFICIT)

For the years ended December 31, 1991, 1990 and 1989  
(In thousands except per share data)

	1991	1990	1989
Retained earnings at beginning of year .....	\$ 33,388	\$ 67,133	\$ 198,131
Add:			
Net loss .....	(556,014)	(21,864)	(105,833)
	<u>(522,626)</u>	<u>45,269</u>	<u>92,298</u>
Deduct:			
Cash dividends:			
Preferred stock .....	4,549	11,881	11,812
Common stock .....	—	—	13,353
Cumulative dividends in arrears:			
Redemption required (Note G) .....	3,306	—	—
	<u>7,855</u>	<u>11,881</u>	<u>25,165</u>
Retained earnings (deficit) at end of year .....	\$ (530,481)	\$ 33,388	\$ 67,133
Dividends declared per share of common stock .....	\$ —	\$ —	\$ 0.38
Weighted average number of common shares outstanding..	<u>35,515,060</u>	<u>35,315,542</u>	<u>35,165,514</u>

See accompanying notes to financial statements.

**EL PASO ELECTRIC COMPANY**  
**(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)**  
**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 1991, 1990 and 1989

	<u>1991</u>	<u>1990</u>	<u>1989</u>
	(In thousands)		
<b>Cash Flows From Operating Activities:</b>			
Income (loss) from continuing operations before extraordinary item .....	\$(266,912)	\$(21,864)	\$ 1,956
Adjustments for non-cash items from operating activities:			
Depreciation and amortization .....	78,068	81,167	55,078
Deferred income taxes and investment tax credit, net .....	(84,679)	(15,951)	16,341
Allowance for equity funds used during construction .....	(68)	(4,853)	(12,578)
Loss attributable to letter of credit draws .....	288,416	—	—
Regulatory disallowance .....	30,978	37,378	22,229
Other operating activities .....	3,719	87	(4,603)
Discontinued operations, net .....	—	—	(919)
Accounts receivable .....	(6,097)	(92)	945
Inventories .....	(7,501)	(4,293)	(1,745)
Other current assets .....	22,980	10,116	(31,453)
Long-term contract receivable .....	(4,909)	(5,808)	(7,340)
Net assets of discontinued operations .....	—	—	(5,860)
Accounts payable .....	1,157	(6,882)	7,720
Other current liabilities .....	(4,520)	2,734	(265)
Deferred charges .....	(45,512)	(49,599)	(20,648)
Net cash provided by (used for) operating activities .....	<u>5,120</u>	<u>22,140</u>	<u>18,858</u>
<b>Cash Flows From Investing Activities:</b>			
Additions to utility plant .....	(63,462)	(84,992)	(156,534)
Allowance for equity funds used during construction .....	68	4,853	12,578
Other investing activities .....	1,295	702	247
Net cash provided by (used for) investing activities .....	<u>(62,099)</u>	<u>(79,437)</u>	<u>(143,709)</u>
<b>Cash Flows From Financing Activities:</b>			
Proceeds from long-term obligations .....	43,133	157,043	209,702
Redemption of securities .....	(15,400)	(21,350)	(7,750)
Dividends paid .....	(4,549)	(11,881)	(25,165)
Redemption of long-term obligations .....	(118,081)	(77,891)	(122,007)
Net increase (decrease) in short-term obligations .....	145,000	(6,000)	(4,000)
Other financing activities .....	745	1,126	1,409
Net cash provided by (used for) financing activities .....	<u>50,848</u>	<u>41,047</u>	<u>52,189</u>
Net increase (decrease) in cash and temporary investments .....	(6,131)	(16,250)	(72,662)
Cash and temporary investments at beginning of year .....	12,122	28,372	101,034
Cash and temporary investments at end of year .....	<u>\$ 5,991</u>	<u>\$ 12,122</u>	<u>\$ 28,372</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Cash paid during the year for:			
Income taxes .....	\$ —	\$ —	\$ 387
Interest on borrowed money from continuing operations .....	82,438	69,286	62,273

For the purposes of this statement, all temporary cash investments with a maturity of three months or less are considered cash equivalents.

See accompanying notes to financial statements.

**EL PASO ELECTRIC COMPANY**  
**(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)**  
**NOTES TO FINANCIAL STATEMENTS**

**A. Proceedings Under Chapter 11 and Going Concern Presentation**

On January 8, 1992 ("petition date") El Paso Electric Company filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Western District of Texas. The Company is operating its business as debtor-in-possession, subject to the approval of the Bankruptcy Court for certain of its proposed actions.

Throughout 1991 the Company's liquidity continued to be dependent upon its access to external financings. The timing and nature of the final order rendered in Docket 9945 (See Note C), however, had a significantly negative effect upon the Company's attempts to negotiate with its bank lenders a financial restructuring which was initially anticipated to close by the end of November 1991. The financial restructuring sought by the Company basically consisted of (i) extension of maturities of existing obligations through 1993; (ii) approximately \$83 million of additional secured financing, and (iii) renewals or replacements of existing letters of credit issued to Equity Participants in sale and leaseback transactions involving Palo Verde Units 2 and 3. Although several extensions and waivers were granted to the Company while the negotiations continued during December 1991, on December 26 and 27, 1991 the Equity Participants in the Unit 2 sale and leaseback transactions chose to exercise their rights to draw on the letters of credit. See Note B.

Although the Company continued its efforts to complete the financial restructuring these efforts were unsuccessful. As a result of the Company's inability to restructure together with the substantial amount of additional currently due debt which resulted from the letters of credit draws, the Company concluded that it would not be able to meet its obligations as they became due. Therefore the Company decided it had no practical alternative other than to seek protection under Chapter 11. In connection with the unsuccessful restructuring effort the Company has expensed fees primarily related to legal, investment advisory and other professional services totalling approximately \$10,800,000 in 1991.

As of January 8, 1992, actions to collect prepetition indebtedness are stayed and other contractual obligations may not be enforced against the Company. In addition, the Company may reject executory contracts and lease obligations, and parties affected by these rejections may file claims with the Bankruptcy Court in accordance with the reorganization process. Substantially all unsecured liabilities as of the petition date are subject to modification under a plan of reorganization to be voted upon by all classes of creditors and equity security holders and approved by the Bankruptcy Court. (See Note H for a description of estimated liabilities subject to compromise.)

The financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the ordinary course of business. However, as a result of the Chapter 11 filing, such realization of assets and liquidation of liabilities is subject to significant uncertainty. A plan of reorganization could materially change the amounts reported in the financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of these matters. The appropriateness of using the going concern basis is also dependent upon, among other things, confirmation of a plan of reorganization including future regulatory responses to approving rates at levels which result in sufficient cash from operations in order for the Company to meet its restructured obligations as they become due. The Company is in the early stages of formulating a plan of reorganization, the substance and timetable for completion of which are uncertain.

**B. Sale and Leaseback Transactions and Letter of Credit Draws**

In August and December 1986 and December 1987, the Company consummated ten separate sale and leaseback transactions involving all of its 15.8% undivided interest in Palo Verde Unit 2, one-third of its undivided interest in certain Common Plant at Palo Verde and approximately 40% of its undivided interest in Unit 3, under the provisions of the applicable agreements. The Company remains responsible, during the

**EL PASO ELECTRIC COMPANY**  
**(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

terms of the leases, for all operating and maintenance costs, nuclear fuel costs, and other related operating costs of the leased-back facilities, and for decommissioning costs. Leases related to Unit 2 and Common Plant expire in October 2013, while leases related to Unit 3 expire in January 2017. All of the leases contain certain renewal options and provide for repurchase options, at fair market value, at the termination of the lease. The Company's obligations under the leases are subject to the bankruptcy process, including such damage limitations as may be applicable.

The aggregate consideration received by the Company in the sale and leaseback transactions was \$934.4 million (\$684.4 million in 1986 and \$250 million in 1987). The proceeds from the transactions, which were based upon appraised fair market value, exceeded the cost of the assets sold by \$194.0 million, which amount has been deferred and is being amortized into income, as a reduction to lease expense, over the primary terms of the leases. Nine of the ten transactions are accounted for as operating leases; one transaction (sales price of \$87.4 million), with an affiliate of a federal savings and loan association is accounted for as a financing transaction. During 1987, the Company acquired \$60 million of newly issued, floating rate exchangeable preferred stock of the savings and loan association, which was subsequently disposed of at a total loss during December 1989. (See Note O.) Additionally, an affiliate of the savings and loan association received placement fees aggregating approximately \$3.7 million in connection with the ten sale and leaseback transactions and the preferred stock transaction.

All of the leases and related documents provide that upon the occurrence of specified events of loss or deemed loss events, as defined, the Company is obligated to pay the related equity investor an amount in cash (secured by letters of credit) which may exceed the equity investor's unrecovered equity investment. Additionally, the Company has agreed to indemnify the lessors in certain circumstances against certain losses, including the loss of certain tax benefits, resulting from specified events.

The letters of credit related to the Unit 2 leases were scheduled to expire on December 31, 1991 and January 2, 1992. The Unit 3 letters of credit were scheduled to expire December 31, 1992. Failure by the Company to provide renewal or replacement letters of credit by specified dates prior to the expiration of the letters of credit, absent waiver by the beneficiaries thereof, constituted an event of default pursuant to the leases.

During the second half of 1991, the Company was pursuing a comprehensive financial restructuring which would have provided, among other things, for the issuance of the required replacement letters of credit by December 1, 1991, the earliest date required pursuant to the leases. See Note A for discussion of the proposed restructuring. However, the Company failed to provide the replacement letters of credit by such date, which, absent waivers constituted alleged events of default. On December 26 and 27, 1991, beneficiaries holding the letters of credit issued on the account of the Company in connection with the Unit 2 sales and leasebacks drew and were paid the full available amount of such letters of credit of approximately \$208 million. Although the Company and its lenders continued their efforts to consummate the comprehensive financial restructuring following the draws on the Unit 2 letters of credit, these efforts were unsuccessful and, as further discussed in Note A, the Company filed for bankruptcy protection on January 8, 1992. On January 9, 1992, the beneficiaries of the letters of credit issued on the account of the Company in connection with the Unit 3 sale and leaseback transactions also drew and were paid the full available amount of such letters of credit of approximately \$80.4 million.

As a consequence of the letters of credit draws, the Company incurred direct obligations totalling \$288.4 million to the letters of credit banks. The obligations are unsecured prepetition claims of the banks that will be addressed in the plan of reorganization implemented in the bankruptcy proceedings. The banks are precluded from taking any action to collect its claim against the Company outside of the bankruptcy proceedings and the Company is presently precluded from paying the amount as a result of the bankruptcy



**EL PASO ELECTRIC COMPANY**  
**(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

filing. The Company failed to make lease payments due January 2, 1992 of approximately \$19.3 million on Palo Verde Units 2 and 3. The non-payment of rent by the applicable grace period provided in the Palo Verde leases constituted events of default under the leases. Events of default under the facility leases entitle the lessors to various remedies pursuant to the terms of the applicable agreements, including, possibly, rescission or termination of the leases and liquidated damages. As a result of the bankruptcy filing on January 8, 1992, however, the lessors are presently stayed from exercising any remedies under the Palo Verde leases. The rights and remedies of the lessors may be subject to modification in the bankruptcy proceedings.

The Company is presently analyzing the Palo Verde leases to determine whether to assume or reject all or a portion of these leases. The Bankruptcy Court has extended the period during which the Company can decide whether to assume or reject the Palo Verde leases, as well as the Company's real estate leases generally, to September 8, 1992. Important to the formulation of a reorganization plan is a thorough analysis of the Company's interest in Palo Verde both directly and through the sale and leaseback transactions, and a determination of the appropriate treatment thereof, including whether to assume or reject the Palo Verde leases. The Company may take the position, in its analysis of the Palo Verde leases in the bankruptcy proceedings, that the Palo Verde leases are real estate leases rather than leases of personal property, although there is no assurance that the Company would prevail in such position, if asserted. Generally, rejection of unexpired leases and executory contracts gives rise to a damage claim of the non-debtor party against the debtor's estate under applicable state law. To the extent that real estate leases are rejected, however, the lessor's damage claims with respect to such rejection may be limited by the Bankruptcy Code. In addition, the Company is analyzing what rights the Company may have as a result of the letters of credit draws, including, without limitation, the extent of any impact the letters of credit draws may have on (i) reduction of the liquidated damages that may be asserted in the event of a lease rejection; (ii) reduction of the Company's lease obligation should the leases be assumed; and (iii) any other rights, claims or benefits of the Company. There can be no assurance at the present time as to the effect of the Company's ultimate decision regarding the leases upon the Company's plan of reorganization.

Although the Company believes that the ultimate outcome of the option or options it decides to pursue may mitigate the existing adverse economic effects of the letters of credit draws upon its financial condition, it is not presently determinable to what extent such mitigation will occur. Accordingly, as of December 31, 1991, the Company has recorded the aggregate amount of the letters of credit drawn on December 26 and 27, 1991, together with a provision for the subsequent draws on January 9, 1992, as a loss in the amount of \$288.4 million.

During 1991, 1990 and 1989, lease expense under the leases accounted for as operating leases amounted to \$84,139,000, \$88,207,000 and \$85,670,000, respectively, of which \$7,883,000, \$15,901,000 and \$16,041,000, respectively, were deferred and capitalized. Future contractual minimum annual rental payments required under such leases are as follows (In thousands):

<u>Year ending</u> <u>December 31,</u>	
1992 .....	\$ 82,757
1993 .....	82,757
1994 .....	82,757
1995 .....	82,757
1996 .....	82,757
Thereafter .....	<u>1,457,291</u>

EL PASO ELECTRIC COMPANY  
(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)  
NOTES TO FINANCIAL STATEMENTS — (Continued)

The table does not reflect any of the potential effects upon future contractual rental payments that could result from the various options being evaluated by the Company as discussed above.

**C. Rate Matters**

*Bankruptcy Effect on Regulation.* Substantially all of the Company's Texas and New Mexico rate matters relate to the regulatory treatment of the Company's investment in Palo Verde. That investment and related obligations have a material impact on the Company's financial position and results of operations and accordingly the appropriate treatment for rate purposes has been and continues to be the predominant regulatory issue for the Company. A central issue in the Company's formulation of a reorganization plan in its bankruptcy proceedings will be an analysis of its Palo Verde interests. The outcome of this analysis and its impact on the status of the Company's regulatory matters cannot presently be determined, and the discussion of regulation throughout this report should be considered in this light.

The Bankruptcy Code provides that the Bankruptcy Court shall confirm the Company's plan of reorganization only if "any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor has approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval." With respect to Bankruptcy Court orders affecting the Company on matters not governed by the foregoing provision or other applicable law, the Company may argue that the provisions of the Bankruptcy Code, together with applicable provisions of other federal statutes, grant the Bankruptcy Court the authority to pre-empt otherwise applicable regulatory authority and regulatory process, although it is uncertain whether the Company would prevail in such arguments, if asserted.

*Texas.* The rates and services of the Company in Texas municipalities are regulated by those municipalities and in unincorporated areas by the Texas Commission. The Company's primary municipality in its service area in Texas is the City of El Paso. The Texas Commission has exclusive de novo appellate jurisdiction to review municipal orders and ordinances regarding rates and services, and its decisions are subject to judicial review.

*New Mexico.* The New Mexico Commission has authority over the Company's rates and services in New Mexico, the issuance of securities by the Company and other matters affecting the operations of the Company.

*Federal Energy Regulatory Commission.* The Company is subject to regulation by the FERC in certain matters, including rates for wholesale power sales and the issuance of securities. In addition, Congress has enacted energy legislation which, among other things, establishes national standards for consideration by state regulatory agencies in determining utility rates and imposes other requirements on the operations of utilities, including the Company. Under certain circumstances, the FERC may order interconnection, wheeling and pooling.

*Nuclear Regulatory Commission.* The Palo Verde Station is subject to the jurisdiction of the NRC, which has authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radiation hazards and to conduct environmental reviews pursuant to the National Environmental Policy Act. Before any nuclear power plant can become operational, an operating license from the NRC is required. The NRC has granted facility operating licenses for Unit 1, Unit 2 and Unit 3 at Palo Verde for terms of forty years each beginning December 31, 1984, December 9, 1985 and March 25, 1987, respectively. Full Power operating licenses for Units 1, 2 and 3 were issued by the NRC in June 1985, April 1986 and November 1987, respectively. In addition, the Company (along with the other Palo Verde Participants other than APS) is separately licensed by the NRC to own its proportionate share thereof.

*Accounting for the Effects of Regulation.* Historically, the financial statements of the Company have been prepared pursuant to the provisions of SFAS No. 71, as amended, "Accounting for the Effects of Certain

**EL PASO ELECTRIC COMPANY**  
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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

"Types of Regulation," which results in the recognition of the economic effects of regulation. The propriety, pursuant to SFAS No. 71, of recognizing such effects is based upon the Company's assessment of whether, in substance, the rates established by its regulators are designed to recover the Company's costs of providing service and that such rates can be charged to and collected from the Company's customers. The establishment of such rates has become increasingly problematic as the Company has requested increases in rates to recover its costs related principally to its investment in and costs of operation of its 15.8% interest in PVNGS. As a result, the amount of cash increases in rates has been limited while the balance of costs approved by the regulators has been deferred for future recovery. The aggregate pre-tax amount of these deferrals, which pursuant to past actions of the Company's regulators are expected to be recovered through future rates, is approximately \$311 million. In order to provide liquidity, the Company for several years has been required to finance these deferrals together with their associated carrying costs.

The Company has determined that there is substantial doubt concerning whether the criteria for reflecting the economic effects of regulation continue to be met as a result of continuing cash flow problems arising from inadequate rate relief, and the uncertainty surrounding regulation during the reorganization process, including the regulatory treatment, if any, of the \$288.4 million letter of credit draws. The Company has concluded that it is not reasonable to assume that its rates are, or will be, without giving consideration to possible outcomes of the reorganization process, designed to recover its costs on a timely basis. Because of the uncertainty of the nature of any reorganization plan and the assessment of the nature of regulation, the Company has concluded that it does not currently have sufficient assurance to continue to reflect the economic effects of regulation in its financial statements and has, as required by generally accepted accounting principles, eliminated from its accompanying 1991 balance sheet the aggregate effects of such regulation as an extraordinary charge to results of operations for the year ended 1991.

Notwithstanding that the Company is required, pursuant to generally accepted accounting principles, to eliminate the net assets created by the actions of its regulators ("regulatory assets") from its general purpose financial statements, such regulatory assets are, subject to the outcome of the various matters discussed below, as well as the outcome of the reorganization process, expected to be recovered through rates. Accordingly, the Company will continue to reflect existing regulatory assets and prospectively record additional authorized regulatory assets in its regulatory books of account. A summary of the net regulatory assets at December 31, 1991, substantially all of which result from regulation in the Company's Texas jurisdiction, as reflected in the Company's regulatory books of account is as follows:

	Eliminated from Balance Sheet as Extraordinary Loss	Included on Regulatory Books of Account Only	Total
Regulatory Assets:			
Palo Verde deferred costs(1) .....	\$154,258	\$11,328	\$165,586
Sales/leasebacks prepaid taxes .....	79,167	—	79,167
Phase-in plan deferrals(1) .....	46,098	3,370	49,468
Other .....	43,500	—	43,500
Total regulatory assets .....	323,023	14,698	337,721
Regulatory Liabilities .....	11,556	—	11,556
Net regulatory assets .....	<u>\$311,467</u>	<u>\$14,698</u>	<u>\$326,165</u>

(1) See "Deferred Accounting Cases" below.

Although the Company intends to seek rate recovery, at some time in the future, of the loss attributable to the Palo Verde letter of credit draws aggregating approximately \$288.4 million, there can be no assurance that this cost, which has been expensed in accordance with generally accepted accounting principles, can be

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recovered in any of the Company's rate jurisdictions. Additionally, the Company is currently evaluating the impact of the letter of credit draws as part of its bankruptcy proceedings.

Although the outcome of the reorganization process cannot presently be determined, the Company believes that the cash rates established in conjunction with any reorganization plan will be designed to recover the Company's costs, including a return on equity, after the establishment of an appropriate capital structure as well as other changes that may result from the reorganization. The Company expects that, upon confirmation of any plan of reorganization, its regulated operations will meet the SFAS No. 71 criteria necessary to reflect the effects of regulation in its general purpose financial statements.

**Texas Rate Matters**

*Rate Moderation Plan — Palo Verde Units 1 and 2.* On March 30, 1988, in Docket 7460, the Texas Commission adopted a rate moderation plan which provides for the inclusion in Texas rates, on a phase-in basis, of the Texas jurisdictional portion of the Company's investment in Palo Verde Unit 1, Common Plant and the Company's lease payments on its sales and leasebacks of its interest in Palo Verde Unit 2 (including one-third of such Common Plant), to the extent of the book value of the plant sold and leased back (which is approximately 83% of such lease payments).

The Texas Commission's order was based upon a stipulation entered in October 1987 among the Company, the staff of the Texas Commission and certain industrial customers. Three parties who did not join in the stipulation, the City of El Paso and two other intervenors representing public entities, opposed the adoption of the stipulation as the basis of the Texas Commission order and appealed the order to the Texas District Court. The Texas District Court upheld the order of the Texas Commission, and its decision was appealed by the same parties to the Court of Appeals for the 3rd Judicial District at Austin, Texas (the "Court of Appeals"). On May 8, 1991, the Court of Appeals issued its opinion affirming the Texas District Court's judgment upholding the Texas Commission's order in all respects. On August 14, 1991, however, acting on a Motion for Rehearing of its May 8 decision, the Court of Appeals reversed and remanded the portion of the Texas Commission's decision in Docket 7460 which provided for inclusion in rate base of certain Palo Verde operating and carrying costs incurred between the declaration of Unit 1 and 2 of the plant as in-service for Texas regulatory purposes and the inclusion of those units in rates charged to Texas customers. See discussion below under "Deferred Accounting Cases."

The Court of Appeals has continued to uphold the balance of the Docket 7460 order and the rate moderation plan for Units 1 and 2. The stipulation and the Texas Commission's final order in Docket 7460 settled all issues regarding prudence of construction of Palo Verde Units 1 and 2 and Common Facilities and all issues involving the prudence of the Company's decisions to make the investment in the Palo Verde Project and to continue that investment, except, as to Unit 3 only, decision making relating to events occurring after the 1978 issuance by the Texas Commission of a CCN for the Palo Verde Project. See discussion below regarding the Unit 3 rate case under "Docket 9945." The stipulation also settled all issues of excess capacity relating to Units 1 and 2 for the duration of the ten-year rate moderation plan, and the Texas Commission has indicated that it will not consider excess capacity issues relating to Units 1 and 2 during such time period.

The Texas Commission's order in Docket 7460 provided for a series of four cash increases in base rates, set forth in the order as specified percentage increases in base revenues. The plan requires that the Company file rate cases periodically (no sooner than one year from the prior case) to establish the Company's revenue requirements and resulting right to the base rate increases. To the extent the Company's base revenue requirements recognized by the Texas Commission exceed the base rate increase provided for the period, the unrecovered revenue requirements are deferred on the Company's regulatory books of account for collection in later years of the plan. Pursuant to the plan, the Company is entitled to additional base rate increases for years

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subsequent to the scheduled fourth increase, if necessary, to recover all such deferrals by 1998. The amount of such additional increases was limited by the Texas Commission in Docket 9945. See discussion below under "Docket 9945." In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991, approximately \$46.1 million of "phase-in deferrals" previously recorded pursuant to this plan have been eliminated.

The Texas Commission has entered final orders providing for the first four scheduled base rate increases under the Docket 7460 plan. The first increase of approximately \$21 million, together with the deferral of approximately \$25 million, was ordered in Docket 7460. In May 1989, the Texas Commission entered its final order in Docket 8363, which granted the scheduled second increase in base rates of approximately \$7.3 million and ordered the deferral of approximately \$7.4 million. In Docket 8363, the Company had requested an increase in base revenues of approximately \$39 million. Rates based on the final order in Docket 8363 became effective in May 1989. The Texas Commission's order in Docket 8363 was appealed by the Company and other parties to the case to the Texas District Court, where the appeal remains pending. The outcome of the appeal and its results or the materiality thereof presently cannot be determined.

In August 1990, the Texas Commission entered its final order in Docket 9165, which granted the scheduled third base rate increase of approximately \$7.1 million and ordered deferral of approximately \$4.1 million. The Company had requested an increase in base revenues of approximately \$33.9 million. Rates based upon the final order in Docket 9165 became effective in September 1990. In connection with the final order, the Company wrote off approximately \$4 million of corporate restructuring costs, rate case expenses, and deferred tax benefits. The Company and the City of El Paso and two other intervenors have appealed the Texas Commission's order in Docket 9165 to the Texas District Court, where the appeal remains pending. The outcome of the appeal and its results or the materiality thereof presently cannot be determined.

For a discussion of the fourth scheduled base rate increase under the Docket 7460 plan, see "Docket 9945" below.

*Palo Verde Unit 3.* Palo Verde Unit 3 began commercial operation in January 1988. The unit did not, however, satisfy Texas Commission criteria for in-service status and consequent eligibility for inclusion in Texas rates until after the AIP transmission facilities were energized in April 1990. The Texas Commission in Docket 9652 ruled that Unit 3 met the Texas criteria for in-service status for ratemaking purposes as of May 4, 1990.

*Deferred Accounting Cases.* The Company received its first deferred accounting order in 1986 (Docket 6350) and consequently deferred operating costs and accrued related carrying charges on Palo Verde Units 1 and 2 from the date the units met the Texas in-service criteria to May 1988, when such costs were included in rates. As ordered by the Texas Commission in Docket 7460 and all subsequent Texas rate orders, the aggregate amount of these costs (\$103 million, net of fuel savings) has been included in rate base and is being amortized in cost-of-service over the lives of the units (approximately 40 years).

In September 1989, the Company filed an application with the Texas Commission for an additional deferred accounting order to allow the Company to defer substantially all Unit 3 operating costs and to accrue a carrying charge on its ownership interest in Unit 3 from the date Unit 3 satisfied the Texas in-service criteria (May 1990) until the Texas Commission issued its rate order addressing the Company's investment in Unit 3. On September 6, 1990, the Texas Commission in Docket 9069 approved the Company's application for the accounting order. An appeal of the case is pending in the Texas District Court. Its outcome cannot be predicted at this time. Because of the uncertainty of the ultimate recovery of such deferred costs due to the Court of Appeals' decision discussed below, the Company discontinued deferring for financial reporting purposes Palo Verde Unit 3 operating and carrying costs effective July 1, 1991. In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991, approximately

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\$94 million of Unit 1 and 2 accounting deferrals and \$60.3 million of Unit 3 accounting deferrals have been eliminated.

In its August 14, 1991 opinion reversing a portion of the order of the Texas Commission in Docket 7460, the Court of Appeals concluded that the Texas Commission was not legislatively authorized to include in rate base operating and carrying costs on Palo Verde Units 1 and 2 incurred between their declaration as in-service for Texas purposes and their inclusion in rates charged to Texas customers. The Court of Appeals' opinion was founded upon the section of the Texas Public Utility Regulatory Act which generally describes invested capital (rate base). In remanding the case, the Court of Appeals ordered the Texas Commission to revise its order in Docket 7460, with instructions that the Texas Commission exclude from the rate base of the Company the costs which had previously been deferred and that the Texas Commission conduct such further proceedings as may be necessary or appropriate to implement the Court of Appeals' judgment. On September 13, 1991, the Company filed a Motion for Rehearing with the Court of Appeals urging it to reconsider its decision. A Motion for Rehearing also was filed with the Court of Appeals by the Texas Commission and *amicus curiae* briefs supporting the Company's Motion for Rehearing were filed by almost all of the investor owned utilities in Texas, some of which may be adversely affected if the current decision stands. On February 26, 1992, the Court of Appeals requested all parties to file briefs addressing the question of whether the Company's filing under federal bankruptcy law served to stay any further action by the Court of Appeals. The briefs were filed on March 26 and 27, 1992. The Company's position is that the automatic stay provided under federal bankruptcy law applies, but the Company has agreed to lift the stay, subject to the approval of the Bankruptcy Court. Other parties to the appeal have taken the position that the stay does not apply. On April 6, 1992, the Court of Appeals, due to the Company's agreement to cooperate, expressed its intention to await the lifting of the stay by the Bankruptcy Court. If the stay is lifted, an opinion on the respective Motions for Rehearing would be expected shortly thereafter. The Company will appeal the Court of Appeals' decision to the Texas Supreme Court if the Court of Appeals does not reverse its decision in response to these Motions for Rehearing. The ultimate results of the appeal cannot be predicted at this time.

Depending upon the outcome of the appeal and resultant action by the Texas Commission on remand, if any, the Company presently estimates that it could be required to write off deferred costs from its regulatory books of account of up to \$166 million. In addition, the Company may be required to write off additional amounts of phase-in plan deferrals from its regulatory books of account as a result of the inclusion of operating and carrying costs deferrals in rate base since May 1988. Through December 31, 1991, such amounts approximate \$49.5 million.

*Docket 9945.* On December 28, 1990, the Company filed with the Texas Commission a combined request for the scheduled fourth base rate increase under the Docket 7460 rate moderation plan on Palo Verde Units 1 and 2 and the recovery, also on a moderated basis, of the Texas jurisdictional portion of the Company's investment in Palo Verde Unit 3, including the lease payments, net of deferred gain, on the Company's sales and leasebacks of a portion of its interest in Unit 3. The Company's combined request was for \$131.3 million, which included approximately \$49 million related to the Unit 1 and 2 rate moderation plan and approximately \$82.3 million related to Unit 3. Of the total request, approximately \$38 million was to be in cash with the balance deferred for subsequent recovery. The Texas Commission issued its final order in Docket 9945 on November 12, 1991, approving a total increase in Texas base revenues of approximately \$47 million, with \$37 million in cash and \$10 million of phase-in deferrals, which will be recorded on the Company's regulatory books of account.

In the Docket 9945 order, the Texas Commission adopted the recommendation of the Hearing Examiners as to the revenue requirements on Units 1 and 2 of Palo Verde and approved, as part of the \$37 million increase discussed above, a cash increase of approximately \$7 million as the fourth increase under the Unit 1 and 2 rate moderation plan with a phase-in deferral, also as discussed above, of \$10 million for future

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recovery in rates. The Texas Commission adopted the Hearing Examiners' recommendation that increases in base rates under the Unit 1 and 2 plan be limited to 3.5% each year, but in response to the Company's First Motion for Rehearing, also approved a regulatory non-cash revenue adjustment recommended by the Hearing Examiners, which the Hearing Examiners found was necessary to provide for full recovery of the phase-in deferrals during the remaining term of the Unit 1 and 2 plan.

The balance of the \$37 million cash increase (approximately \$30 million) related to the Company's request for Unit 3, and represented operating and maintenance expenses, decommissioning expenses and ad valorem taxes on the Unit as well as an allowance for purchased power capacity, but did not include any current return of or return on the owned or leased portions of Unit 3. Recovery of these costs was "held in abeyance" to be included in Texas rates subsequently, as discussed below.

The Texas Commission disallowed approximately \$32 million of Unit 3 capitalized costs, on a total Company basis, as imprudently incurred. The Texas Commission also disallowed \$9.8 million, on a total Company basis, of previously deferred costs related to the 1989-90 outages of Units 1 and 2. The Company recorded pre-tax write-offs of \$24.1 million and \$6.3 million, respectively (the Texas jurisdictional amounts of these disallowances), in results of operations for the third quarter of 1991.

With respect to the rate base treatment of Unit 3, the Texas Commission, contrary to the Hearing Examiners' recommendation to include the Unit in rates, adopted an inventory plan, pursuant to which the Company's investment in Unit 3 was neither included in rate base nor expressly disallowed, but instead "held in abeyance" to be included subsequently in Texas rate base over a scheduled period of time. In justifying the inventory plan, the Texas Commission found (i) the Company was imprudent in not attempting to sell an interest in Palo Verde between 1978 and 1981; (ii) the Company failed to demonstrate that it would have been unable to sell such interest if it had attempted to do so; and (iii) as a result of such imprudent action, the addition of Unit 3 to the Company's system would result in unacceptable excess capacity at this time. However, the Texas Commission further found that the Unit would become "used and useful" to the Texas jurisdiction in the following percentages, 0% the first year, 40% the second year, 65% the third year, 85% the fourth year and 100% the fifth year. During the period Unit 3 is held in inventory, the Company will recover the operating and maintenance expenses, decommissioning expenses and ad valorem taxes associated with Unit 3, along with an allowance for purchased power capacity. In subsequent years, but subject to possible changes that could result from a reorganization plan, the Company expects to recover, pursuant to the final order, the following at the applicable inventoried percentages: a return on the Unit 3 plant costs, the amount of lease payments due under the sale and leaseback transactions the Company entered into in connection with Unit 3, and depreciation on Unit 3. Under the order, the Company will retain the benefits of its sales to CFE for at least the first year of the inventory plan.

The Palo Verde Unit 3 deferred costs, as reflected on the Company's regulatory books of account, were not addressed in Docket 9945 and, accordingly, the Company is required to substantiate such costs in its next Texas rate filing. In addition to the uncertainty related to the Court of Appeals' decision discussed above, the Company believes the issue of applying the inventory concept to the Unit 3 deferred costs will be raised in the filing to attempt to limit deferrals to amounts allowed for collection pursuant to the inventory plan. The Company does not believe that such a challenge would be successful.

The Company disputes there was any imprudence, either in connection with the Unit 3 capitalized costs or in retaining its full investment in Palo Verde, and challenged both aspects of the Texas Commission's order in the Company's Motions for Rehearing and will continue such challenges on appeal. The inventory plan was not included in the Hearing Examiners' Report, which recommended that Unit 3 be included in rates subject to the disallowance of capitalized costs discussed above, and was not raised as a possible result until the final order hearings. The Company does not believe the evidence presented in the case supports the inventory plan

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and intends to appeal the Texas Commission's adoption of the inventory plan as well as its findings of imprudence. The Company must file its appeal with the Texas District Court by April 22, 1992 and has indicated its intent to do so. The Company has been informed that other parties to the action also intend to appeal in opposition to the Company. The ultimate outcome of the appeals and their results or the materiality thereof cannot be predicted at this time.

*Rate Case Expenses Incurred in Docket 7460.* Expenses incurred by the Company and the City of El Paso in connection with Docket 7460 were severed from the issues ruled upon by the Texas Commission in that Docket and were assigned to a new Docket 8018 for consideration. On September 20, 1991, the Texas Commission issued its final order in the case adopting the Examiner's Report with regard to the Company's requested expenses. The Hearing Examiner's report recommended the Company be reimbursed for approximately \$10.8 million and the City of El Paso be reimbursed for approximately \$1.1 million of such rate case expenses, and such amounts be surcharged to the Company's Texas customers over a one-year period. The Company commenced the surcharge in November 1991. In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991, the unrecovered balance of all rate case expenses previously deferred, including additional cases other than Docket 7460 (\$18.4 million as of December 31, 1991), was eliminated. The Company expects that these costs will be collected in full from the ratepayers. The City of El Paso filed an appeal of the Texas Commission's order with the Texas District Court. The ultimate outcome of the appeal and its result or the materiality thereof cannot be predicted at this time.

*Texas Recognition of Palo Verde Sales and Leasebacks.* In its Docket 8363 order and a separate order issued in August 1989 (Docket 8078), the Texas Commission found the Company's Unit 2 and Unit 3 sales and leasebacks to be in the public interest. The rulings ensure that the Texas Commission will consider those transactions in connection with the Company's rate cases. The City of El Paso appealed the Texas Commission's order with respect to the Unit 3 transactions to the Texas District Court. The Company believes that the Texas District Court will uphold the Texas Commission's order. The finding on the Unit 2 sales and leasebacks is a part of the City's appeal of the Docket 8363 order. The ultimate outcome of the appeals and their results or the materiality thereof cannot be predicted at this time.

*Performance Standards for Palo Verde — Texas.* In June 1989, the Company filed an application with the Texas Commission to establish performance standards in its Texas jurisdiction for the operation of the Palo Verde units. On March 27, 1991, the Texas Commission issued its final order in the case, Docket 8892, which resulted in standards based on a three-year rolling average of performance applied on a unit specific basis. As a consequence, each Palo Verde unit will be evaluated annually, based upon a three-year rolling average capacity factor (the ratio of actual generation to maximum possible generation), against performance bands measured from a target capacity factor of 70%. The "deadband," where neither a penalty nor a reward would be triggered, runs from 62.5% to 77.5%. Penalties or rewards will result from worse or better performance, respectively, and will be calculated as a function of incremental replacement power costs. If a unit performs at an annual capacity factor of less than 35%, it can be reviewed by the Texas Commission, under the performance standards, to determine whether the unit should continue to be included in Texas rates. These standards were not applied to unscheduled outages of Units 1 and 2 that occurred in 1989 and 1990 as a result of problems with the Units' atmospheric dump valves and emergency lighting systems. However, because these standards are effective as of the initial date of rate base inclusion of the respective units, calculation of rewards and penalties will cover the 1989 and 1990 outages at Palo Verde, as part of the three-year rolling averages. The Company calculated an initial penalty of approximately \$2.5 million for Units 1 and 2. An additional \$2 million penalty for Units 1 and 2 is projected for the second year of the standard's operation, based upon the use of the three-year rolling average. Provision for loss for such penalties was made in the Company's 1990 financial statements. In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991 approximately \$4.5 million of provision for performance



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standards penalties was netted against the assets eliminated. Treatment of the penalties will be addressed in the next Texas fuel reconciliation filing.

*Texas Recovery of Fuel Expenses.* In its Texas jurisdiction, the Company recovers its fuel expenses and purchased power costs pursuant to a fuel factor set by the Texas Commission. The Texas Commission has the authority to order proceedings periodically for the purpose of reconciling the Company's fuel revenues against actual fuel expenses. In June 1989, the Company filed an application with the Texas Commission in Docket 8588 to reconcile its fuel expenses and revenues for the period August 1, 1985 through March 31, 1989, which included over \$200 million in Texas fuel costs. Reconciliation was required by Texas Commission rules and the Texas Commission's final order in Docket 7460. On August 15, 1990, the Texas Commission rendered its final order, which was modified in response to motions for rehearing and resulted in a refund to Texas customers, to be made over a twelve-month period, of approximately \$7.1 million, plus interest at the Company's composite cost of capital. The refund to customers began in February 1991. The Company and the City of El Paso appealed the Texas Commission's order to the Texas District Court. On November 25, 1991, the Texas District Court entered judgment on the appeals, upholding the Texas Commission's order on all points except the Company's appeal of the treatment of certain purchased power capacity costs during 1985-86. With regard to those costs, totaling approximately \$4.2 million, the Texas District Court held that the Texas Commission erred in not allowing the Company to recover such costs through its reconcilable fuel account. The Texas District Court remanded the case to the Texas Commission with instructions to allow the Company to recoup such costs. Both the Texas Commission and the City of El Paso have appealed the Texas District Court's judgment to the Court of Appeals. Briefs have been filed in the Court of Appeals. The ultimate outcome of the appeal cannot be predicted at this time.

As part of Docket 9945, in addition to a request for the establishment of a new fixed fuel factor, the Company applied for reconciliation of its fuel costs, after giving effect to adjustments in Docket 8588, covering the period from April 1989 through September 1990. The Company requested that the Texas Commission determine that the Company under-recovered its fuel costs during such reconciliation period by \$11.4 million. Based on the decision in the Texas performance standards case discussed above, the Company was allowed to withdraw its request for a fuel reconciliation from Docket 9945. The Company is considering filing a fuel reconciliation case during 1992. In that case the 1989 and 1990 outages of Palo Verde Units 1 and 2 will probably be an issue because the Company incurred expenses for fuel and purchased power in excess of fuel rates set in its Texas jurisdiction during those outages. The Company believes that the performance standards discussed above are intended to compensate ratepayers fully for the increase in fuel expense during the outage periods, but cannot at this time assess the outcome or the ultimate level of recovery of the Company's fuel expense through the regulatory process. The Company currently intends to resort to the judicial process if it is denied adequate recovery of its fuel expense through the regulatory process. In connection with the Company's elimination of regulatory assets from its balance sheet as of December 31, 1991, net fuel overrecoveries aggregating approximately \$1.6 million were netted against the assets eliminated.

*Ratemaking Treatment of Federal Income Taxes.* The Texas Supreme Court has determined that, under certain circumstances, it is appropriate to allow only "actual taxes paid" for ratemaking purposes. *Public Utility Commission of Texas v. Houston Lighting & Power Company*, 748 S.W.2d 439 (Tex. 1987). The Court of Appeals has recently applied the Supreme Court decision to another utility. *Public Utility Commission v. GTE-Southwest*, No. 3-90-084-CV (Tex. App. 1992). The Company last paid federal income taxes for the tax year 1987, however, those taxes were refunded to the Company based upon the carryback of 1990 tax losses to that year. The Company's regulated utility operations have not generated taxable income since 1986. The Texas Commission has historically granted rates which include an income tax component based on a "stand-alone basis" and the utility's return on equity. Dockets No. 7460, 8363, 9165 and 9945 include federal income tax components based on this methodology.

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Dockets No. 7460, 8363 and 9165 have each been appealed on multiple issues; each appeal includes a challenge to the treatment of federal income taxes for ratemaking purposes. The Company anticipates that the appeal of Docket No. 9945 will also raise this issue.

Depending on the outcome of the pending appeals, the Company may be required to refund certain amounts collected in rates since 1988. The likelihood and amount of any refund is uncertain at this time because the ultimate outcome of the pending appeals is unknown and the Company cannot predict the effect of mitigating factors not addressed in the pending appeals.

**New Mexico Rate Matters**

*Rate Moderation Plan — Palo Verde Units 1, 2 and 3.* In March 1987, the New Mexico Commission adopted a rate moderation plan, based on a stipulation between the Company and several of its major New Mexico intervenors, which provides for the regulatory treatment of the New Mexico jurisdictional portion of the Company's investment in all three units at Palo Verde, with Unit 3 and one-third of Common Facilities being deregulated. Similar to the Texas plan for Units 1 and 2 (see "Rate Moderation Plan — Palo Verde Units 1 and 2" above), the New Mexico plan provides that, to the extent the Company's base revenue requirements determined by the New Mexico Commission exceed the cash base rate increase provided for the period, the unrecovered revenue requirements are deferred on the Company's regulatory books of account for collection in later years of the plan. However, the New Mexico plan provides that any deferred revenue requirements not recovered by December 31, 1994 will be lost. The Company eliminated phase-in deferrals of approximately \$8.5 million in 1990 and discontinued reporting for its accompanying general purpose financial statements the unrecovered revenue requirements deferred for collection under the plan. However, to the extent the Company's base rates in New Mexico exceed its New Mexico base revenue requirements during the term of the New Mexico plan, through 1994, the Company is entitled to collect such differences in cash rates for application to unrecovered revenue requirements pertaining to earlier years of the plan. On March 20, 1992, the Company made a compliance filing with the New Mexico Commission required under the New Mexico rate moderation plan, reflecting that its base revenue requirements exceed base rates. The purpose of the filing is to provide the parties to the New Mexico rate moderation plan with sufficient information to determine the Company's current New Mexico cost of service.

The Company will be required to recover the New Mexico jurisdictional portion of the Company's investment in Unit 3, which is deregulated under the New Mexico rate moderation plan, through off-system sales in the economy energy market. For several years, market prices for economy energy sales have not been at levels sufficient to recover the New Mexico portion of the Company's current operating expenses related to Unit 3, including decommissioning costs and lease payments. However, the Company believes that over the useful life of Unit 3, based upon its current forecast of plant operating costs and performance, power needs of other utilities and alternative fuel prices, the Company will be able to recover the New Mexico portion of its Unit 3 costs through such sales of power.

*Performance Standards for Palo Verde — New Mexico.* The Company also is subject to performance standards in its New Mexico jurisdiction for the operation of the Palo Verde units. The standards measure performance of the three units annually, viewed as a single generating station, against designated levels of capacity factors. Any penalty or reward is then based on two-thirds of the station results, reflecting the deregulation of Unit 3 in New Mexico. If the annual capacity factor of the station exceeds 75%, the Company is entitled to a monetary reward based upon the additional fuel costs avoided, calculated with reference to the Company's weighted average fuel and purchased power costs (other than Four Corners, Palo Verde and purchases from Southwestern Public Service Company). If the annual capacity factor falls below 60%, the Company is penalized based upon the additional fuel costs incurred using the same formula. If annual performance falls between 60% and 75%, no consequences result. In 1991, the Palo Verde units, viewed as a

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single generating station, performed within the reward band, resulting in a nominal reward which is reflected in the Company's 1992 fixed fuel factor.

*New Mexico Recovery of Fuel Expenses.* In its New Mexico jurisdiction, the Company recovers its fuel expenses and purchased power costs through a fuel factor set by the New Mexico Commission. The stipulation in New Mexico Case No. 1833 requires that fuel costs be reconciled and the fuel factor be fixed each year. On January 31, 1992, the Company filed a request with the New Mexico Commission for a new, lower fuel factor and for reconciliation of fuel costs for the period of January 1, 1990 through December 31, 1991, which request was approved effective March 1, 1992.

**Federal Energy Regulatory Commission Rate Matters**

The majority of the Company's rates for wholesale power and transmission services are subject to regulation by the FERC. Sales of wholesale power subject to FERC regulation make up a significant portion, approximately 15% in 1991, of the Company's operating revenues. Although rates to wholesale customers require FERC approval, the Company and its wholesale customers generally have established such rates through negotiations, based on certain cost of service assumptions, subject to FERC approval.

The Company has a long-term firm power sales agreement with IID providing for the sale of 100 MW of firm capacity to IID through April 2002. Additionally, the agreement provides for the Company to provide contingent capacity of 50 MW to be made available to IID beginning in May 1992 and continuing through the end of the contract. The agreement generally provides for level sales prices over the life of the agreement which were intended to fully recover the Company's projected costs, as well as a return. The agreement provides that the Company may seek increases in the sales price if sufficient evidence exists to determine that certain operating costs have increased above those used in determining the original sales price. Because of the levelized rate, such costs and return were anticipated to exceed revenues for a number of the up-front years of the agreement with a reciprocal effect in the latter years of the agreement. The Company has accrued revenues under the terms of the agreement in the amounts of \$4.9 million, \$5.8 million and \$7.3 million in 1991, 1990 and 1989, respectively. Such accrued amounts, which aggregate \$27.2 million as of December 31, 1991, are recorded as a long-term contract receivable on the Company's balance sheets.

The Company has a firm power sales agreement with TNP, providing for sales to TNP ranging from 74 MW to 79 MW through 2002. Sales prices, which are declining over the life of the agreement, are based on substantially the same scheduled and projected costs and return as the IID agreement discussed above.

Certain costs have increased significantly over those projected at the time these agreements were entered into. The Company has not attempted to increase the sales prices under the IID agreement based on these increased costs. Because of these increases and the significance of such increases, the Company has determined that if the Company does not pursue increases under the agreements as discussed above and, should costs increase above those currently anticipated, the Company may be required to recognize a loss on such contract for financial reporting purposes in future periods.

Rate tariffs currently applicable to IID and TNP contain appropriate fuel and purchased power cost adjustment provisions designed to recover the Company's fuel and purchased power costs.

**Other Wholesale Customers**

The Company has a sales agreement to provide capacity and associated energy to CFE through the end of 1996. The Company provided CFE with 40 MW of capacity in 1991 which was the first year of the agreement. The amount of capacity increased to 80 MW at the beginning of 1992 and is scheduled to increase to 120-150 MW later this year and continue at that level through the remaining term of the agreement. Pricing for the

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agreement includes an escalating capacity charge and full recovery of energy costs and is based on market conditions in the southwestern United States.

To meet the requirements of the agreement with CFE, the Company expects to secure additional purchased power capacity, possibly as early as 1992. Any purchased power capacity agreement may require Bankruptcy Court approval. The Company has begun preliminary discussions concerning such purchased capacity and believes that such capacity is available.

**D. Summary of Significant Accounting Policies**

*General.* El Paso Electric Company maintains its accounts in accordance with the Uniform System of Accounts prescribed for electric utilities by the FERC. The Company, prior to 1991, reported its regulated utility operations pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as amended. As more fully discussed in Note C, the Company discontinued the application of SFAS No. 71 as of December 31, 1991 and accounted for such discontinuation in accordance with SFAS No. 101, "Regulated Enterprises — Accounting for the Discontinuation of Application of SFAS No. 71."

*Utility Plant.* Utility plant is stated at original cost, less regulatory disallowances. Costs include labor, material, construction overheads and AFUDC. Depreciation is provided on a straight-line basis at annual rates which will amortize the undepreciated cost of depreciable property over the estimated remaining service lives. The average annual depreciation rate used by the Company for utility plant other than the Palo Verde Station was 2.90% in 1991 and 1990, and 3.17% in 1989. The average annual depreciation rate for the portions of the Palo Verde Station for which the Company is providing depreciation was 2.50% for New Mexico and FERC jurisdictions in 1991, 1990 and 1989 and 2.64% in 1991 and 1990 and 2.62% in 1989 for the Texas jurisdictional portion.

The Company charges the cost of repairs and minor replacements to the appropriate operating expense accounts and capitalizes the cost of renewals and betterments. The cost of depreciable utility plant retired or sold and the cost of removal, less salvage, are charged to accumulated depreciation.

Decommissioning cost for the Company's interest in the PVNGS is charged to depreciation expense. Additionally, the Company is depositing decommissioning costs currently being recovered in rates in external trust funds until the decommissioning of the facility takes place.

The cost of nuclear fuel is amortized to fuel expense on a unit-of-production basis. A provision for spent fuel disposal costs is charged to expense based on one-tenth of one cent on each kilowatt hour generated.

*AFUDC.* The amount of AFUDC is determined by applying an accrual rate to the balance of certain CWIP costs. In this connection, the FERC has promulgated procedures for the computation (a prescribed formula) of the accrual rate. The weighted average accrual rate was 8.35% for 1991 and 10.50% for 1990 and 1989. The Company compounds AFUDC on major construction projects semiannually.

*Operating Revenues.* Operating revenues are accrued with respect to sales of electricity for services provided subsequent to monthly billing cycle dates but prior to the end of the accounting period.

*Fuel Cost Adjustment Provisions.* The Company's Texas and New Mexico retail customers are presently being billed under fixed fuel factors approved by the Texas Commission and the New Mexico Commission. The Company's Texas and New Mexico fuel factors are set in the Company's general rate case or Commission ordered fuel reconciliation. In the Texas jurisdiction and New Mexico jurisdiction, the Company's fixed fuel factor is subject to adjustment if the utility materially over- or under-recovers its allowable fuel costs under its existing fuel factor. (See Note C).

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Rate tariffs currently applicable to certain FERC jurisdictional customers contain appropriate fuel and purchased power cost adjustment provisions designed to recover the Company's fuel and purchased power costs. Two FERC customers have fixed fuel factors approved under FERC tariffs for which no fuel reconciliation is made.

*Federal Income Taxes and Investment Tax Credits.* Deferred income taxes are currently accounted for under APB 11 as the Company has elected to not adopt SFAS No. 96 nor SFAS No. 109 prior to their required effective dates and such deferred taxes are provided as a result of timing differences in reporting income and expense items for financial statement and income tax purposes. Investment tax credit generated by the Company is deferred and amortized to income over the estimated remaining useful lives of the property that generated the credit.

SFAS No. 96, *Accounting for Income Taxes*, was issued by the Financial Accounting Standards Board in December 1987. The Company did not implement SFAS No. 96 which was superseded by SFAS No. 109, *Accounting for Income Taxes* in February 1992. SFAS No. 109 requires a change from the deferred method to the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates for each taxable jurisdiction applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. SFAS No. 109 is effective for fiscal years beginning after December 15, 1992.

As discussed in Note C, the Company is no longer reporting under SFAS No. 71. This change in reporting and the Company's reorganization under Chapter 11 will have an effect on the determination of the Company's temporary differences and the recognition of deferred tax assets and liabilities upon adoption of SFAS No. 109. At this time, the Company cannot estimate the effect the adoption of SFAS No. 109 will have on its financial statements. The Company does not anticipate an early adoption and has not determined the method of adoption that it will use.

*Postretirement Benefits Other Than Pensions.* The Company provides benefits other than pensions to its employees upon their retirement. These benefits, some of which require retiree contributions toward the cost, continue for the lifetime of the retirees and their eligible dependents.

SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, was issued by the Financial Accounting Standards Board in December 1990. SFAS No. 106 requires a change from the pay-as-you-go accounting method for these postretirement benefits, to the accrual accounting method. The effective date of SFAS No. 106 is for fiscal years beginning after December 15, 1992.

The accrual accounting method recognizes the costs of postretirement benefits other than pensions over the years of service of employees, rather than when the benefits are paid out after the employee retires. With respect to the obligation for benefits already earned as of the date of its adoption (called the "transition obligation"), SFAS No. 106 provides for either amortizing the transition obligation amount over future years or expensing it in the period of adoption. The estimated transition obligation at December 31, 1991 is \$59.6 million including \$11.4 million which represents the Company's 15.8% share of the transition obligation associated with the Arizona Nuclear Power Project.

The accrual expense is expected to exceed the pay-as-you-go expense during the years immediately following the adoption of the standard. The accrual expense is expected to range from approximately \$6.7 million to \$8.6 million depending on the method of recognition of the transition obligation as discussed above. The range includes \$2.1 million which represents the Company's 15.8% share associated with the Arizona Nuclear Power Project. Although the Company expects to pursue full recovery through its rates, the increased benefits expense will have to be expensed on the accrual method inasmuch as the Company no longer meets

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the criteria of SFAS No. 71 and would therefore be unable to defer any amounts pursuant to regulatory orders. Therefore the magnitude of the financial impact on the Company at the time of adoption is expected to be a function of the level of cash rate relief, if any, obtained by the Company.

*Reclassification.* Certain amounts in the financial statements for 1990 and 1989 have been reclassified to conform with the 1991 presentation.

**E. Palo Verde Nuclear Generating Station**

A summary of the Company's 15.8% investment in the three 1,270 MW nuclear generating units which comprise Palo Verde Station and investment in other jointly owned utility plant, excluding fuel, is as follows:

	<u>Electric Plant in Service</u>	<u>Accumulated Depreciation</u>	<u>Construction Work in Progress</u>
December 31, 1991:			
Palo Verde Station .....	\$897,946,000	\$(71,902,000)	\$32,181,000
Other .....	<u>127,805,000</u>	<u>(39,700,000)</u>	<u>5,828,000</u>
December 31, 1990:			
Palo Verde Station .....	\$905,184,000	\$(54,249,000)	\$23,724,000
Other .....	<u>125,733,000</u>	<u>(34,598,000)</u>	<u>6,332,000</u>

The Company's investment, at cost, in the Palo Verde Station in the amount of \$930,127,000 at December 31, 1991 excluded amounts which represent the book value of the Company's investment in Palo Verde Station which was sold and leased back during 1986 and 1987 and for which the related leases are accounted for as operating leases. See Note B of Notes to Financial Statements for information regarding such transactions and the Company's lease obligations relating thereto.

*Participation Agreement Stipulation.* Pursuant to an agreement among the Palo Verde Participants, each Palo Verde Participant is required to fund its proportionate share of operation and maintenance, capital and fuel costs of PVNGS. The Company's total monthly share of these costs is estimated to be approximately \$9 million. The agreement provides that if a Palo Verde Participant fails to meet its payment obligations, each non-defaulting Palo Verde Participant shall pay its proportionate share of the payments owed by the defaulting Palo Verde Participant. On February 13, 1992, the Bankruptcy Court approved a stipulation between the Company and APS, as the operating agent of PVNGS, pursuant to which the Company agreed to pay its proportionate share of all PVNGS invoices delivered to the Company after February 6, 1992. The Company agreed to make these payments until such time as an order is entered by the Bankruptcy Court, if ever, authorizing or directing the Company's rejection of the participation agreement governing the relationship among the Palo Verde Participants. As long as the Company continues to make these payments, APS and the other Palo Verde Participants have agreed not to file a motion prior to December 31, 1992, seeking a deadline for the assumption or rejection of the participation agreement. If the Company defaults, APS and the other Palo Verde Participants may take steps to pursue other remedies. The stipulation also specifies that approximately \$9.2 million of the Company's PVNGS payment obligations invoiced prior to February 7, 1992, are to be considered pre-petition general unsecured claims of the other Palo Verde Participants.

*Liability and Insurance Matters.* The Palo Verde Participants have insurance for public liability payments resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of \$200 million and the balance by an industry-wide retrospective assessment program. The maximum assessment per reactor under the retrospective rating program for each nuclear incident is approximately \$66 million, subject to an annual limit of \$10 million per incident. Based upon the Company's 15.8% interest in the three Palo

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Verde units, the Company's maximum potential assessment per incident is approximately \$31.28 million, with an annual payment limitation of \$4.74 million.

The Palo Verde Participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at Palo Verde in the aggregate amount of \$2.515 billion, a substantial portion of which must first be applied to stabilization and decontamination. The Company has also secured insurance against portions of any increased cost of generation or purchased power resulting from the accidental outage of any of the three units if the outage exceeds 21 weeks.

*Decommissioning.* The Company is required to plan and fund its share of the estimated costs to decommission Palo Verde, including the portion sold and leased back. The Company has assessed the requirements for the funding of such decommissioning and has determined, based upon an independent study, that the Company will have to fund approximately \$120 million (stated in 1989 dollars) for decommissioning of Palo Verde. The Company will fund decommissioning over the estimated service life (approximately 40 years) for the portion of its owned interest in Palo Verde and, assuming no material change in the Palo Verde leases as a result of the bankruptcy, over the term of the related leases (27 to 29 years) for the sold and leased back portions of Palo Verde. The Company has established funds with an independent trustee which, as approved, provide for current deductibility up to 40 years for federal income tax purposes of some or all of amounts funded. As of December 31, 1991, the trustee held approximately \$7.2 million for decommissioning, which is reflected in the Company's balance sheet as deferred charges and deferred credits. There is, however, no assurance that the amounts held in trust will be adequate to cover the decommissioning costs. The Company must fund the decommissioning requirements for its New Mexico jurisdictional portion of Unit 3 through off-system sales of economy energy as this portion of Unit 3 is deregulated. The Company believes that all costs associated with nuclear plant decommissioning will be recoverable.

**F. Common Stock**

In May 1989, the Board of Directors eliminated the second quarter 1989 common stock dividend and the Company has not paid dividends on its common stock since then. As a result of the suspension of the preferred stock dividends and sinking fund payments (see Note G) no dividends can be paid on shares of the Company's common stock until the Company has made the sinking fund payments and paid the dividend arrearage on its preferred stock. In addition, under certain provisions of the Federal Power Act regarding the payment of dividends on capital stock, as interpreted by the staff of the FERC, the Company is permitted to pay dividends on its capital stock only out of retained earnings. The Company currently has no retained earnings out of which to pay dividends.

The Company cannot predict when the preferred stock dividends and sinking fund payments will be resumed, but such payments are precluded by the Bankruptcy Code during the Company's Chapter 11 bankruptcy proceedings. Resumption of these payments also will depend on the plan of reorganization ultimately adopted in the Company's bankruptcy proceedings, which could substantially alter or eliminate the rights of the preferred and common stockholders.

*Employee Stock Purchase Plan.* The Company has an employee stock purchase plan under which eligible employees are granted options twice each year to purchase, through payroll deductions, shares of common stock from the Company at a specified discount from the fair market value of the stock; provided, however, that if the option price exceeds the fair market value of the stock on the date of exercise of the option, the Company, in lieu of selling the stock at the option price, purchases in the over-the-counter market, for the accounts of the participants, that number of shares of common stock as the aggregate of the payroll deductions under the plan will purchase.

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*Employee Stock Compensation Plan.* The Company has a broad-based employee stock compensation plan under which shares of Company common stock are issued from time to time to eligible employees. Under the plan, the Board's Compensation/Benefits Committee may direct the issuance from time to time of Company common stock to compensate employees for past services rendered to the Company or to pay for various employee benefits with common stock rather than with cash. In 1991, the Board of Directors approved the reservation of an additional 600,000 shares of stock for issuance under the plan. The Company has not filed the necessary applications with the New Mexico Public Service Commission and the Federal Energy Regulatory Commission to obtain approval of the issuance of the additional 600,000 shares or the registration statement related to such shares with the Securities and Exchange Commission.

*Employee Stock Option Plan.* The Company's Employee Stock Option Plan was approved by the Board of Directors in December 1987 and received shareholder and regulatory approval in 1988. Following amendment in 1990 to approve an increase in the number of shares available, the plan authorizes the issuance of up to 3,000,000 shares of common stock pursuant to options which may be granted at not less than fair market value.

The Board of Directors has authorized the allocation of the common stock options as follows:

<u>Date of Options</u>	<u>Option Price</u>	<u>Number of Shares</u>
August 23, 1989 .....	\$8.875	325,600
January 24, 1990 .....	8.625	100,000
March 27, 1990 .....	8.375	145,800
May 21, 1990 .....	7.250	50,000
November 19, 1990 .....	3.875	912,400
Total shares of common stock options allocated .....		<u>1,533,800</u>
Total options exercisable at December 31, 1991 .....		<u>1,072,625</u>

The options granted November 19, 1990 are exercisable in installments, with 25% of the options exercisable immediately and an additional 25% exercisable each full year from the date of the award. All other options granted were exercisable immediately. All common stock options granted have a ten-year expiration period from the date of the award, subject to earlier termination in the event of termination of employment, death, total and permanent disability or dissolution or liquidation of the Company. The plan also provides for stock appreciation rights if there is a change in control of the Company, as defined in the plan. Options are granted at the discretion of the Compensation/Benefits Committee of the Board and are based generally on a percentage set by the Committee of the eligible employee's salary. As of December 31, 1991, 4,975 options had been exercised (1,350 options on March 19, 1991 and 3,625 options on April 16, 1991) at an option price of \$3.875.



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Changes in common stock are as follows:

	Common Stock	
	Shares	Amount (In thousands)
Balance December 31, 1988 .....	35,075,309	\$335,767
Issuances of Common Stock:		
1989 .....	125,958	1,409
1990 .....	150,944	1,126
1991 .....	173,250	745
Balance December 31, 1991 .....	<u>35,525,461</u>	<u>\$339,047</u>

Shares of common stock reserved for issuance under the above described stock benefit plans were 3,135,549 at December 31, 1991.

*Directors' Stock Compensation Plan.* The Board of Directors approved a Directors' Stock Compensation Plan, which was submitted to and approved by the Shareholders of the Company at the Annual Meeting held May 20, 1991, subject to regulatory approval. The Company has not filed the necessary applications with the New Mexico Public Service Commission and the Federal Energy Regulatory Commission to obtain approval of the issuance of stock, under the plan or filed a registration statement related to the shares to be issued under the plan with the Securities and Exchange Commission. A total of 300,000 shares of the Company's common stock would be reserved for issuance under the plan if the regulatory approvals are obtained.

#### G. Preferred Stock

On September 19, 1991, the Board of Directors of the Company voted to suspend, effective for the October 1, 1991 scheduled payment date, payment of the dividend on the Company's outstanding preferred stock, as well as sinking fund payments on the preferred stock. As a result of the suspension of the preferred stock dividends and sinking fund payments (see Note F) no dividends can be paid on shares of the Company's common stock until the Company has made the sinking fund payments and paid the dividend arrearage on its preferred stock. In addition, under certain provisions of the Federal Power Act regarding the payment of dividends on capital stock, as interpreted by the staff of the FERC, the Company is permitted to pay dividends on its capital stock only out of retained earnings. The Company currently has no retained earnings out of which to pay dividends.

The Company cannot predict when the preferred stock dividends and sinking fund payments will be resumed, but such payments are precluded by the Bankruptcy Code during the Company's Chapter 11 bankruptcy proceedings. Resumption of these payments also will depend on the plan of reorganization ultimately adopted in the Company's bankruptcy proceedings, which could substantially alter or eliminate the rights of the preferred and common stockholders.

The Company has accrued dividends on and increased the balance of preferred stock, redemption required, with an offsetting decrease to retained earnings. However, since dividends on all series of the Company's preferred stock are cumulative (the aggregate amount of accumulated and unpaid preferred stock dividends as of December 31, 1991 is \$3,725,000), net loss applicable to common stock and net loss per weighted average shares of common stock outstanding have been computed assuming that all such dividends through December 31, 1991 were accrued.

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Following is a summary of cumulative per share dividends in arrears and cumulative dividends in arrears of issued and outstanding preferred stock:

	<u>Cumulative Per Share Dividends in Arrears</u>	<u>Cumulative Dividends in Arrears</u> (In thousands)
<b>Preferred Stock, Redemption Required:</b>		
\$10.75 Dividend .....	\$5.38	\$ 279
\$ 8.44 Dividend .....	4.22	412
\$ 8.95 Dividend .....	4.48	403
\$10.125 Dividend .....	5.06	506
\$11.375 Dividend .....	<u>5.69</u>	<u>1,706</u>
		<u><b>\$3,306</b></u>
<b>Preferred Stock, Redemption not Required:</b>		
\$ 4.50 Dividend .....	\$2.26	\$ 34
\$ 4.12 Dividend .....	2.06	31
\$ 4.72 Dividend .....	2.36	47
\$ 4.56 Dividend .....	2.28	91
\$ 8.24 Dividend .....	<u>4.12</u>	<u>216</u>
		<u><b>\$ 419</b></u>

If dividends on any of the outstanding preferred stock accumulate and remain unpaid in a cumulative amount equal to four full quarterly dividends, the holders of the preferred stock will be entitled to elect two additional directors to the Board of Directors until all dividends on preferred stock have been fully paid or until dividends on any of the outstanding preferred stock accumulate and remain unpaid in an amount equal to twelve full quarterly dividends. If dividends in an amount equal to twelve full quarterly dividends are unpaid, the holders of the preferred stock will be entitled to elect the smallest number of directors necessary to constitute a majority of the full Board of Directors until all dividends on preferred stock have been fully paid. When the right to elect directors accrues to the holders of preferred stock, such holders vote as a class. Assuming no full or partial dividends are paid on the preferred stock, the holders of the Company's preferred stock will have the right (subject to satisfaction of certain procedural requirements) to elect two additional directors July 1, 1992 and a majority of the Board on July 1, 1994.

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*Preferred Stock, Redemption Required.* Following is a summary of issued and outstanding preferred stock, redemption required:

December 31,					Optional Redemption Price Per Share at December 31, 1991
1991		1990			
Shares	Amount (In thousands)	Shares	Amount (In thousands)		
\$10.75 Dividend .....	52,000	\$ 5,200	56,000	\$ 5,600	\$102.500
\$ 8.44 Dividend .....	97,600	9,760	97,600	9,760	104.220
\$ 8.95 Dividend .....	90,000	9,000	90,000	9,000	104.480
\$10.125 Dividend .....	100,000	10,000	150,000	15,000	101.125
\$11.375 Dividend .....	300,000	30,000	400,000	40,000	102.610
	<u>639,600</u>	<u>63,960</u>	<u>793,600</u>	<u>79,360</u>	
Cumulative dividends in arrears.....		<u>3,306</u>		<u>—</u>	
		<u>\$67,266</u>		<u>\$ 79,360</u>	

Each series of preferred stock, redemption required, is entitled to the benefits of its respective annual sinking fund which requires redemptions of a specified number of shares or a percentage of outstanding shares. The sinking fund redemption price on all series is \$100 per share plus accrued dividends.

Each series, other than the \$10.75 series, is redeemable at the option of the Company at various stated redemption prices. Optional redemptions are also generally restricted as to the timing of redemption when such redemptions are part of or in anticipation of any refunding involving the issue of indebtedness or preferred stock having an effective interest cost or effective dividend cost of less than the stated dividend rate of each preferred stock series.

Sinking fund requirements for each of the above series are cumulative and, in the event they are not satisfied at any redemption date, the Company is restricted from paying any dividends on its common stock (other than dividends paid in shares of common stock or other class of stock ranking junior to the preferred stock as to dividends or assets). On October 1, 1991, the Company failed to make required sinking fund payments of \$600,000 and \$750,000 on its \$8.44 and \$8.95 series preferred stock, respectively.

The aggregate amounts of the above preferred stock required to be redeemed for each of the next five years are as follows (In thousands):

1992 .....	\$16,750
1993 .....	16,750
1994 .....	11,750
1995 .....	1,750
1996 .....	<u>1,750</u>

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Redemptions of preferred stock, redemption required were as follows:

	<u>Shares</u>	<u>Amount</u> <u>(In thousands)</u>
Balance at December 31, 1988 .....	1,084,600	\$108,460
Redemption of Preferred Stock, \$10.75 Dividend .....	(4,000)	(400)
Redemption of Preferred Stock, \$8.44 Dividend .....	(6,000)	(600)
Redemption of Preferred Stock, \$8.95 Dividend .....	(7,500)	(750)
Redemption of Preferred Stock, \$9.50 Dividend .....	(10,000)	(1,000)
Redemption of Preferred Stock, \$10.125 Dividend .....	<u>(50,000)</u>	<u>(5,000)</u>
Balance at December 31, 1989 .....	1,007,100	100,710
Redemption of Preferred Stock, \$10.75 Dividend .....	(4,000)	(400)
Redemption of Preferred Stock, \$8.44 Dividend .....	(6,000)	(600)
Redemption of Preferred Stock, \$8.95 Dividend .....	(7,500)	(750)
Redemption of Preferred Stock, \$9.50 Dividend .....	(46,000)	(4,600)
Redemption of Preferred Stock, \$10.125 Dividend .....	(50,000)	(5,000)
Redemption of Preferred Stock, \$11.375 Dividend .....	<u>(100,000)</u>	<u>(10,000)</u>
Balance at December 31, 1990 .....	793,600	79,360
Redemption of Preferred Stock, \$10.75 Dividend .....	(4,000)	(400)
Redemption of Preferred Stock, \$10.125 Dividend .....	(50,000)	(5,000)
Redemption of Preferred Stock, \$11.375 Dividend .....	(100,000)	(10,000)
Cumulative dividends in arrears .....	<u>—</u>	<u>3,306</u>
Balance at December 31, 1991 .....	<u>639,600</u>	<u>\$ 67,266</u>

*Preferred Stock, Redemption not Required.* Following is a summary of preferred stock issued and outstanding at December 31, 1991 which is not redeemable except at the option of the Company:

	<u>Shares</u>	<u>Amount</u> <u>(In thousands)</u>	<u>Optional Redemption Price Per Share</u>
\$4.50 Dividend .....	15,000	\$ 1,534	\$109.00
\$4.12 Dividend .....	15,000	1,506	103.98
\$4.72 Dividend .....	20,000	2,001	104.00
\$4.56 Dividend .....	40,000	4,000	100.00
\$8.24 Dividend .....	<u>52,450</u>	<u>5,157</u>	<u>103.40</u>
	<u>142,450</u>	<u>\$14,198</u>	

All preferred stock issues (redemption required and redemption not required) are entitled in preference to common stock, to \$100 per share plus accrued dividends, upon involuntary liquidation. All issues are entitled to an amount per share equal to the applicable optional redemption price plus accrued dividends, upon voluntary liquidation.

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**H. Debt in Default and Financing Requirements**

As of December 31, 1991 the Company was in default under the terms of substantially all its debt agreements. Additionally, the Company's petition, filed on January 8, 1992, for protection under Chapter 11 is considered an event of default under substantially all of the agreements evidencing the Company's long-term and short-term indebtedness. Because of cross default provisions, the Company is expected to remain in default on these agreements until a reorganization plan is completed pursuant to the bankruptcy proceedings. Although the entire amount became payable on demand at December 31, 1991, no principal payments can be made by the Company with respect to amounts outstanding under the debt issues absent order of the Bankruptcy Court until approval of a plan of reorganization and consequently all of the Company's indebtedness is reflected as non-current in the accompanying balance sheet as of December 31, 1991. Therefore, although the contractual obligations of the Company's debt agreements require payments to be made during the next year of \$67,480,000, these amounts are presented as non-current because of the stay as of the Petition Date.

Interest cannot be paid on the Company's debt, except to the extent permitted by the Bankruptcy Court on secured debt, and therefore will not be accrued for financial reporting purposes during the Chapter 11 proceedings. The related interest accrued on unsecured debt of the Company at December 31, 1991 is therefore classified as a long-term obligation and included in long-term debt. It cannot be determined at this time whether or to what extent interest on unsecured debt will have to be provided for under any plan of reorganization.

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A summary of the contractual terms and conditions, except the classification as explained above, of the Company's debt follows:

	December 31,	
	1991	1990
	(In thousands)	
<b>Secured Debt:</b>		
<b>First Mortgage Bonds(1):</b>		
4½% Series, issued 1962, due 1992.....	\$ 10,385	\$ 10,385
6¾% Series, issued 1968, due 1998.....	24,800	24,800
7¾% Series, issued 1971, due 2001.....	15,838	15,838
9% Series, issued 1974, due 2004.....	20,000	20,000
10½% Series, issued 1975, due 2005.....	15,000	15,000
8½% Series, issued 1977, due 2007.....	25,000	25,000
9.95% Series, issued 1979, due 2004.....	17,559	18,622
13¼% Series, issued 1984, due 1994.....	17,700	23,600
11.10% Series, issued 1990, due 2001.....	153,000	153,000
	<u>299,282</u>	<u>306,245</u>
<b>Second Mortgage Bonds (2):</b>		
11.58% Series, issued 1990, due 1997.....	35,000	35,000
12.63% Series, issued 1990, due 2005.....	105,000	105,000
12.02% Series, issued 1991, due 1999.....	25,000	—
	<u>165,000</u>	<u>140,000</u>
<b>Pollution Control Bonds(3):</b>		
Secured by Second Mortgage Bonds:		
Variable rate bonds, due 2014, net of \$1,658,000, and \$1,585,000, respectively, on deposit with trustee .....	61,842	61,915
Variable rate refunding bonds, due 2014 .....	37,100	37,100
Variable rate refunding bonds, due 2015 .....	59,235	59,235
Floating rate notes secured by Second Mortgage Bonds, due 1991 .....	—	70,000
Revolving credit facility secured by First and Second Mortgage Bonds, due 1992(4) .....	150,000	5,000
Nuclear fuel financing secured by nuclear fuel(5) .....	60,502	81,759
Note payable to banks .....	9,756	9,756
Fuel oil financing(6) .....	5,592	—
Total secured debt .....	<u>848,309</u>	<u>771,010</u>
<b>Unsecured Debt:</b>		
Notes payable to banks(7) .....	208,012	—
Provision for letters of credit draws(7) .....	80,404	—
Pollution control bonds, variable rate, refunding bonds, due 2013, net of \$3,850,000 and \$3,680,000, respectively, on deposit with trustee .....	31,955	32,125
Promissory note due 1992(8) .....	25,000	25,000
Financing obligation Palo Verde Unit 2(9) .....	79,186	80,339
Lease obligation, Copper Turbine(10) .....	10,716	11,291
Prepetition interest .....	4,551	—
Total unsecured debt .....	<u>439,824</u>	<u>148,755</u>
	1,288,133	919,765
Less current portion .....	—	(124,138)
Less unamortized discount and premium attributable to secured debt.....	(936)	(1,064)
	<u>\$1,287,197</u>	<u>\$ 794,563</u>

**EL PASO ELECTRIC COMPANY**  
**(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**(1) First Mortgage Bonds**

The First Mortgage Indenture is secured by substantially all of the Company's utility plant. Under the First Mortgage Indenture the Company may issue bonds to the extent of 60% of the value of unfunded net additions to the Company's utility property, provided that earnings available for interest are at least equal to twice the annual interest requirements on all bonds to be outstanding and on all prior lien debt.

The First Mortgage Indenture provides for sinking and improvement funds, except as otherwise noted, equivalent to 1%, (\$1,115,000 at December 31, 1991), of the greatest aggregate principal amount of such series outstanding prior to a specified date. The Company has generally satisfied the 1% requirements for such series by relinquishing the right to use a net amount of additional property for the issuance of the bonds or by purchasing bonds in the open market. With respect to the 9.95% series, the Company was required to make annual cash payments to the trustee equivalent to 4.25% of the greatest aggregate principal amount of such series outstanding at any one time prior to a specified date, \$1,063,000 as of December 31, 1991. With respect to the 13.25% series, the Company was required to make annual cash payments to the trustee equivalent to 20% of the greatest aggregate principal amount of such series outstanding at any one time prior to a specified date, \$5,900,000 as of December 31, 1991. With respect to 11.10% series, commencing in June and December 1995, the Company was required to make semiannual cash payments to the trustee equivalent to 7.14% of the greatest aggregate principal amount of such series outstanding at any one time prior to a specified date. As of December 31, 1991, the following amounts remained due as follows: 1992 — \$18,358,000; 1993 — \$7,973,000; 1994 — \$7,973,000; 1995 — \$23,923,000; 1996 — \$23,923,000.

**(2) Second Mortgage Bonds**

The Second Mortgage Indenture is secured by substantially all of the Company's utility plant. Under the Second Mortgage Indenture the Company may issue bonds on the basis of 40% of the value of unfunded net additions to the Company's utility property, or to the extent of the principal amount of retired bonds.

The Second Mortgage Indenture provides for sinking funds. With respect to the 11.58% series, commencing in December 1994, the Company was required to make annual cash payments to the trustee equivalent to 25% of the greatest aggregate principal amount of such series outstanding at any one time prior to a specified date. With respect to the 12.63% series, commencing in December 2001, the Company was required to make annual cash payments to the trustee of a specified amount. As of December 31, 1991, the following amounts remained due as follows: 1994 — \$8,750,000; 1995 — \$8,750,000; 1996 — \$8,750,000.

**(3) Pollution Control Bonds**

The proceeds from the issuance of the Pollution Control Bonds were used to pay the cost of acquiring, constructing, reconstructing, improving, maintaining or furnishing the pollution control facilities at the Company's Palo Verde and Four Corners power plants.

**(4) Revolving Credit Facility**

The RCF, involves a syndicate of money center banks, which provides for borrowings from time to time up to a maximum of \$150 million. The termination date of the RCF is January 31, 1992. The Company has provided \$100 million of Second Mortgage Bonds and \$50 million of First Mortgage Bonds as collateral.

**(5) Nuclear Fuel Financing**

The Company entered into a nuclear fuel purchase contract with a third party grantor trust, Rio Grande Resources Trust (RGRT), established for the sole purpose of financing the purchase and enrichment of

**EL PASO ELECTRIC COMPANY**  
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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

nuclear fuel for use by the Company at Palo Verde. Prior to the filing of the Company's bankruptcy petition, the trust generally financed nuclear fuel and all costs in connection with the acquisition of the Company's share of nuclear fuel for use at Palo Verde. The Company had the option of either paying for the fuel from the trust at the time the fuel was loaded into the reactor or paying for the fuel at the time heat was generated by the fuel. The Company had elected to pay for the fuel as the heat was produced from the fuel. No payments of any kind are currently being made to the trust because of the Company's bankruptcy proceedings. At December 31, 1991, the aggregate book investment of the trust in such nuclear fuel and related materials was approximately \$60,500,000, including approximately \$39,500,000 for fuel loaded at Palo Verde. To finance its obligations, the trust has a credit agreement providing for borrowings up to \$125,000,000. The borrowing facilities under the credit agreement are supported by a bank letter of credit in the amount of \$125,000,000. Since the Company filed its bankruptcy petition, the Company has not sought to finance its fuel costs from the trust, but has instead paid for nuclear fuel with its own funds. The trust contends that it has an enforceable property interest in Palo Verde nuclear fuel, power, energy and revenues, which the Company is disputing in the bankruptcy proceedings.

**(6) Fuel Oil Financing**

The Company entered into a fuel oil supply contract with a third party grantor trust, Big Bend Resources Trust, established for the purpose of financing the Company's fuel oil requirements. Big Bend has a credit agreement with a bank to provide for borrowings up to \$15,000,000. The Company reimburses Big Bend for any oil burned. At December 31, 1991, the aggregate investment of Big Bend is reflected on the Company's books. The credit arrangement expires at January 31, 1992. The Company is considering terminating its agreements with Big Bend Resources Trust at an earlier date. Such termination may result in a liquidated pre-petition claim being asserted against the Company to the extent the sale price of the oil is less than the amount the Company owes the trust.

**(7) Notes Payable to Banks**

The amount represents the aggregate amount of draws on letters of credit supporting the sales and leasebacks of Palo Verde Unit 2. The provision for letters of credit draws represents the amount drawn on January 9, 1992 related to letters of credit supporting the sale and leaseback of Palo Verde Unit 3. See discussion of letters of credit draws at Note B.

**(8) Promissory Note**

The unsecured note due 1992 is floating rate, 5.75% at December 31, 1991. See Note A.

**(9) Financing Obligation Palo Verde Unit 2**

In December 1986, the Company entered into a financing obligation related to one sale and leaseback transaction involving Palo Verde Unit 2. (See Note B). Semiannual payments including interest (using an assumed interest rate of 9.01%), which began in July 1987, are \$4,181,000, with the last payment of \$2,091,000 due in July 2013.

**(10) Lease Obligation, Copper Turbine**

In 1980 the Company leased a turbine and certain other related equipment from the trust-lessor for a twenty-year period, with renewal options for up to seven more years. Semiannual lease payments, including interest, which began in January 1982, were \$719,000 through January 1991, and \$861,000 thereafter to July 2000. The effective annual interest rate implicit in this lease is calculated to be 9.6%. A gain to the Company related to the sale of the turbine to the trust in the amount of \$2,343,000 is being amortized to income over the term of the lease. See Note A.



**EL PASO ELECTRIC COMPANY**  
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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*Possible Financing Requirements.* The Company has been paying when due obligations which have arisen subsequent to its bankruptcy filing; however, the Company has not been paying obligations accruing under its (i) existing financing arrangements; and (ii) Palo Verde leases pending a determination as to the postpetition amounts accruing and owing with respect to such leases. The Bankruptcy Court has left open the possibility that a party-in-interest may seek an order to compel the Company to make Palo Verde lease payments at any time. The Company anticipates that, due to the deferral of payments, it will have adequate cash flow during the pendency of the bankruptcy proceedings to pay ongoing expenses and obligations.

To the extent that the funds of the Company are insufficient to meet its ongoing expenses and obligations, the Company may seek to obtain additional financing. Any financing by the Company during the bankruptcy proceedings for the purpose of raising funds to make capital expenditures, or for other purposes, and the granting of any lien on Company assets to secure financing during the bankruptcy proceedings, require the approval of the Bankruptcy Court and possibly other regulatory bodies. Any such financing and/or lien could be opposed by the Company's creditors or any other party-in-interest.

*Liabilities Subject to Compromise.* In November 1990 the American Institute of Certified Public Accountants issued Statement of Position 90-7 (the "SOP") regarding financial reporting by entities in reorganization under the Bankruptcy Code. The Company will adopt the provisions of the SOP for all future financial reporting. The most significant impact on financial statements will be the segregation of prepetition liabilities subject to compromise from all other liabilities. The SOP defines liabilities not subject to compromise as those that will not be impaired under the plan of reorganization such as claims where the value of the security interest is greater than the claim.

The Company has not yet formulated a plan of reorganization and it is uncertain as to whether, or the extent to which, certain claims will or can be impaired under a plan, particularly with regard to whether certain claims will be treated as priority or administrative claims under the bankruptcy code. The Company is still in the process of accumulating and analyzing information regarding the amount and nature of all claims. However, in order to estimate the potential impact of the SOP on its future financial statements, the Company has assumed that all liabilities, other than secured debt which amounted to approximately \$848,309,000 at December 31, 1991, will be subject to compromise based on this assumption, the following is a summary of the estimated liabilities that are subject to compromise as of the Petition Date (unaudited):

Accounts payable .....	\$ 18,139
Accrued expenses, other .....	11,224
Long-term debt .....	151,408
Other long-term obligations .....	<u>288,416</u>

Future contractual minimum annual debt requirements at December 31, 1991 are as follows (In thousands):

1992 .....	\$ 67,480
1993 .....	23,846
1994 .....	38,634
1995 .....	39,195
1996 .....	<u>36,439</u>

The table above does not reflect any of the potential effects upon future contractual debt requirements that would result from the outcome of the Company's reorganization plan.

**EL PASO ELECTRIC COMPANY**  
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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**I. Federal Income Taxes**

The detail of federal income taxes by component is as follows:

	Years Ended December 31,		
	1991	1990	1989
	(In thousands)		
Current income taxes .....	\$ (2,766)	\$ 1,051	\$(18,856)
Deferred income taxes:			
Depreciation differences .....	4,356	8,163	16,684
Deferred and capitalized expenses .....	10,894	8,779	10,139
Sale and leaseback transactions .....	7,543	8,137	7,103
Deferred fuel revenues .....	(3,359)	1,094	3,819
Deferred revenues .....	2,208	5,024	6,157
Regulatory disallowance .....	(7,631)	(8,859)	(6,051)
Restructuring costs .....	(3,663)	—	—
Loss attributable to letter of credit draws .....	(98,061)	—	—
Other .....	(1,777)	(4,953)	9,039
Deferred taxes not recognized due to book taxable loss .....	89,791	(18,450)	—
Rate differential resulting from loss carryback to 1986 .....	—	—	(11,816)
Tax benefits of book loss carryforward .....	(115,365)	(11,839)	—
Tax benefits of book loss carryforward not recognized ..	36,994	—	—
Extraordinary item, net .....	(22,365)	—	—
Total deferred .....	<u>(100,435)</u>	<u>(12,904)</u>	<u>35,074</u>
Investment tax credit:			
Deferral .....	147	1,666	(13,417)
Amortization .....	(3,992)	(4,957)	(3,267)
Total investment tax credit .....	<u>(3,845)</u>	<u>(3,291)</u>	<u>(16,684)</u>
Total .....	<u><u>\$(107,046)</u></u>	<u><u>\$(15,144)</u></u>	<u><u>\$ (466)</u></u>

**EL PASO ELECTRIC COMPANY**  
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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

Federal income tax provisions differ from amounts computed by applying the statutory rate of 34% to book income (loss) before federal income taxes as follows:

	Years Ended December 31,		
	1991	1990	1989
	(In thousands)		
Tax computed on income (loss) from continuing operations before extraordinary item at statutory rate . . . .	\$(119,542)	\$(12,583)	\$ 506
(Decreases) increases due to:			
Allowance for equity funds used during construction . . . .	(23)	(1,650)	(4,276)
Amortization of equity funds used during construction . .	1,557	1,670	3,126
Prudence disallowance-allowance for equity funds used during construction . . . . .	2,901	—	—
ITC amortization . . . . .	(3,992)	(4,957)	(3,267)
Amortization of excess deferred taxes . . . . .	(342)	(3,878)	(1,297)
Adjustment to deferred taxes provision . . . . .	154	4,648	3,270
Tax benefits of book loss not recognized . . . . .	36,994	—	—
Other . . . . .	(2,388)	1,606	1,472
	<u>(84,681)</u>	<u>(15,144)</u>	<u>(466)</u>
Tax computed on extraordinary item at statutory rate . . . .	(105,899)	—	—
Increases due to:			
Allowance for equity funds used during construction written off . . . . .	6,376	—	—
Tax effect of tax-related regulatory assets written-off . . .	26,917	—	—
Tax benefits of loss not recognized . . . . .	44,841	—	—
Other . . . . .	5,400	—	—
	<u>(22,365)</u>	<u>—</u>	<u>—</u>
Total federal income tax benefit . . . . .	<u>\$(107,046)</u>	<u>\$(15,144)</u>	<u>\$ (466)</u>
Effective federal income tax rate . . . . .	<u>(16.14)%</u>	<u>(40.92)%</u>	<u>(31.33)%</u>

For financial statement purposes, the Company has taxable losses of \$552,857,000 in 1991 and \$34,820,000 in 1990. The 1990 loss and \$339,309,000 of the 1991 loss are in a carryforward position. The Company has not been able to recognize the full book tax benefits of the book loss in 1991 that is carried forward due to the limitations imposed by APB 11. Under APB 11, the tax benefits of a book loss carryforward can be recognized to the extent deferred tax credits that will amortize during the loss carryforward period exist.

As of December 31, 1991, the Company has recognized tax effects of its 1990 and 1991 book losses totalling \$90,210,000 and has offset deferred tax credits on the balance sheet in this amount. Tax benefits of \$36,994,000 were not recognized in 1991 as deferred tax credits reversing in the fifteen year carryforward period were not sufficient to allow this recognition under APB 11. The Company has not recognized tax benefits of \$44,841,000 related to the book taxable loss of \$213,548,000 associated with the extraordinary item.

The Company has an estimated 1991 tax net operating loss of \$75,220,000. This tax net operating loss is to be carried forward and expires in 2006. The Company also has tax net operating loss carryforwards of \$82,133,000 from 1990 and \$57,409,000 from 1988. These loss carryforwards expire in the years 2005 and 2003, respectively.

**EL PASO ELECTRIC COMPANY**  
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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

As a result of the carryback of the tax net operating losses generated in 1990 and 1989 and the capital losses generated in 1990, the Company has freed up and has available for carryforward investment tax credits of approximately \$22,840,000. In 1990, the Company generated \$5,650,000 of investment tax credits from property qualifying under the Tax Reform Act of 1986 transition rules. No ITC was generated in 1991 and the Company does not have any additional property that will qualify under the transition rules. The total investment tax credit carryforward at December 31, 1991 is approximately \$28,490,000. Of this amount, approximately \$11,840,000 will expire in 2001, approximately \$11,000,000 will expire in 2002, and the remainder will expire in 2005.

The Company's tax net operating loss carryforwards and investment tax credit carryforwards could be reduced or eliminated or the amounts that can be utilized in any year could be limited if certain events occur as a part of the Company's reorganization. Such events include, but are not limited to, debt forgiveness and the conversion of debt to equity. The occurrence of such events and their effects on the Company's tax attributes, if any, cannot be estimated until a reorganization plan is confirmed.

The consolidated federal income tax returns of the Company for the open years 1983 through 1989 have been examined by the IRS. There are issues currently pending upon administrative appeals with the IRS for the years 1983 through 1985. In addition, the Company has filed a protest letter to the revenue agents' report issued for the years 1986 through 1989. The Company believes that adequate provisions have been made through December 31, 1991 for additional tax that may be due, if any.

**J. Commitments and Contingencies**

Construction commitments for the Company subsequent to December 31, 1991 are primarily related to Palo Verde and, total approximately \$64,965,000, which includes AFUDC (net of related deferred tax) in the amount of \$7,090,000. These obligations largely constitute pre-petition claims or executory contract obligations capable of assumption or rejection.

**Arizona Tax Matters**

*Arizona Transaction Privilege ("Sales") Tax.* In 1986 and 1987, the Company entered into sale and leaseback transactions with respect to its interest in Unit 2 and 40% of Unit 3 at PVNGS. Pursuant to the participation agreements and leases in such transactions (the "Palo Verde Leases"), the Company is obligated to hold the Owner Trustee and Equity Participants harmless against certain tax events. The ADR conducted an audit in 1990-1991 of the sales taxes paid on lease payments made pursuant to the Palo Verde Leases during the audit period of August 1, 1988 through July 31, 1990. On March 10, 1992, the Company received copies of Notices of Proposed Assessment (the "Sales Tax Notices") issued by the ADR to each of the taxpayer owner trusts in care of the Owner Trustee. The Sales Tax Notices proposed total deficiency assessments for the audit period of approximately \$8.8 million, plus related interest of \$2.5 million computed through March 31, 1992, for a total of \$11.3 million.

The Company has forwarded copies of the Sales Tax Notices to the Owner Trustee, so the Owner Trustee and Equity Participants can contest the matter. The Sales Tax Notices do not set forth the specific basis for the proposed deficiency assessments; however, the Company believes that the proposed deficiency assessments relate to the percentage of property subject to lease payments that is classified as commercial lease real property for Arizona sales tax purposes versus personal property subject to an exemption. The Company believes the proposed deficiency assessments are based on a calculation that 100% of the leased property is classified and taxable as commercial lease real property, rather than the 8% that has been reported by the Company as real property and the basis for taxes paid with respect to the Palo Verde Leases during the

**EL PASO ELECTRIC COMPANY**  
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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

period from August 1, 1988 (the effective date of the imposition of the tax) through the date of the last Palo Verde Lease payment in October 1991.

If the ADR is successful and the Owner Trustee or Equity Participants incur additional tax liability, the Owner Trustee and Equity Participants would have a claim against the Company for indemnification against such tax liability. The Company estimates that the amount of the indemnification claim would be approximately \$17 million (\$14 million in tax computed through the date of the last lease payment made in October 1991, plus related interest of \$3 million computed through March 31, 1992). The Company cannot predict whether a contest of the proposed deficiency assessments will be successful or the outcome of any claim for indemnification arising out of such contest. The Company would seek to recover any increased expenses through rates.

*Arizona Income Tax.* By Notice of Proposed Correction of Income Tax dated February 9, 1990 ("Income Tax Notice"), the ADR, in connection with an audit examination of the Company's Arizona corporate income tax returns for taxable years 1984 through 1987, informed the Company that the ADR has determined that the gains from the 1986 and 1987 sales of the Company's interest in Palo Verde Unit 2 and a portion of the Company's interest in Unit 3 are allocable to Arizona for state income tax purposes on the grounds that the units constitute non-business assets with a situs in Arizona, resulting, according to the ADR, in a proposed deficiency assessment, including related interest and penalties, of approximately \$39.5 million (\$46.5 million if interest is extended through December 31, 1991), exclusive of any Arizona net operating loss ("NOL") carryforwards. On March 28, 1990, the Company filed a protest to the proposed deficiency assessment. The Company believes Palo Verde Units 2 and 3 constituted business assets at the time of the respective sales and, in accordance with Arizona law, it apportioned rather than allocated the corresponding gains in calculating and reporting the Arizona income tax on the transactions.

A formal administrative hearing with the Appeals Section of the ADR was held on October 19, 1990, at which time the Hearing Officer allowed the ADR, over the Company's objections, to raise issues not contained in the Income Tax Notice. The two primary issues so raised by the ADR are: (i) whether the Company properly excluded from the Arizona sales factor computation in 1986 and 1987 the gross proceeds from the sale and leaseback transactions involving Palo Verde Units 2 and 3, respectively; and (ii) whether carryovers of Arizona NOL generated in the taxable years 1979 through 1983 can be used by the Company to offset Arizona taxable income in the taxable years 1984 through 1987. The Company filed an Opening Post-Hearing Memorandum and Taxpayer's Proposed Findings of Fact with the Appeals Section on September 3, 1991. In this Memorandum the Company stated its position regarding three primary issues: (i) the gains from the sale and leaseback of Palo Verde Units 2 and 3 constitute business income subject to apportionment; (ii) the Company has substantiated net operating loss carryovers from 1979 through 1983; and (iii) the ADR erroneously asserted a late payment penalty. The Company also objected to the ADR bringing any issues other than the three primary issues before the Hearing Officer.

The ADR filed its Post-Hearing Response Memorandum in October 1991, which brought forth its position on four primary issues: (i) the gains on the sales of Palo Verde Units 2 and 3 should be fully allocated to Arizona; (ii) the Company's apportionment factors as reported distort the Company's income in Arizona; (iii) the net operating losses generated in the taxable years 1979 through 1983 have not been substantiated; and (iv) the ADR properly assessed a late payment penalty.

The Company filed its final Post-Hearing Reply Memorandum in December 1991 objecting to each issue brought forth by the ADR and presenting support for the Company's position.

As a result of the stay imposed by the Bankruptcy Code, the Company cannot predict when the Appeals Section of the ADR will be able to issue a decision on the case. The Company does not expect to incur any material liability with respect to this matter.

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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*Arizona Property Tax.* On June 29, 1990, the Arizona legislature enacted legislation effective December 31, 1989, which requires the school district in which Palo Verde is located to levy additional property taxes on utility and mining property. On December 20, 1990, the Palo Verde Participants, including the Company, filed a lawsuit in the Arizona Tax Court, a division of the Maricopa County Superior Court, against the ADR, the Treasurer of the State of Arizona, and various Arizona counties, claiming, among other things, that portions of the new tax law are unconstitutional. Discovery is ongoing and the Company cannot currently predict the outcome of this matter.

**Environmental Matters**

The Company is subject to regulation with respect to air and water quality, solid waste disposal and other environmental matters, by various federal, state and local authorities. These authorities govern current facility operations and exert continuing jurisdiction over facility modifications. Environmental regulations are changing at a rapid pace. The effect of future regulation upon existing and proposed facilities and operations cannot presently be determined. Environmental standards regulate the construction of new facilities and may require substantial expenditures to control emissions or discharges from the Company's facilities and operations, which could have a significant adverse effect on the Company's financial position. There can be no assurance that the capital expenditures and operating costs incurred in response to environmental considerations will be fully allowable for ratemaking purposes.

**Air Quality**

Air quality standards and emission limitations in Texas and New Mexico are subject to the jurisdiction of the TACB and NMED, respectively, with oversight by the EPA. Compliance with such standards and limitations has resulted, and is expected to continue to result, in substantial expense to the Company.

In November 1990, the Clean Air Act Amendments of 1990 (the "Clean Air Act") became law. The Clean Air Act establishes new regulatory and permitting programs which will be administered by EPA or delegated states. Although the substantive requirements of these programs cannot be determined until implementing regulations have been promulgated, the Company anticipates that additional expenditures may be required for any new generating units that may be constructed in the future or for modifications to existing generating units.

The Company has begun an initial evaluation of the impact of the Clean Air Act on the Company's operations. However, because the EPA and the states are still defining the programs which implement the Clean Air Act, the Company is unable to assess the ultimate effect of the Clean Air Act on the Company.

**Water Quality and Solid Waste Disposal**

The Company is subject to federal and state regulation of all wastewater discharges into the navigable waters of the United States and state waters, and of all aspects of handling solid wastes from generation to final disposal. A summary of potentially significant matters relating to the Company's regulation in these areas is set forth below.

*Santa Fe Station.* In August 1990, in the course of capping several unused water wells located at the Company's Santa Fe Station site in El Paso, Texas, the Company discovered the presence of oil within one of the water wells. Upon testing the water/oil residue, the Company detected the presence of PCBs in the residue. In accordance with the rules and regulations of the TWC, the Company notified the TWC of the presence of PCBs. The source of the oil and the PCBs in the well is not known. The TWC requested that the Company perform a site assessment study and report its findings to the TWC. Reports indicate the presence of PCBs and TPHs in the soil and water. Based upon test results obtained to date, the Company believes that the

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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

PCB contamination is relatively contained, but the presence of TPHs appears to be more extensive. At the direction of the TWC, the Company continues to monitor the site. The extent and nature of any required remediation cannot be determined at this time.

The Santa Fe Station property was the site of a coal gasification plant in the late nineteenth century. In August 1989, the TWC notified the Company that the TWC, together with the EPA, had conducted a study of 33 coal gasification sites in Texas. The TWC stated that while by-products from coal gasification plants may or may not result in hazardous substances being present in the soil, no apparent threat to human health, safety or the environment exists, and the TWC required no action with respect to the coal gasification plant at the Santa Fe Station site. One of the factors relied upon by the TWC is that the area is covered by buildings and asphalt. Activities required to remediate PCB contamination could disturb the asphalt cover causing the TWC to require remediation of the entire site, including the coal gasification plant. In this event the total cost to the Company could exceed \$2 million. The Company does not expect the TWC to require remediation of the entire site.

The Company does not believe that any penalties or fines will be assessed against the Company as a result of these matters.

*Rio Grande Power Station.* The Company has notified NMED of a spill of approximately 510 barrels of light grade fuel oil which occurred at the Rio Grande Power Station in August 1986. Because the location of the spill is close to the Rio Grande River, and the depth of ground water is known to be relatively shallow, the Company commenced a site assessment. The New Mexico Water Quality Act provides for a potential penalty of \$1,000 for each day of violation, which for a five-year period could result in a penalty of approximately \$2 million. The Company has been in close communication with the NMED and does not believe that a penalty of such magnitude will be assessed. Potential clean-up costs cannot be estimated until a site assessment has been finished.

*COL-TEX Refinery Site.* In November 1991, the Company, along with other entities with activities in the area of the site, received a notice of potential responsibility and a request for information regarding the Col-Tex Refinery located along the Colorado River in Colorado City, Texas. In response to this inquiry about the Company's historic activities at the site, the Company is conducting a limited document and site review. While the Company does not believe that it has engaged in any conduct which contributed to the environmental contamination of the site, the Company cannot make any prediction of potential liability at this time and does not believe that it will become a primary target of the TWC's investigation.

#### **Health Insurance Plan**

The Company maintains a self-insurance program for that portion of health care costs not covered by insurance. The Company is liable for claims up to \$100,000 per employee or retiree annually, and aggregate claims up to approximately \$3,200,000 annually. Self-insurance costs are accrued based upon the aggregate liability for reported claims and an actuarially determined estimated liability for claims incurred but not reported.

#### **K. Litigation**

##### **Grand Jury Indictment**

On June 4, 1991 a Grand Jury of El Paso County, Texas, issued an indictment against the Company alleging that the Company conspired and combined with others to commit theft from certain persons who purchased annuities from First Service Life Insurance Company (First Service), an offense that constitutes a felony under Texas criminal law. On July 26, 1991 the State District Judge who was hearing the case ordered

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the District Attorney to amend the indictment to give the defendants clear notice of the charges alleged against them and to delete surplusage in the indictment. The District Attorney filed an amended indictment on August 5, 1991. The indictment was quashed by the District Judge on August 23, 1991 following a hearing. The Grand Jury issued a new indictment (the "Indictment") against the Company on August 24, 1991, which does not differ materially from the charges set forth in the original indictment. The Company has asserted its innocence against the charges contained in the Indictment, has entered a plea of "not guilty" and intends to defend vigorously against the charges alleged therein.

The Federal Deposit Insurance Corporation ("FDIC") in late November 1991, as receiver for one of the indicted entities, removed the criminal case from state court (the "State Court") to the U.S. District Court for the Western District of Texas, El Paso Division (the "Federal Court"), pursuant to federal statute providing for removal of any "action, suit or proceeding" involving the FDIC (Federal Docket No. EP-91-CR-339B), which was challenged by the State of Texas (the "State"). On November 21, 1991, the Federal Court denied the State's motion to remand the action. The State filed an appeal of the decision and petitioned for a writ of mandamus to the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit").

On January 15, 1992, the Fifth Circuit issued an order denying the State's Petition for Leave to File an Interlocutory Appeal. The Fifth Circuit subsequently denied the State's Petition for a Writ of Mandamus.

The case is currently subject to the jurisdiction of the Federal Court. While it is possible that the case will be remanded to the State Court, the Company has been informed that the State intends to proceed to a trial before the Federal Court. Legal counsel to the Company believes that the possibility of a remand to the State Court is remote. The Federal Court has not issued a trial setting, however, the Company has been informed that the case may proceed to trial in the Federal Court as early as July 13, 1992.

The charges set forth in the Indictment and the actions described in the Indictment as the basis for the Indictment relate to the sale of annuities from 1984 to 1987 by First Service Life Insurance Company to various persons, including the Company. The issuance of the annuities is the subject of civil litigation brought by the Company in 1988 against First Service Life Insurance Company and its state-appointed receiver. The Company is seeking a declaratory judgment that it has valid and perfected security interests in and to certain assets that had been pledged by the insurance company to the Company to secure performance of the annuities. See "First Service Life Civil Litigation" below.

Two former non-utility subsidiaries of the Company, Franklin Land and PasoTex and three individuals who formerly served as officers or directors of the Company, Mr. Evern Wall, Mr. Billye Bostic and Mr. Tad Smith, also were named as defendants in the Indictment, as well as fifteen other corporations and eight other individuals. The two subsidiary corporations were sold by the Company in January 1990. Mr. Wall retired as Chairman of the Board and Chief Executive Officer of the Company in June 1989. Mr. Bostic last held office with the Company in 1987 and retired as an officer of PasoTex in March 1989. Mr. Smith resigned from the Board of Directors in March 1990. Mr. Smith is the senior attorney at Kemp, Smith, Duncan & Hammond, P.C., the law firm that has served as the Company's long-time outside legal counsel, and which also was named as a defendant in the Indictment. The Company indemnified Mr. William W. Royer, Senior Vice President, for expenses incurred in connection with the proceedings of the grand jury prior to the Indictment of the Company. The Company may have indemnification obligations to its former officers and directors in connection with the defense of the charges set forth in the Indictment in accordance with the provisions of the Company's bylaws and standard indemnity agreements with its officers and directors. The Company has entered into additional agreements with Mr. Wall and Mr. Bostic with regard to advancement of legal expenses in connection with the Indictment. A final determination of the Company's obligation and authority to indemnify its former officers named in the Indictment will be made upon the ultimate disposition of the criminal proceedings. In addition, the Company has entered into an agreement with the two former subsidiary



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corporations pursuant to which the Company agreed to pay the legal fees and expenses incurred by such subsidiaries in connection with the defense of the charges alleged against them. The Company has made no payments pursuant to the Agreement since the filing of its Chapter 11 bankruptcy petition. The Company has made no provision for an indemnity payment in the 1991 financial statements. For a discussion of the effect of the Company's bankruptcy proceedings on possible indemnity obligations see "Indemnification of Current and Former Officers and Directors" below.

The Company's assessment of the Indictment and its allegations is ongoing. Counsel for the Company have commenced a legal review of the possible consequences of the Indictment or a conviction for the charges alleged therein, which the Company does not expect to occur. The possible consequences identified to date include; (i) involuntary dissolution of the Company if the Company or a high managerial agent is convicted of the charges alleged in the Indictment and it is established that the Company or such high managerial agent has engaged in a persistent course of felonious conduct and that the public interest requires such dissolution in order to prevent future felonious conduct of the same character; (ii) receivership for the property and assets of the Company; (iii) amendment or revocation of licenses, rights, permits, approvals, consents and authority pursuant to which the Company owns its properties and conducts its business as an electric utility and the possible imposition of liens against the properties and assets of the Company in connection with violations of applicable law; (iv) suspension and/or debarment of the Company under its existing contracts for electric utility service to certain United States military facilities; (v) action by the State of Arizona under its organized crime and fraud prevention criminal statutes; (vi) breach of covenants or default under various of the Company's material agreements, including material financing agreements containing covenants related to compliance with all applicable laws and unpaid or unstayed judgments in excess of specified amounts; and (vii) adverse actions taken by regulatory authorities (including state utility commissions), including actions taken pursuant to broad discretionary authority possessed by those authorities in light of the public interest nature of the Company's business. Based upon its review to date, including the review of counsel and the discovery to date in the First Service Life Civil Litigation (discussed below), the Company believes that it is more likely than not that the Company and its business and properties will not be materially adversely affected by the Indictment or a conviction.

If the Company is found guilty of the charges alleged in the Indictment and if the trial court finds that the Company gained money or property or caused loss through the commission of the crime, the Company could face the payment of a fine in an amount fixed by the trial court, but not to exceed double the amount gained or caused to be lost, whichever is greater.

The Company has made no provision for loss for the effects, if any, of the ultimate outcome of the criminal proceedings related to the Indictment.

**First Service Life Civil Litigation**

*Pending Actions Involving the Company's Collateral.* On September 26, 1988, the Company filed a declaratory judgment action in the 345th Judicial District Court, Travis County, Texas, against First Service Life Insurance Company, a corporation organized under the laws of the Cayman Islands ("First Service"), and R. B. Ashworth, as Conservator for the affairs of First Service under the Texas Insurance Code for a determination that (i) the Company has legal, valid, duly perfected and enforceable security interests in certain collateral (the "Collateral") granted to the Company by First Service to secure payment of certain annuities purchased by the Company from First Service, the present balance of which is approximately \$20 million; and (ii) that events of default have occurred under the collateral security documents pertaining to these annuities, which entitle the Company to enforce its security interests. On May 27, 1988, the Company notified First Service that First Service was in default under the annuities and the collateral agreements and that the Company intended to enforce its security interests. The Conservator, who was appointed by the Texas

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Commissioner of Insurance in June 1988, notified the Company that First Service was not in default, expressed doubt as to the validity and enforceability of the security interests held by the Company and demanded the Company return to the Conservator all of the Collateral.

On September 29, 1988, the Conservator, in conjunction with his answer and denial of the Company's declaratory judgment action, countersued the Company on behalf of First Service, and two affiliated corporations, First Service Life, a Turks & Caicos corporation ("FSL") and Knickerbocker Life Insurance Company ("Knickerbocker"), for actual damages of at least \$50 million, plus punitive damages of at least \$300 million. The Conservator's counterclaim seeks (i) an injunction against the Company's enforcement of its security interests in the Collateral; (ii) an accounting from the Company as to all payments on and transfers of property to the Company from First Service with respect to the Company's annuity investment; (iii) a declaratory judgment that the Company's security interests are illegal and unenforceable, and that the sale and purchase of the annuities was an illegal transaction under the Texas Insurance Code by a company doing business in Texas without authorization; and (iv) disgorgement by the Company of all payments on its annuities and all collateral therefor. The counterclaim alleges several causes of action against the Company including principally fraud, conversion and breach of duty of good faith and fair dealing (based upon an alleged affiliate or "insider" relationship between the Company and First Service).

On December 1, 1988, a receiver (the "Receiver") was appointed for First Service, and on December 13, 1988, the Receiver in his capacity as Receiver for First Service was substituted as a party for the Conservator. The Company then filed a Plea in Intervention to the Receivership Proceedings to protect the interest of the Company. On January 18, 1989, the Receiver was appointed as receiver for FSL as well. On May 5, 1989, the Receiver was appointed as receiver for Knickerbocker. On July 6, 1989, the Receiver, in his capacity as receiver for Knickerbocker only, non-suited without prejudice its claims against the Company.

On February 16, 1990, the Receiver joined as parties defendant Maury Page Kemp, Jean Kemp, the accounting firm of Coopers & Lybrand, and the law firm of Kemp, Smith, Duncan & Hammond, which served as general counsel to the Company. The "Defendants Second Amended Answer and Counterclaim", in addition to carrying forward many of the allegations of the prior counterclaim, alleges that the Company, Maury Page Kemp, Jean Kemp, the accounting firm of Coopers & Lybrand and the law firm of Kemp, Smith, Duncan & Hammond, participated in a "conspiracy, participation and breach of trust" to injure First Service and the other policyholders and creditors of First Service through the purchase of Triangle Electric Supply Company, Inc. ("Triangle") by First Service's indirect parent, First Financial Enterprises, Inc. ("FFE"), payment by Triangle of a \$3 million dividend to FFE upon Triangle's acquisition, and a loan by First Service to the Company's former non-utility subsidiary, Franklin Land of \$5 million, which the Receiver alleges was not supported by adequate collateral.

Discovery is ongoing, however, the Company's legal counsel, Small, Craig & Werkenthin, P.C., has reviewed the basic facts of the case with the Company's management and other parties familiar with various aspects of the transactions involved in the litigation, examined documents and records of the Company and other parties which relate to such transactions, and evaluated the allegations against the Company made in the counterclaim. From the discovery conducted to date, Counsel has stated that it has not learned what facts, if any, exist to substantiate the contention that the Company entered into a conspiracy to injure First Service or the annuitants.

The Company believes that the Company's security interests in the Collateral are valid and enforceable, and the Company intends to recover amounts owed to it on the annuities through enforcement of its rights to the Collateral. The Company strongly denies the allegations of the counterclaim, believes the counterclaim is without merit and intends to defend vigorously against it. At June 30, 1989, the Company recorded a provision

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for loss of \$7 million based upon the value of the Collateral. The Company has made no provision for loss for the effects, if any, of the ultimate outcome of the litigation.

*Claims by Annuitants.* On May 16, 1990, Beatrice Meneses, and certain other parties filed their Plea in Intervention in *Pedro Meneses v. First Financial Savings Association of El Paso, et al.* in the County Court of El Paso, Texas, Cause No. 88-9254. The plaintiffs (the "Annuitants") are allegedly holders of annuities purchased from First Service and/or Knickerbocker and/or Security Southwest Life Insurance Company. The defendants include the beneficial principal shareholders and officers and directors of First Service and Knickerbocker, certain affiliated companies of the principal beneficial shareholders of First Service and Knickerbocker, the Company, its former non-utility subsidiaries, PasoTex and Franklin, the accounting firm of Coopers & Lybrand, the law firm of Kemp, Smith, Duncan & Hammond, which served as general counsel to the Company, and two individual attorneys who are shareholders in such firm, including Tad R. Smith, formerly a director of the Company. The Company and other defendants removed the case to the United States District Court for the Western District of Texas, El Paso Division, on June 11, 1990, Civil Action No. EP-90-CA-247H (the "RICO Action").

The RICO Action alleges that the defendants violated the Racketeer Influenced and Corrupt Organizations Act ("RICO"), conspired to violate RICO, violated Federal and Texas securities laws, committed common law fraud, civil conspiracy to defraud, and asserts violations of the Texas Deceptive Trade Practices Act, the Texas Insurance Code and the Texas Penal Code. The claims made against the Company and its former subsidiaries are based upon allegations that the Company controlled and/or conspired with First Service. The RICO Action alleges that the Company joined in a conspiracy to defraud annuitants of First Service, which conspiracy is alleged to have been initiated in 1982 by the ultimate shareholder of First Service and other defendants, by the Company engaging in the purchase, collateralization and redemption of First Service annuities, the Company attempting to initiate foreclosure on the Collateral, a \$5 million loan being made by First Service to Franklin, which was then a subsidiary of the Company, and the payment of a "finder's fee" of \$175,000 by First Service to Franklin. These allegations state that the defendants violated certain provisions of the Texas Penal Code relating to theft, false statements to obtain property or credit, fraud in insolvency, receiving deposit, premium or investment in a failing financial institution, commercial bribery and misapplication of fiduciary property or property of a financial institution. The Plaintiffs are seeking damages in the amount of their lost annuities, plus interest, multiplication of actual damages, punitive and exemplary damages, and attorneys fees and costs. The complaint in the RICO Action alleges sales of annuities to the Plaintiffs in excess of \$11 million, and the total claim for damages exceeds \$59 million.

The Company vigorously denies any liability in respect of the RICO Action and believes that all related claims are without merit. No formal discovery has been conducted by any of the parties to the RICO Action. Based upon the limited evaluation and investigation of Small, Craig & Werkenthin, P.C., the Company's legal counsel in connection with the RICO Action and the Pending Actions involving the Company's Collateral described above, and subject to the results of discovery, such counsel has stated that it has not learned what facts, if any, exist to substantiate the contention that the Company entered into a conspiracy to injure either First Service or the annuitants. The Company has made no provision for loss for the effects, if any, of the ultimate outcome of the litigation.

The RICO Action names as a defendant Billye E. Bostic, formerly an executive officer of the Company, who would be entitled to indemnity under the Company's bylaws and other applicable agreements to the same extent as indemnification is afforded by the Company to all of its officers and directors with respect to service on boards of directors of other companies. However, whether Mr. Bostic will be entitled to such indemnity from the Company with regard to the RICO Action has not yet been determined and such determination will be dependent on all the facts and circumstances which may surface during the course of this litigation. Mr. Bostic has advised the Company that he denies any liability in respect of the RICO Action and believes that

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the claims asserted against him therein are without merit. Mr. Bostic is represented by counsel separate from the Company's counsel. The Company stopped advancing Mr. Bostic's legal expenses upon the commencement of the bankruptcy proceedings. Mr. Bostic's indemnity claims, if any, may be asserted against the Company as a prepetition claim in the bankruptcy proceedings. No provision for an indemnity payment is included in the Company's 1991 financial statements.

*Suit Against Directors of First Service.* On February 3, 1989, the Receiver filed suit in the 345th Judicial District Court, Travis County, Texas, against certain individuals who were alleged to be directors of First Service and/or FSL, including Mr. Bostic.

The Receiver alleges that First Service engaged in the sale of annuities in Texas without authorization to do so and that such actions constituted illegal insurance transactions under the Texas Insurance Code. The Receiver further alleges that the alleged illegal sale of annuities by First Service constitutes a breach by the directors of First Service of their fiduciary duty to exercise due care in the management of the affairs of First Service and/or FSL and resulted in unspecified losses to First Service. The suit seeks actual damages of at least \$33 million and, in addition, exemplary damages of at least double the actual damages. No significant discovery has been conducted at this time.

Mr. Bostic has advised the Company that he denies that he served as a director of First Service or FSL during the period of the alleged activities complained of, denies any liability in respect of the Receiver's suit and intends to vigorously defend against it. Mr. Bostic is represented by counsel separate from the Company's counsel in the First Service litigation. Mr. Bostic would be entitled to indemnity with respect to the Receiver's suit to the extent indemnification is afforded by the Company to all of its officers and directors with respect to service on certain outside boards. However, whether Mr. Bostic will be entitled to such indemnity from the Company with regard to this lawsuit has not yet been determined and such determination will be dependent on all the facts and circumstances which may surface during the course of this litigation.

Because no significant discovery has been conducted, counsel for Mr. Bostic is unable to express an opinion as to the ultimate outcome of the suit. The Company stopped advancing Mr. Bostic's legal expenses upon the filing of the bankruptcy proceedings. No provision for an indemnity payment is included in the Company's 1991 financial statements.

There are numerous parties who purchased annuities from First Service, not included as parties to the First Service Life Litigation who may assert additional claims, similar in nature to the claims asserted by the current parties against the Company. These claims, if asserted, could result in additional suits against the Company.

*Potential Effect of Indictment on Civil Litigation.* Due to the similarity of the allegations made against the Company in the Indictment and in the First Service Life Civil Litigation and of the purported facts which form the basis of such allegations, a final conviction of the Company under the Indictment which occurs prior to the resolution of the First Service Life Civil Litigation would have a potentially adverse impact on the Company's position in the First Service Life Civil Litigation. Due to the higher burden of proof necessary for a conviction in a criminal proceeding, as compared to the burden of proof necessary for an adverse finding in a civil proceeding, a conviction of the Company under the Indictment could possibly be introduced in the First Service Life Civil Litigation as evidence which conclusively establishes those facts necessary to the findings leading to the conviction under the Indictment. However, if the Company is found "not guilty" under the Indictment, such finding could not be introduced by the Company in the First Service Life Civil Litigation as evidence conclusively establishing that the facts and elements necessary for a conviction of the Company in the Indictment were not present or did not occur.

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At this time, it appears likely that the criminal proceedings under the Indictment will conclude before the resolution of the First Service Life Civil Litigation.

**P & C Lacelaw Trust Litigation**

On September 26, 1990, P & C Lacelaw Trust ("Lacelaw") filed suit in the 346th District Court of El Paso County, Texas against the Company, Franklin, a former subsidiary of the Company, and DDG, Inc. ("DDG"), the party which purchased all of the capital stock of Franklin from the Company in January 1990. Lacelaw alleges that Franklin acted in bad faith and participated in self-dealing in connection with Franklin's management, as general partner, of a limited partnership between Franklin and Lacelaw, the purpose of which was to acquire, own and operate an office building in downtown El Paso. Lacelaw further alleges that the Company is responsible for the actions of Franklin because Franklin was the alter ego of the Company and that the Company breached fiduciary duties to Lacelaw in connection with the mismanagement and self-dealing by Franklin and through the sale of Franklin to DDG. Lacelaw seeks a declaratory judgment that the Company is a general partner in the partnership; a judgment declaring Lacelaw's rights as a limited partner; an accounting of all financial transactions involving the partnership; and a dissolution of the partnership. Lacelaw alleges actual damages of \$3.2 million and punitive damages of at least \$10 million. The Company vigorously denies any liability with respect to this lawsuit and believes that the claims are without merit. Investigation and evaluation of the suit by counsel for the Company is in its preliminary stages and only a minimal amount of discovery has been conducted; therefore, the outcome of the suit cannot be determined at this time.

**L. Pension Plans and Other Postretirement Benefits**

*Pension Plan.* The Company's Retirement Income Plan for Employees of El Paso Electric Company (the "Plan") covers employees who have completed one year of service with the Company and are 21 years of age. The Plan is a noncontributory defined benefit plan. Upon retirement or death of a vested plan participant, assets of the Plan are used to pay benefit obligations under the Plan. Contributions from the Company are based on the minimum funding amounts required by the IRS under provisions of the Plan, as actuarially calculated. The assets of the Plan consist primarily of fixed income instruments.

The Company's Supplemental Retirement and Survivor Income Plan for Key Employees (SERP) is a non-qualified, non-funded pension plan which covers certain key employees of the Company. The pension cost for the SERP is based on substantially the same actuarial methods and economic assumptions as those used for the defined benefit plan. Due to the Chapter 11 filing, the Company is not authorized to pay benefits pursuant to the SERP because of the nonqualified nature of the plan.

Net periodic pension cost under SFAS No. 87, Employers Accounting for Pensions, is made up of the components listed below as determined using the projected unit credit actuarial cost method.

Net periodic pension cost for these plans for 1991, 1990 and 1989 (In thousands):

	December 31,		
	1991	1990	1989
Service cost for benefits earned during the period .....	\$ 1,698	\$ 1,641	\$ 1,361
Interest cost on projected benefit obligation .....	4,069	3,882	3,811
Actual return on plan assets .....	(6,808)	314	(3,422)
Net amortization and deferral .....	4,819	(2,324)	1,550
Net periodic pension cost .....	3,778	3,513	3,300
Amount (capitalized) expensed due to actions of the regulator .....	(294)	(561)	(7,504)
Net periodic cost recognized .....	<u>\$ 3,484</u>	<u>\$ 2,952</u>	<u>\$ (4,204)</u>

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The assumed annual discount rates used in determining the net periodic pension cost were 8.00%, 7.75% and 8.25% for 1991, 1990 and 1989, respectively.

The pension cost includes amortization of unrecognized transition obligations over a fifteen-year period beginning in 1987.

The funded status of the plans and amount recognized in the Company's balance sheets at December 31, 1991 and 1990 are presented below (In thousands):

	December 31,			
	1991		1990	
	Retirement Income Plan	SERP	Retirement Income Plan	SERP
Actuarial present value of benefit obligations:				
Vested benefit obligation .....	<u>\$(38,022)</u>	<u>\$(7,663)</u>	<u>\$(33,929)</u>	<u>\$(6,335)</u>
Accumulated benefit obligation .....	<u>\$(39,885)</u>	<u>\$(7,867)</u>	<u>\$(35,310)</u>	<u>\$(6,412)</u>
Projected benefit obligation .....	<u>\$(51,164)</u>	<u>\$(9,843)</u>	<u>\$(44,059)</u>	<u>\$(8,040)</u>
Plan assets at fair value .....	<u>38,722</u>	<u>—</u>	<u>31,457</u>	<u>—</u>
Projected benefit obligation in excess of plan assets .....	(12,442)	(9,843)	(12,602)	(8,040)
Unrecognized net loss from past experience .....	2,511	4,656	1,728	3,435
Unrecognized prior service cost .....	997	(111)	1,088	(125)
Unrecognized transition obligation .....	4,082	502	4,490	552
Adjustment required to recognize minimum liability .....	<u>—</u>	<u>(3,071)</u>	<u>—</u>	<u>(2,234)</u>
Accrued pension liability .....	<u>\$ (4,852)</u>	<u>\$(7,867)</u>	<u>\$ (5,296)</u>	<u>\$(6,412)</u>

During 1989, in connection with the Company's general workforce reduction a retirement window plan was established for participants in the Retirement Income Plan and SERP. The window plan resulted in net losses of approximately \$5,512,000 and \$1,992,000 for the Retirement Income Plan and SERP, respectively.

Actuarial assumptions used in determining the actuarial present value of projected benefit obligation are as follows:

	1991	1990
Discount rate .....	7.25%	8.00%
Rate of increase in compensation levels .....	6.00%	6.00%
Expected long-term rate of return on plan assets .....	8.50%	8.50%

*Other Postretirement Benefits.* The Company provides certain health care benefits for retired employees and their eligible dependents and life insurance benefits for retired employees only. Substantially all of the Company's employees may become eligible for those benefits if they reach retirement age while working for the Company. The cost of retiree health care benefits is recognized as expense as claims are paid and the cost of providing retiree insurance benefits is recognized as expense as premiums are paid. For 1991, 1990 and 1989 health care costs were \$609,000, \$437,000 and \$701,000, respectively.

SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, was issued by the Financial Accounting Standards Board in December 1990. SFAS No. 106 requires a change from the

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pay-as-you-go accounting method for these postretirement benefits to the accrual accounting method. The effective date of SFAS No. 106 is for fiscal years beginning after December 15, 1992.

The accrual accounting method recognizes the costs of postretirement benefits other than pensions over the years of service of employees, rather than when the benefits are paid out after the employee retires. With respect to the obligation for benefits already earned as of the date of its adoption (called the "transition obligation"), SFAS No. 106 provides for either amortizing the transition obligation amount over future years or expensing it in the period of adoption. The estimated transition obligation at December 31, 1991 is \$59,600,000 including \$11,400,000 which represents the Company's 15.8% share of the transition obligation associated with the Arizona Nuclear Power Project.

The accrual expense is expected to exceed the pay-as-you-go expense during the years immediately following adoption of the standard. The accrual expense is expected to range from approximately \$6,700,000 to \$8,600,000 depending on the method of recognition of the transition obligation as discussed above. The range includes \$2,100,000 which represents the Company's 15.8% share associated with the Arizona Nuclear Power Project. Although the Company expects to pursue full recovery through its rates, the increased benefits expense will have to be expensed on the accrual method inasmuch as the Company no longer meets the criteria of SFAS-71 and therefore would be unable to defer any amounts pursuant to regulatory orders. Therefore the magnitude of the financial impact on the Company at the time of adoption is expected to be a function of the level of cash rate relief, if any, obtained by the Company.

**M. Franchises and Significant Customers**

*Franchises.* The Company's major franchises are with the Cities of El Paso, Texas, and Las Cruces, New Mexico. Such franchises expire in March 2001 and March 1993, respectively, and do not contain renewal provisions. The Company believes, but has no assurance, that both franchises will be renewed. In July 1989, the City of Las Cruces joined with the City of Albuquerque, New Mexico, which is served by PNM in a task force to study possible alternatives to a renewal of the city's electrical franchises. In February 1990 the task force engaged outside consultants to assist in the review. On February 11, 1991, the consultants issued a feasibility report dealing with certain alternatives, including municipalization and acquisition of the Company's distribution system through a negotiated sale or condemnation as well as the feasibility of constructing a competing distribution system. On February 10, 1992 the consultants issued a follow-up report. The first report concluded that the City of Las Cruces could achieve savings under the sale and condemnation option but not under the competing system option. The follow-up report concluded that the City would achieve savings under all three options.

In response to the first report, the Company also commissioned an independent study for the purpose of providing the task force and the Las Cruces City Council a second, independent opinion of energy alternatives available to the City. This study determined that lower electric rates would not result from the establishment of a municipal utility by the City of Las Cruces. The reports are under review by both the City of Las Cruces and the Company. The City has passed an ordinance creating a paper electric utility, which currently is not operating and which has no assets.

On March 24, 1992, the new mayor of the City of Las Cruces announced the appointment of a five member *ad hoc* committee to study energy options available to the City of Las Cruces. The committee reports directly to the mayor and is composed of business, education and community leaders.

The Company believes that the franchise with the City of Las Cruces will be renewed, perhaps on renegotiated terms. However, the outcome of the City's review of its alternatives and the ultimate impact of the review on renewal of the franchise cannot be determined at this time. The City of Las Cruces represents approximately 8% of the Company's operating revenues

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*Significant Customers.* In 1991, 1990 and 1989, IID, a wholesale customer, accounted for approximately \$40,954,000, \$44,542,000 and \$49,584,000 or 8.9%, 10.0% and 11.4%, respectively, of operating revenue.

On April 3, 1991, the Company and CFE, the national electric utility of Mexico, entered into an agreement providing for firm power sales of electricity by the Company to CFE for consumption by the City of Juarez, Mexico. The agreement provides for firm sales of capacity and associated energy to CFE over a 5½ year term, commencing May 1, 1991 and expiring December 31, 1996. During 1991 the Company recorded revenues pursuant to the contract in the amount of \$7.4 million. The obligations of CFE under the agreement are subject to continued budgetary authorization by the Ministry of Programming and Budgeting of Mexico for each calendar year. The amount of capacity initially was 40 MW, currently is 80 MW and will increase to 120-150 MW during 1992, and continue at that level over the remaining term of the agreement. The increase to 120-150 MW capacity is dependent upon the completion of construction and upgrading of certain transmission facilities by each party, which are expected to be completed by May 1, 1992. Pricing for the power sales includes an escalating demand charge and full recovery of energy costs and is based on the current market conditions in the southwestern United States. The Company will require certain regulatory approvals for its construction and upgrading requirements, including a Presidential permit from the DOE, which approvals the Company expects to be able to obtain. The costs to the Company of construction and upgrading are not expected to exceed \$1 million. The Company expects to secure a purchase power agreement, providing for a minimum of 50 MW of capacity to meet the requirements of the agreement with CFE, beginning with the increase in sales to 120-150 MW, which is expected to be as early as 1992. In the Docket 9945 filing, the Company requested that it be allowed to retain the full economic benefit of the sales to CFE to offset the shortfall arising from deferral of cash rate relief. The Texas Commission granted that request for the first year of the inventory plan related to Unit 3; however, the treatment of revenues from sales to CFE in future years was not addressed.

**N. Selected Quarterly Financial Data (Unaudited)**

	1991 Quarters				1990 Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	(In thousands of dollars except for per share data)							
Operating revenues .....	\$102,372	\$106,911	\$129,627	\$ 123,495	\$106,414	\$110,370	\$124,210	\$104,315
Operating income .....	6,791	11,815	25,933	6,183	7,460	10,830	20,260	6,249
Net income (loss) before extraordinary item .....	(2,777)	(795)	(16,716)	(1) (246,624)	579	(4,417)	(5,525)	(12,501)
Extraordinary item .....	—	—	—	(289,102)	—	—	—	—
Net loss applicable to common stock	(5,050)	(3,069)	(18,579)	(537,590)	(2,255)	(8,751)	(7,954)	(14,785)
Net loss per share of common stock before extraordinary item .....	(0.14)	(0.09)	(0.52)	(7.00)	(0.06)	(0.25)	(0.23)	(0.42)
Extraordinary item per share of common stock .....	—	—	—	(8.14)	—	—	—	—

- (1) The decline in net income during the third quarter of 1991 was primarily due to regulatory disallowance in Texas Docket No. 9945. See Note C.
- (2) The decline in net income during the fourth quarter of 1991 was primarily due to loss attributable to letters of credit draws and the discontinuance of the application of SFAS No. 71. See Notes B and C.



**EL PASO ELECTRIC COMPANY**  
**(DEBTOR IN POSSESSION AS OF JANUARY 8, 1992)**  
**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**O. Discontinued Operations**

During 1989, the Company decided to discontinue all of the non-utility operations conducted through the Company's principal subsidiaries, Franklin and PasoTex. Franklin had primarily been engaged in real estate operations in downtown El Paso and other investment activities. PasoTex had engaged through subsidiaries in a variety of non-utility activities, including specialty steel manufacturing, oil country tubular goods end-finishing and marketing, and furniture and accessory manufacturing.

That plan and the timing and nature of the dispositions of the non-utility operations and investments were impacted by a number of factors, including the cash requirements of such operations, regulatory, contractual and financing restrictions applicable to the Company, the value and future prospects for the discontinued operations, the timing and amount of federal income tax benefits associated with the disposition of the operations and the impact of the discontinued operations on the consolidated financial results of the Company.

In late December 1989, PasoTex sold its \$60 million preferred stock investment in Commercial Federal Savings and Loan Association, Omaha, Nebraska. The Commercial Federal investment, which was written off by the Company in its entirety, net of tax benefits of \$18,560,000, in the 1989 third and fourth quarters due to Commercial Federal's failure to meet regulatory capital requirements and continue paying dividends, was sold by PasoTex to an independent third party corporation, whose principals are experienced in the thrift industry, for a nominal amount of cash plus a \$2 million non-recourse purchase money note. All principal and interest on the purchase money note is due on November 30, 1994, but mandatory prepayments are required based upon a percentage of the purchasers net cash flow. The preferred stock was pledged to secure the payment of the purchase money note and is held by an independent escrow agent. As additional consideration in the transaction, PasoTex received a warrant to purchase 49.5% of the then outstanding shares of common stock of the third party purchaser (although shares purchased would be non-voting) for an aggregate consideration of approximately \$500,000. The warrant may be exercised from time to time, in whole or in part, until December 30, 1996. The warrant may be assigned, subject to applicable securities laws. The transaction was supported by a fairness opinion from an investment banking firm retained by PasoTex. The note and warrant received by PasoTex in the sale were transferred to the Company prior to the sale of PasoTex and Franklin in January 1990.

Also in late December 1989, PasoTex surrendered its 50% common equity interest in Westwood Lighting Group, Inc., a lamp manufacturer, to Westwood without consideration.

The disposition of the Commercial Federal preferred stock and the surrender of the Westwood common stock resulted in current federal income tax benefits of approximately \$19 million and \$2.6 million, respectively.

On January 17, 1990, the Company sold all of the capital stock of Franklin and its 35% stock ownership of PasoTex (which was owned 65% by Franklin) to an unrelated third party special purpose corporation, whose managers have substantial experience in the ownership and operations of diverse business enterprises. The Company received as consideration in the transaction the note and warrant received by PasoTex in the disposition of the Commercial Federal investment. The Company transferred at closing of the transaction approximately \$3 million to PasoTex for working capital purposes and transferred approximately \$5 million to Franklin on September 17, 1990, to be applied against the obligations of Franklin under its mortgage debt relating to a hotel owned in El Paso. As a result of the sale of Franklin, the Company's indirect liability for Franklin's \$9,756,000 borrowings under the Rio Grande Resources Trust became a direct liability of the Company. The stock purchase agreement relating to the transaction provides for an indemnity payment, estimated at approximately \$900,000, from the Company to the purchaser to compensate for certain federal income tax investment tax credit recapture liability which may be incurred upon Franklin's eventual sale of the hotel. The indemnity payment is contingent upon certain tax elections which the purchaser is entitled to

**EL PASO ELECTRIC COMPANY**  
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**NOTES TO FINANCIAL STATEMENTS — (Continued)**

make with respect to the sale of Franklin and PasoTex. Since DDG elected not to sell the Westin Hotel by May 1991 and did not elect Section 338(h)(10) of the Internal Revenue Code (Section 338(h)(10) would have treated the sale of the subsidiaries as a sale of individual assets), no recapture of rehabilitation tax credit can occur and therefore the Company will have no indemnification liability with respect to any related recapture. The consideration for the transaction was based upon the combined values of Franklin and PasoTex. The transaction was supported by a fairness opinion from the Company's financial advisor, a nationally recognized investment banking firm.

The loss on the sale of Franklin and PasoTex generated federal income tax benefits of approximately \$17 million.

The loss from discontinued operations for the year ended December 31, 1989 was approximately \$8,184,000, net of income tax credits of approximately \$1,731,000. Provision for loss on disposal of operations for the year ended December 31, 1989 was approximately \$99,605,000, including provision of \$7,669,000 for operating loss during phase-out period, net of income tax credits of \$28,210,000.

Operating results of discontinued operations have been reclassified from amounts previously reported and have been reported separately in the statements of operations. Revenues of discontinued operations were \$250,602,000 in 1989.

Interest paid on borrowed money related to discontinued operations was approximately \$16,162,000, for the year ended December 31, 1989.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

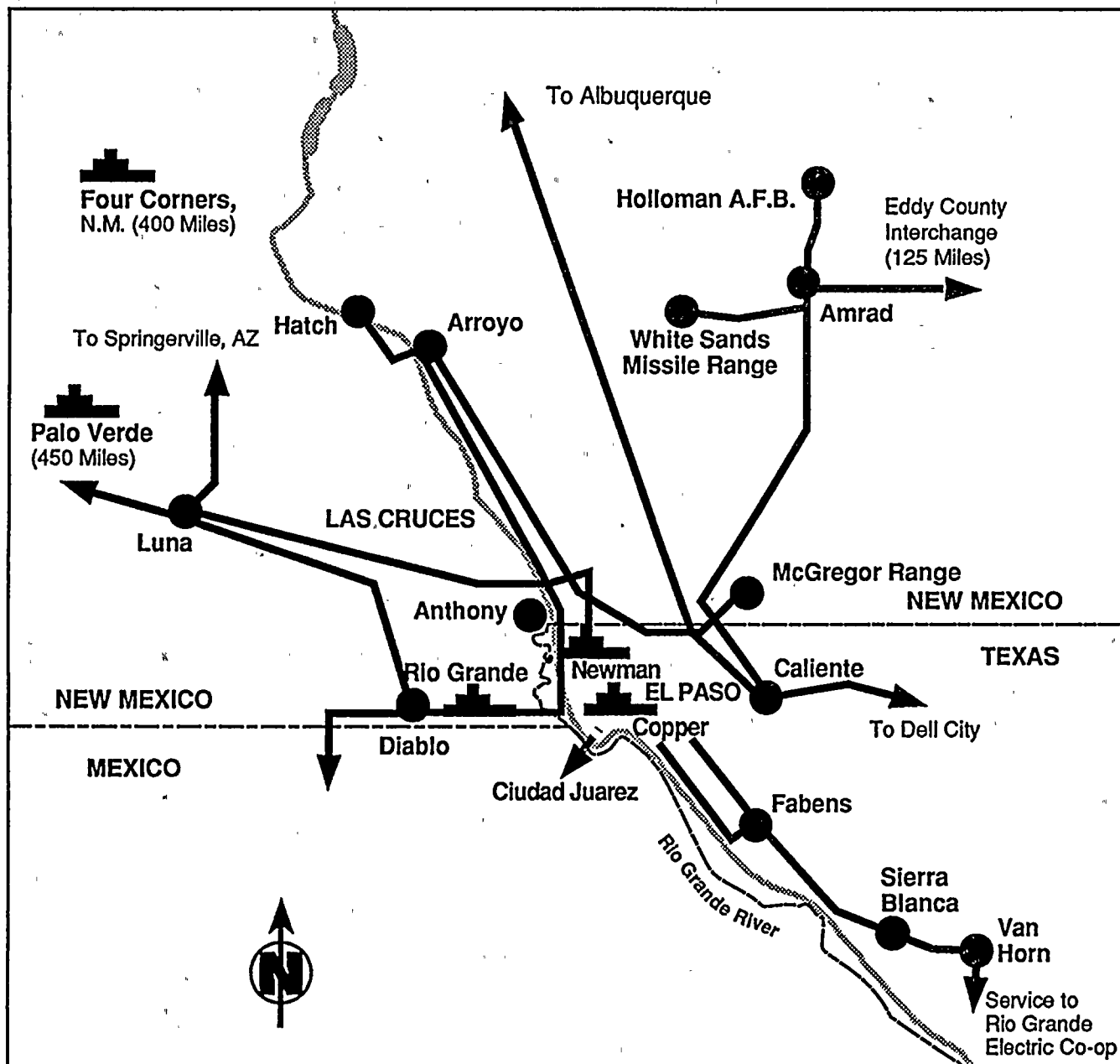
**PART III and PART IV**

The information set forth in Part III and Part IV has been omitted from this Annual Report to Shareholders.

## NOTES

## NOTES

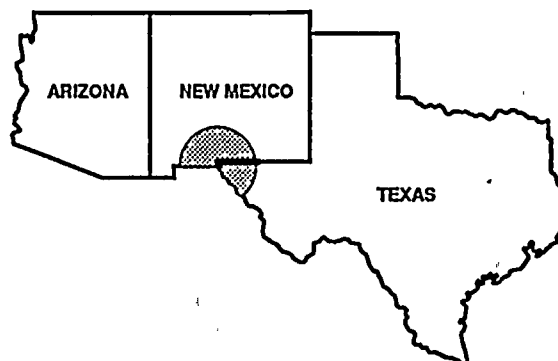
## NOTES



### COMPANY LINES



### SERVICE AREA



*El Paso Electric Company*  
*P.O. Box 982*  
*El Paso, Texas 79960*

Bulk Rate  
U.S. Postage  
PAID  
El Paso Electric  
Company