



Management Report

In the 1980 operation of the Cooperative, one of the noteworthy items was the dramatic increase in demand and kilowatt hours. The year 1980 presented a record-breaking, hot, dry summer. From June through September, 59 days were over 100°; 42 were consecutive. The southern portion of the system experienced a temperature peak of 107°; the northern end experienced 116°. The Cooperative had a record peak transmission system demand of 508 megawatts, a 25% increase over 1979 which was characterized by mild weather and conservation. Transmission system kilowatt hour sales were up 16%.

Planning for future growth and working to further mutual cooperation with other utilities in the state, the Cooperative concluded an economy energy agreement with South Texas Electric Cooperative and initiated negotiations to update the Texas Municipal Power Pool contract with the cities of Bryan, Denton, Garland and Greenville.

In the past decade, the Cooperative developed plans to reduce its dependence on natural gas as a fuel through participation in the San Miguel Lignite Plant and in the Comanche Peak Nuclear Plant. Construction of the San Miguel Plant was virtually completed in 1980 and some initial testing was accomplished. Construction of the Comanche Peak Nuclear Plant continues and the first unit is estimated to be operational in 1982. Looking still further to the future, the Cooperative intensified its investigations to select and acquire sources of fuel for future generation.

The Cooperative was able to complete its fourth consecutive year without a rate increase, but economic pressures released by the Natural Gas Policy Act made it difficult to restrain fuel costs.

Nevertheless, we are happy to report that our negotiations enabled us to hold the natural gas price below the Natural Gas Policy Act ceiling which is a target price for producers. Additionally, Brazos Fuel Company, the Cooperative's subsidiary, was able to negotiate two surplus gas sale contracts during the year. The sales enabled Brazos Fuel to reduce its take-or-pay deficiency to about \$2 million from over \$11 million in 1977. Moreover, the surplus gas sales indirectly enabled the Cooperative to purchase economy energy when available, thereby causing some net reduction in the cost of power to the member cooperatives.

Amongst the many impacts of federal regulation, the Cooperative spent considerable time preparing to meet the requirements of the Power Plant and Industrial Fuel Use Act of 1978 (Fuel Use Act) and the Public Utility Regulatory Policies Act of 1978 (PURPA). The Fuel Use Act has a goal of eliminating the use of natural gas for utility electrical generation by 1990. The Cooperative submitted petitions and received temporary exemptions on certain aspects of the regulations. We will have to obtain permanent exemptions from other aspects during the next few years. Because of the economic burden that the Fuel Use Act will place on consumers and because it encourages the use of oil for generation of electricity, there is some hope that the Fuel Use Act will be repealed, or significantly modified, in 1981.

The Cooperative participated in the Texas Public Utility Commission's Task Force on Co-generation and Small Power Production during the summer and early fall. The purpose of the Task Force was to develop recommendations on regulations for the Public Utility Commission

to achieve compliance with the requirements of PURPA regarding purchase of power from small power production and cogeneration facilities.

Dealing with those and numerous other federal regulations has been time consuming, and consequently expensive. We are encouraged by the national reaction against over-regulation.

A financial policy, which provides guidelines on maintaining the financial strength of the Cooperative and on rotation of capital credits, was approved after intensive study and development.

In order to finance our aggressive construction program of the next few years, preliminary studies for acquiring a new REA guaranteed loan were initiated. In the present and projected state of the economy, and given the present sentiment about government financing and spending, financing is going to become one of the Cooperative's greatest challenges.

For several reasons, including the profits realized from natural gas sales, the possibility exists that the Cooperative's income tax exempt status could change. In some regards, this could be beneficial. However, in order to gain a clear understanding of all considerations, the Cooperative is participating in a tax study with several other generation and transmission cooperatives. The study is analyzing the Cooperative's situation, exploring alternatives and evaluating impacts. The study results will be available in 1981 and will give us a better understanding of options and benefits.

During the year the Cooperative initiated a salary review and, based on the results, gave employees a significant raise to bring the Cooperative's salaries in line with area utilities.

Additionally, a dental health insurance plan was approved as a new employee benefit. It became effective on January 1, 1981. Labor contract negotiations were completed quickly and amicably.

In September, the Executive Vice President and General Manager resigned and the Board of Directors appointed Richard E. McCaskill Acting Executive Vice President and General Manager for the period during which the board would search for a permanent replacement. It has been announced that the board completed its search and selected Mr. McCaskill for the position. He was named Executive Vice President and General Manager in January 1981.

After nine years as a director of the Cooperative's board, Henry Rivers retired in February 1980. Mr. Rivers had been a director of Limestone County Electric Cooperative, Inc., for thirty years and had been president of that cooperative since 1978. His sound advice will be missed.

1980 was a demanding year, but we feel that it contained the seeds of greater cooperation and unification of purpose for the Cooperative, The Brazos System, and electric utilities in Texas. We feel that internal and external communications and understanding have improved. We are very optimistic about meeting our challenges next year and throughout the decade.

William G. Parker

William G. Parker
President

Richard E. McCaskill

Richard E. McCaskill
Executive Vice President
and General Manager



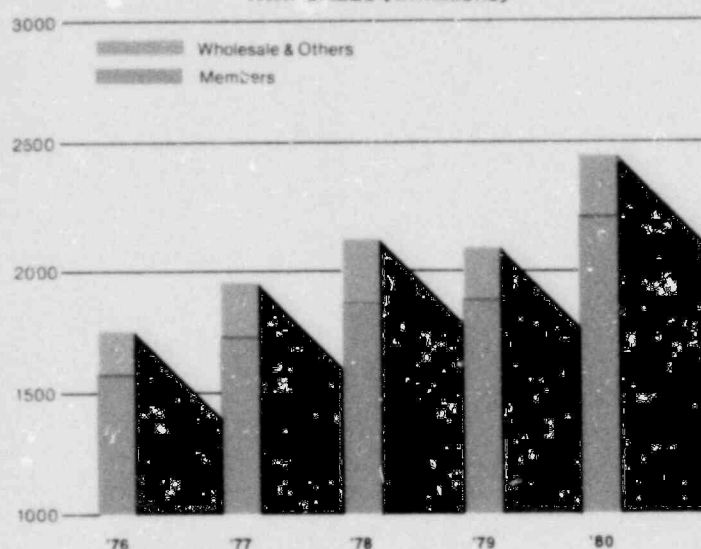
1980 Review

Electric Revenues

The summer of 1980 was very dry, with a long period of record-breaking temperatures. Total revenues from the sale of electric energy reached \$85,231,000, up 30% from \$65,563,000 in 1979. 1980 revenues from sales to the 19 member distribution cooperatives rose 31% to \$76,383,000. Total kilowatt hour sales of electric energy were 16% above 1979.

Despite the highly inflationary economy, the Cooperative was able to avoid a rate increase for the fourth consecutive year. Rising fuel and purchased power costs did cause the average price per kilowatt hour to increase. Members paid an average of 34.5 mills per kilowatt hour in 1980, up 12% from 1979. The allocation of patronage capital reduced the effective cost to 33.7 mills.

KWH SALES (in millions)



Expenses and Wages

Total operating expenses in 1980 increased \$19,589,000 to \$83,854,000. This 30% increase over 1979 is directly proportionate to the increase in revenues and, as such, is a reflection of the Cooperative's ability to hold the line against rising costs. The total cost of production increased \$19,089,000 to \$71,818,000. The stiff increases in fuel and purchased power costs are reflected in this 36% increase.

The average price paid for natural gas in 1980 was \$2.56 per thousand cubic feet (MCF), an increase of 15% over 1979. The cost of purchased power at isolated metering points increased from 26.0 mills to 29.1 mills in 1980. The transmission, administrative and general and other operating expenses increased \$500,000, or 4%.

In October a significant pay increase was granted to employees to bring salaries and wages in line with local economic conditions. Wages for 1980 amounted to \$5,186,000, an increase of \$803,000 over 1979. Of the gross wages earned, \$3,155,000 were charged as operating and maintenance costs and \$2,031,000 were charged to construction and other accounts.

REVENUES & EXPENSES (in \$ millions)



Brazos Fuel Company

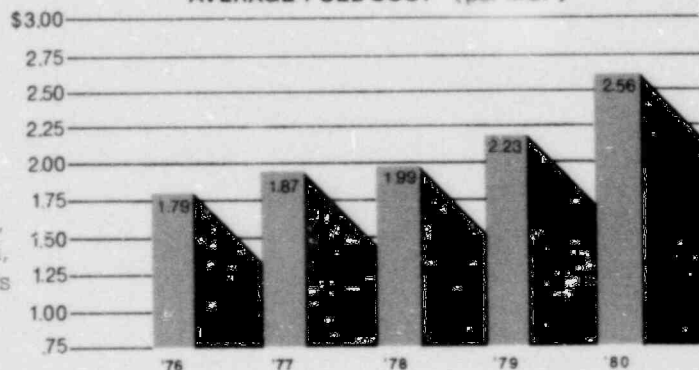
Brazos Fuel Company, Inc., a wholly owned subsidiary of the Cooperative, controls natural gas reserves which supply approximately 75% of fuel requirements for the Cooperative two largest power plants, R. W. Miller and North Texas.

Deregulation of natural gas prices, caused by the Natural Gas Policy Act of 1978, has accelerated the rate of natural gas price increases. However, in its negotiations, Brazos Fuel was able to hold the price below the ceiling set by the Natural Gas Policy Act, a ceiling which producers attempt to achieve and which the contract allows. Brazos Fuel negotiated a gas purchase price of \$2.80 per MCF for the gas contract year commencing September 1, 1980. This negotiated price will enable the Cooperative to pass on savings of about \$2,400,000.

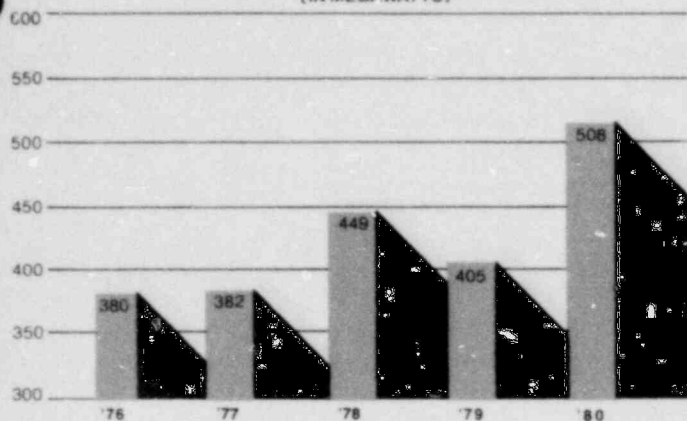
Brazos Fuel negotiated two surplus gas sale contracts during the year. The first was an 8 month, 2.4 million MCF sale ending on August 31, 1980. The second contract for a sale of 3.8 million MCF commenced in October 1980 and will continue through August 1981. The 1980 net pre-tax profits from these sales were \$411,000. These surplus gas sales indirectly enabled the Cooperative to purchase larger amounts of less expensive economy energy from other utilities and helped decrease the Company's take-or-pay deficiency at an average rate of \$100,000 per month. The 1979 deficiency of over \$11 million had been reduced to almost \$2 million by the end of 1980.

During 1980, Brazos Fuel's operation resulted in net income, on an unconsolidated basis, of \$245,000, after taxes.

AVERAGE FUEL COST (per MCF)



PEAK DEMANDS ON TRANSMISSION SYSTEM
(IN MEGAWATTS)



System Loads

The peak demand on the Brazos System rose 25% to 508 megawatts from 405 megawatts in 1979. Much of this dramatic increase was caused by the record hot weather. The prolonged hot weather also caused total kilowatt hour sales to increase to 2,463 million from 2,127 million in 1979.

Tax Study

The Cooperative paid ad valorem and employment taxes totaling \$914,000 in 1980. As a non-profit organization, the Cooperative is exempt from federal income taxes as long as at least 85% of its revenues comes from members. To analyze its situation and explore alternatives should a loss of the exemption occur, the Cooperative is participating in a tax study spearheaded by the National Generating and Transmission Managers Association and conducted by a major accounting firm.

Comanche Peak Nuclear Plant

As part of its program to develop a diversified fuel mix and gain increased control of fuel costs, the Cooperative purchased a 3.8% (87.4 megawatts) undivided ownership interest in the 2,300 megawatt Comanche Peak Nuclear Plant in 1979. Construction of the Comanche Peak Plant continues and it is estimated that of the plant's two units, Unit #1 will be operational in 1982 and Unit #2, in 1984. The present estimate of the cost for the plant is \$2.235 billion, or \$972 per kilowatt. Despite the fact that the cost of the plant has increased, electricity generated from it in the future will be cheaper than that from natural gas or oil.

In August, the Cooperative was successful in securing a tax refund in excess of \$407,000 for state sales taxes paid on the Cooperative's share of this project prior to the December 1979 purchase date.

San Miguel Plant

The 400 megawatt San Miguel lignite-fired generating plant in south Texas was essentially completed in 1980. A substation and associated transmission lines also were installed and declared ready for service. Trial operations of the plant will begin in April 1981 with full operation expected by early 1982.

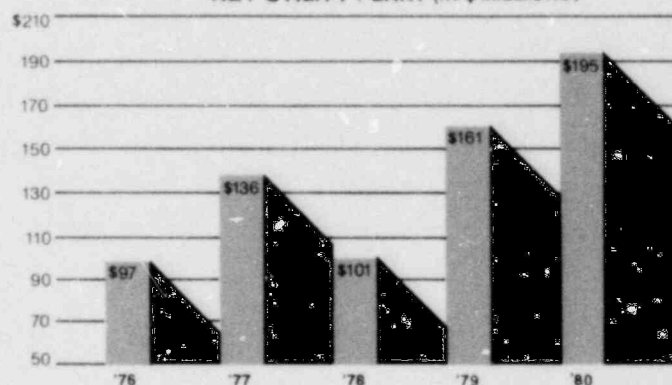
The Cooperative initially will receive up to 67½% of the plant's generating capacity, with its share decreasing to 50% in subsequent years. The San Miguel Plant will help the Cooperative to slow the inevitably rising cost of electricity because lignite fuel costs will rise at a slower pace than those of natural gas. However, because the cost per kilowatt of a lignite plant is considerably higher than that of a natural gas plant, this plant's electricity will be more expensive in the first few years of operation. This plant, too, is part of the Cooperative's program to diversify its fuel mix.

Transmission Construction

Several transmission construction projects were completed during 1980 as part of the Cooperative's on-going program to maintain a reliable electrical supply system for its member cooperatives.

One of the Cooperative's major accomplishments was the completion of approximately 78 miles of 345KV (kilovolt), double-circuit, steel transmission line from the San Miguel Plant site to the Lower Colorado River Authority's (LCRA) Marion Substation, east of San Antonio. This transmission line, constructed with steel towers to reduce maintenance, is the Cooperative's first 345KV line. The 345KV line will enable the Cooperative to transmit large blocks of power from the San Miguel Plant to the Brazos System via both LCRA's and the Texas Utilities operating companies' transmission systems. The Cooperative will be able to save money by wheeling on the LCRA and Texas Utilities systems rather than building the 345KV transmission line from the San Miguel Plant to the Brazos System.

NET UTILITY PLANT (IN \$ MILLIONS)



Several new substations were constructed and became operational in 1980. The Ennis Project was initiated at the request of Navarro County Electric Cooperative to serve the Tarrant County Water Control & Improvement District No. 1. Because of the extremely dry hot summer, the Water Control District requested that the Cooperative expedite construction of the Ennis project's 138KV switching station, 138/4.16KV, 15,000KVA substation, and 3 miles of 138KV transmission line. This request was met and the new facilities were in operation within 28 construction days.

In addition to the Ennis Project, the new 138/24.9KV, 9,375KVA Cincinnati Substation with three, 3-phase distribution bays was constructed in early 1980. This substation will provide additional service to Mid-South Electric Cooperative.

In early October, a second substation was constructed within Johnson County Electric Cooperative's New Hope substation to avoid a voltage swing to that cooperative's residential customers. This project was completed by the Cooperative's operating personnel in only five working days.

Substation capacity increases were approximately 30,000KVA during 1980. These increases provide additional service to Tri-County, Denton County, McLennan County, Johnson County and Comanche County Electric Cooperatives.

Distribution step-up transformers, increasing voltage from 12.5KV to 24.9KV, were installed in seven existing substations to improve service to Johnson County, Tri-County, Denton County, Comanche County and Limestone County Electric Cooperatives.

In addition to these completed projects, at year end Brazos had under construction four transmission lines and 14 substations and substation modifications.

Another progressive move in 1980 was the acquisition of the Cooperative's first 138KV mobile substation. The substation will provide quick back-up service in case of a station outage and can be used to bypass stations that must be de-energized for maintenance. The mobile substation has a 20,000KVA capacity with a capability of providing dual voltage service to member cooperatives at 24.9KV or 12.5KV.

A Look Ahead

Exploration and acquisition of Texas fuel resources and consolidation of the Cooperative's headquarters facilities are two of the major objectives the Cooperative hopes to realize in the near future.

Power requirements studies conducted in the past year show the system load will grow at roughly 8% a year. In order to meet load requirements with a low-cost fuel system, the Cooperative has been conducting a thorough exploration of all alternative energy sources within Texas. As a result of the research, several properties have been recommended as possible fuel sources to be utilized by the Cooperative to meet projected increases in fuel requirements for future generation.

The Cooperative's overall growth causes inevitable growth in the number of skilled employees who plan, construct, maintain and operate the system. To provide the necessary facilities for these employees, planning continued in 1980 on the development of the Northern District Headquarters complex near Granbury, increased warehousing and technician facilities in Waco, and expansion of the headquarters building to facilitate consolidation of the headquarters staff in a single location.



Treasurer's Report

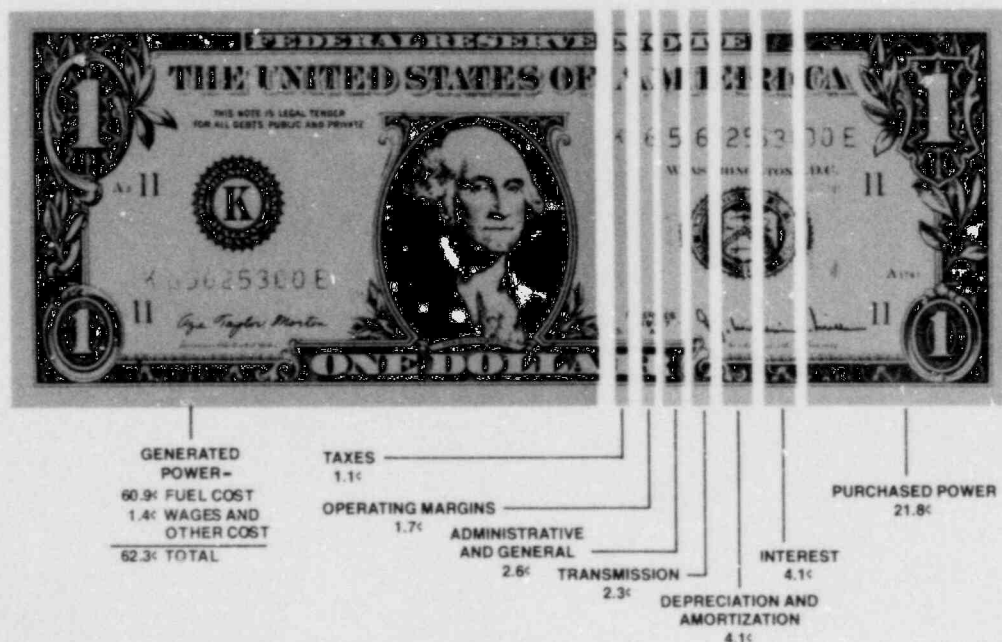
The Consolidated Statement of Revenue and Expense of the Cooperative and its wholly-owned subsidiary, Brazos Fuel Company, Inc., reflects that for the calendar year 1980, operations produced consolidated margins of \$1,972,411. During 1980 patronage capital allocations amounted to \$1,696,278.

Brazos, a fully participating member of the National Rural Utilities Cooperative Finance Corporation (CFC), purchased \$436,327 in CFC capital term certificates in 1980. The current CFC investment totals \$3,627,797.

The Cooperative's projected total investment in capital term certificates through 1984 is \$5,373,105.

The Cooperative received REA loan fund advances of \$6,436,000 to finance the construction of approved loan projects. Additionally, \$32,731,353 was received from the Federal Financing Bank during the year. These advances were principally to finance progress payments for our 3.8% interest in the Comanche Peak Nuclear Plant and to finance the completion of the construction of the 78 miles of 345KV transmission line from the San Miguel Plant.

DISTRIBUTION OF 1980 REVENUE DOLLAR



Comparative Summary of Electrical Operations 1976-1980*

	1980	1979	1978	1977	1976
(Mills per KWH)					
Total Operating Revenue (1)	34.6	30.9	28.3	26.6	25.9
Operating Costs:					
Production expenses (2)	29.1	24.8	22.4	20.8	19.8
Transmission expenses	.8	.8	.7	.7	.7
Adm. and General expenses	.9	.9	.7	.4	.6
Dep'n., taxes, insurance, interest	3.2	3.7	3.5	4.0	3.8
Total Operating Costs	34.0	30.2	27.3	25.9	24.9
Net Operating Margin (Loss)	.6	.7	1.0	.7	1.0
(1) Average sales price by class					
Firm power sales					
Member Cooperatives	34.5	30.7	28.1	26.4	25.7
Cities	36.0	32.9	30.0	28.8	27.6
Utility interchange	—	34.8	31.9	29.8	29.2
Surplus power sales					
Cities	34.5	29.5	26.3	23.6	24.9
(2) Further analyzed by source					
Generated power					
Cost of fuel	27.6	23.3	20.7	19.6	18.8
Wages and other costs	.6	.9	.6	.6	.6
Purchased power					
For system	22.9	19.7	14.3	9.1	12.6
At isolated meter points	29.1	26.0	22.8	21.5	18.7

* Excludes operations of Brazos Fuel Company, Inc.



ELECTRICITY GENERATED AND PURCHASED —
IN THOUSANDS OF KILOWATT HOURS

	1980	1979	1978	1977	1976
Generated at W. R. "Bob" Poage Plant	—	—	—	—	44
Generated at North Texas Plant	99,986	4,262	15,127	34,826	33,064
Generated at Randle W. Miller Plant	1,782,357	1,513,456	1,800,256	1,574,109	1,412,069
Purchased for system	286,930	334,217	67,181	95,486	65,365
Purchased at isolated meter points	413,856	363,032	367,733	339,410	308,842
	<u>2,583,129</u>	<u>2,214,967</u>	<u>2,250,297</u>	<u>2,043,831</u>	<u>1,819,781</u>

ELECTRIC SALES —
IN THOUSANDS OF KILOWATT HOURS

Member Cooperatives	2,214,371	1,897,829	1,887,021	1,721,550	1,580,453
Wholesale and other	248,591	228,972	250,052	236,388	173,312
	<u>2,462,962</u>	<u>2,126,801</u>	<u>2,137,073</u>	<u>1,957,938</u>	<u>1,753,765</u>

ELECTRIC SALES TO MEMBER COOPERATIVES —
IN THOUSANDS OF KILOWATT HOURS

Bartlett Electric Cooperative, Inc.	44,297	41,767	41,714	37,212	33,555
Belfalls Electric Cooperative, Inc.	42,859	32,874	30,834	27,896	25,538
B-K Electric Cooperative, Inc.	66,430	57,748	58,733	57,406	58,341
Comanche County Electric Cooperative Assn.	113,760	90,078	87,325	82,829	71,093
Cooke County Electric Cooperative Assn.	221,999	209,647	215,577	206,565	221,636
Denton County Electric Cooperative, Inc.	195,123	164,319	162,547	143,250	129,491
Erath County Electric Cooperative Assn.	140,736	118,911	122,570	113,882	100,290
Fort Belknap Electric Cooperative, Inc.	75,466	67,637	67,072	61,583	56,964
Hamilton County Electric Cooperative Assn.	72,741	66,510	69,236	66,385	61,917
Hill County Electric Cooperative, Inc.	108,514	93,516	93,289	84,378	74,176
J-A-C Electric Cooperative, Inc.	66,765	60,554	60,636	56,480	54,200
Johnson County Electric Cooperative Assn.	262,235	228,898	222,269	190,818	164,406
Limestone County Electric Cooperative, Inc.	61,404	56,985	56,743	55,114	49,566
McLennan County Electric Cooperative, Inc.	74,774	63,282	63,014	56,060	49,338
Mid-South Electric Cooperative Assn.	117,957	93,040	89,573	76,399	66,131
Navarro County Electric Cooperative, Inc.	106,045	68,468	69,402	61,408	57,518
Robertson Electric Cooperative, Inc.	41,568	35,283	35,048	31,623	28,223
Tri-County Electric Cooperative, Inc.	290,372	252,767	248,345	224,305	199,749
Wise Electric Cooperative, Inc.	111,326	95,547	93,094	87,957	78,321
	<u>2,214,371</u>	<u>1,897,829</u>	<u>1,887,021</u>	<u>1,721,550</u>	<u>1,580,453</u>

MAXIMUM KILOWATT DEMAND AT MEMBER DELIVERY POINTS	<u>551,656</u>	<u>433,233</u>	<u>468,976</u>	<u>419,231</u>	<u>406,907</u>
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ANNUAL LOAD FACTOR PERCENT MEMBER COOPERATIVES	46	50	46	47	44
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Comparative Summary of Electrical Operations 1976-1980*

	1980	1979	1978	1977
ELECTRIC ENERGY SALES				
Member Cooperatives	\$ 76,382,941	\$ 58,230,463	\$ 53,083,875	\$ 45,505,256
Wholesale and other	8,848,000	7,332,682	7,207,920	6,337,495
	<u>\$ 85,230,941</u>	<u>\$ 65,563,145</u>	<u>\$ 60,291,795</u>	<u>\$ 51,842,751</u>
OTHER ELECTRIC REVENUE	<u>102,932</u>	<u>100,574</u>	<u>103,841</u>	<u>194,624</u>
TOTAL OPERATING REVENUES	<u><u>\$ 85,333,873</u></u>	<u><u>\$ 65,663,719</u></u>	<u><u>\$ 60,395,636</u></u>	<u><u>\$ 52,037,375</u></u>
OPERATING EXPENSES				
Production Expense -- Generated Power	\$ 53,184,446	\$ 36,637,814	\$ 38,488,525	\$ 32,452,826
Production Expense -- Purchased Power	18,633,493	16,031,402	9,338,290	8,179,814
Transmission Expense	1,962,736	1,719,860	1,460,791	1,378,860
Insurance and Welfare Expense	841,434	730,333	685,754	514,117
Other Administrative and General Expenses	1,337,628	1,140,283	916,087	867,068
Depreciation and Amortization	3,519,135	3,588,702	3,269,250	3,000,366
Taxes	913,751	819,521	784,403	748,250
Interest on Long Term Debt	11,343,930	3,928,246	4,447,953	3,788,544
Other Interest	576,205	549,609	1,589,352	591,889
Less, Interest Charged to Construction	(8,462,767)	(940,829)	(2,717,047)	(807,705)
Other Operating Deductions	<u>3,779</u>	<u>—</u>	<u>5,293</u>	<u>6,766</u>
TOTAL COST OF ELECTRIC SERVICE	<u><u>\$ 83,853,776</u></u>	<u><u>\$ 54,264,944</u></u>	<u><u>\$ 58,268,651</u></u>	<u><u>\$ 50,720,895</u></u>
GAIN (LOSS) IN OPERATING MARGINS	<u><u>\$ 1,480,097</u></u>	<u><u>\$ 1,398,775</u></u>	<u><u>\$ 2,126,985</u></u>	<u><u>\$ 1,316,480</u></u>
NON-OPERATING MARGINS	<u>247,537</u>	<u>346,152</u>	<u>783,929</u>	<u>835,512</u>
GAIN (LOSS) IN TOTAL MARGINS	<u><u>\$ 1,727,634</u></u>	<u><u>\$ 1,744,927</u></u>	<u><u>\$ 2,910,914</u></u>	<u><u>\$ 2,152,392</u></u>

* Excludes operations of Brazos Fuel Company, Inc.

1976

\$40,618,041

4,655,455

\$45,273,496

109,825

\$45,383,321

\$28,094,366

6,607,490

1,271,833

356,523

1,020,287

2,925,362

673,733

2,326,502

430,188

(45,136)

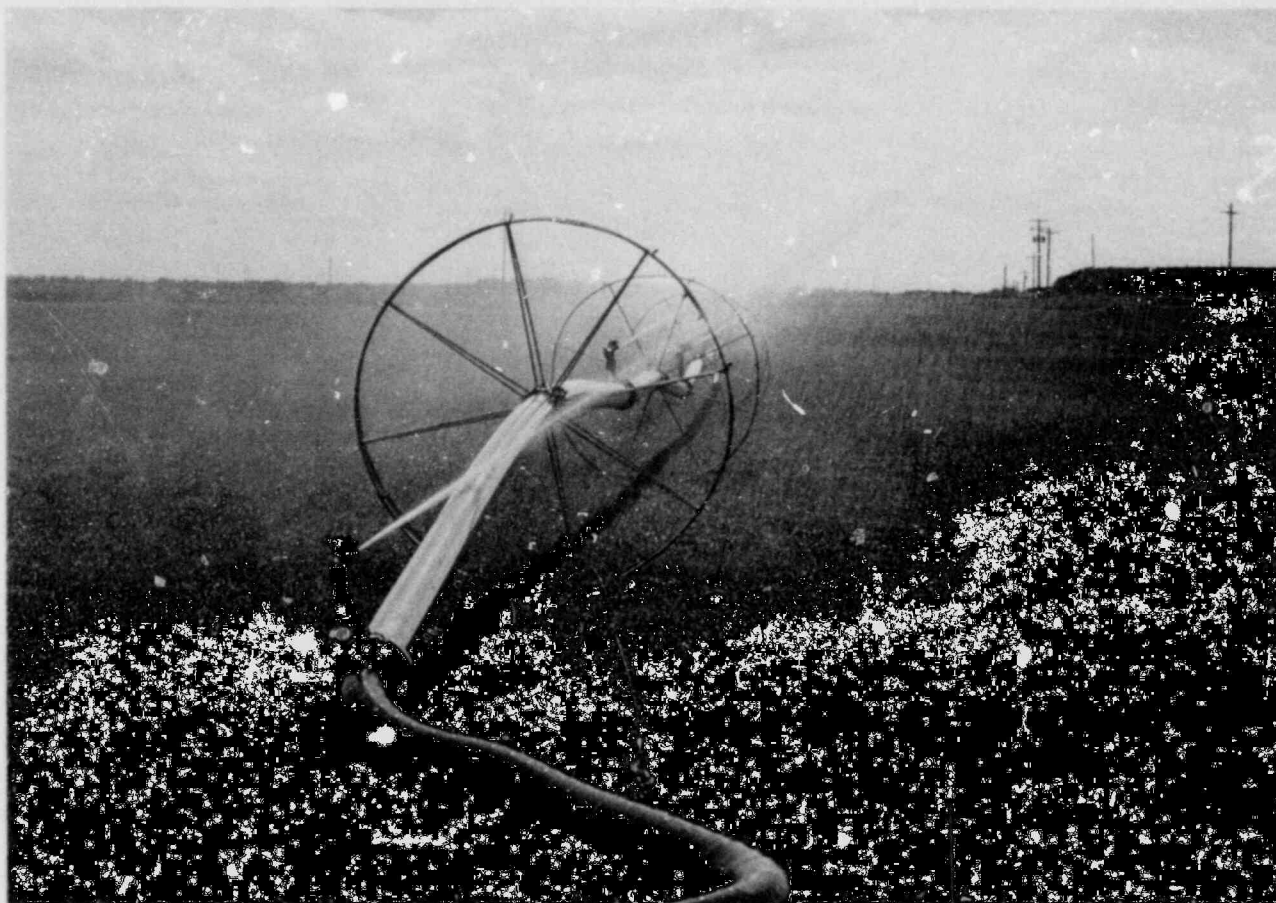
20,886

\$43,682,034

\$ 1,701,287

379,181

\$ 2,080,468



Consolidated Balance Sheet

YEARS ENDED DECEMBER 31, 1980 and 1979

ASSETS (Note 2)	1980	1979
Utility plant (Notes 1, 3 and 12):		
Electric plant in service, at cost	\$122,865,054	\$118,061,497
Completed construction not classified	30,199	2,925,327
Construction work in progress	104,551,711	70,222,040
Nuclear fuel in process of refinement and enrichment	2,861,498	1,925,589
	<u>230,308,462</u>	<u>193,134,453</u>
Less accumulated provision for depreciation and amortization	34,995,831	32,039,320
Utility plant, net	<u>195,312,631</u>	<u>161,095,133</u>
Other property and investments		
Investments in associated organizations:		
Capital term certificates (Note 12)	3,627,797	3,191,470
Patronage capital (Note 1)	1,182,630	997,031
Other	11,997	12,149
Notes receivable	1,203,949	2,168,305
Restricted assets and other investments:		
Cash	—	100,000
Certificates of deposit	229,557	229,250
Other	32,500	37,500
	<u>6,288,430</u>	<u>6,735,705</u>
Current assets:		
Cash - general	500,665	1,271,541
Cash - loan funds	295,350	73,711
Special deposits	68,171	187,621
Temporary cash investments	851,054	1,000
Accounts receivable	11,849,353	7,948,230
Fuel inventory, at average cost	1,038,377	1,092,509
Material and supplies, at average cost	6,324,170	5,644,159
Prepayments	243,958	194,255
Total current assets	<u>21,171,108</u>	<u>16,513,026</u>
Deferred debits:		
Unrecovered purchased fuel costs, less allowance for unrecoverable gas of \$581,500 and \$527,800 (Notes 1 and 12)	1,926,621	4,940,930
Other	2,025,150	1,632,490
	<u>3,951,771</u>	<u>6,573,420</u>
	<u>\$226,723,940</u>	<u>\$191,017,284</u>

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



LIABILITIES

1980

1979

Equity and margins

Memberships	\$ 95	\$ 95
Patronage capital and other equities (Note 4)	20,034,152	18,061,741
	<u>20,034,247</u>	<u>18,061,836</u>

Long-term debt:

REA mortgage notes (Notes 4 and 5)	82,497,646	79,150,426
NRUCFC mortgage notes (Notes 4 and 6)	12,260,551	14,589,595
FFB mortgage notes (Notes 4 and 7)	91,735,000	59,003,647
	<u>186,493,197</u>	<u>152,743,668</u>

Current liabilities:

Current maturities of long-term debt	3,441,000	3,460,999
Accounts payable	11,360,056	8,785,686
Notes payable - NRUCFC (Note 8)	3,800,000	5,800,000
Notes payable - banks	32,500	51,250
Other accrued liabilities	946,895	724,097
Total current liabilities	<u>19,580,451</u>	<u>18,822,032</u>

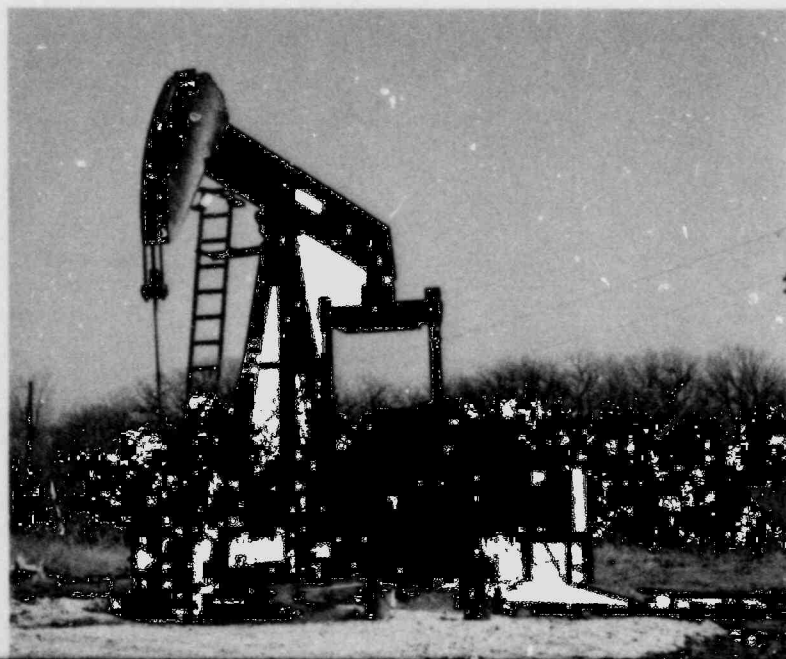
Deferred credits (Note 1)

616,045

1,389,748

\$226,723,940

\$191,017,284



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

Consolidated Statement of Revenue and Patronage Capital and Other Equities

YEARS ENDED DECEMBER 31, 1980 and 1979

	1980	1979
Operating revenues:		
Sales of electric energy (Notes 1 and 10)	\$ 85,230,941	\$ 65,563,145
Sales of natural gas	8,365,828	6,468,874
Other	98,723	96,312
	<u>93,695,292</u>	<u>72,128,331</u>
Operating costs and expenses:		
Cost of natural gas sold	7,954,243	6,347,991
Operating expense:		
Operation expense:		
Production - fuel (Note 1)	51,900,974	35,228,258
Production - other	770,155	909,666
Purchased power	18,633,493	16,031,402
Transmission	668,231	595,149
Distribution	227,731	208,563
Administrative and general	2,257,235	1,943,110
Maintenance expense:		
Production	431,652	461,677
Transmission	651,726	539,211
Distribution	415,048	376,937
General plant	100,232	90,975
Depreciation and amortization (Note 1)	3,527,252	3,659,172
Taxes	917,848	823,298
Interest on long-term debt	11,343,930	3,928,246
Other interest	539,939	520,746
Interest charged to construction (Note 1)	(8,462,767)	(940,829)
Other deductions	3,779	—
Total operating costs and expenses	<u>91,880,701</u>	<u>70,723,572</u>
Operating margins	1,814,591	1,404,759
Patronage capital allocations	186,246	251,675
Non-operating margins:		
Interest income	289,565	364,626
Interest expense	(249,406)	(268,577)
Other	82,466	—
Margins before Federal income tax	2,123,462	1,752,483
Federal income tax (Note 11)	151,051	—
Net margins	1,972,411	1,752,483
Patronage capital and other equities, beginning of year	18,061,741	16,309,258
Patronage capital and other equities, end of year	\$ 20,034,152	\$ 18,061,741

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

Consolidated Statement of Changes in Financial Position

YEARS ENDED DECEMBER 31, 1980 and 1979

	1980	1979
Working capital provided from:		
Net margins	\$ 1,972,411	\$ 1,752,483
Depreciation and amortization	3,735,789	3,817,688
Patronage capital allocations	(186,246)	(251,675)
Gains on sales of assets	(82,466)	—
Working capital provided from operations	5,439,488	5,318,496
Advances from REA	6,436,000	2,633,273
Advances from FFB	32,731,353	59,003,647
Decrease in other property and investments	633,521	667,174
Salvage value of retirements	684,208	442,459
Contributions for line removal and relocation	14,905	6,796
Decrease in unrecovered purchased fuel costs	3,014,309	3,161,587
Decrease in other deferred debits	—	3,990,673
Increase in deferred credits	118,666	—
Proceeds from sale of assets	102,026	—
Total working capital provided	49,174,476	75,224,105
Working capital used for:		
Additions to utility plant	38,518,354	64,082,470
Payments on long-term debt to REA	3,088,780	3,086,413
Payments on long-term debt to NRUCFC	2,029,044	7,488,168
Plant removal costs	153,606	125,878
Decrease in deferred credits	892,366	528,062
Increase in other deferred debits	392,660	—
Total working capital used	45,374,813	75,310,991
Increase (decrease) in working capital	\$ 3,799,663	(\$ 86,886)
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	(\$ 549,237)	\$ 64,611
Temporary cash investments	850,054	(149,000)
Special deposits	(119,454)	93,600
Accounts receivable	3,901,123	176,064
Material and supplies	425,879	837,784
Prepayments	49,713	(26,845)
	4,558,082	996,214
Increase (decrease) in current liabilities:		
Current maturities of long-term debt	(19,999)	89,760
Accounts payable	2,574,370	560,879
Notes payable	(2,018,750)	313,000
Other accrued liabilities	222,798	119,461
	758,419	1,083,100
Increase (decrease) in working capital	\$ 3,799,663	(\$ 86,886)

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

Notes to Consolidated Financial Statements

DECEMBER 31, 1980 and 1979

1. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary, Brazos Fuel Company. All inter-company items have been eliminated in consolidation.

System of accounts

The accounting records of the Cooperative conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission for class A and B electric utilities modified for electric borrowers of the Rural Electrification Administration.

Electric revenues and fuel costs

Electric revenues are recorded monthly as of the date meters are read and accounts are billed.

Fuel costs are charged to production expense as fuel is consumed.

Plant additions and retirements

The cost of additions to electric plant in service represents the original cost of the contracted services, direct labor and material, interest on construction loans, and indirect charges for engineering, supervision and similar overhead items. Maintenance and repairs of property and replacements and renewals of items determined to be less than units of property are charged to operations. For property replaced or renewed, the original cost plus removal cost less salvage is charged to accumulated provision for depreciation. The cost of related replacements and renewals is added to electric plant. Contributions in aid of construction are credited to the applicable plant accounts.

Interest Charged to Construction

The Cooperative has capitalized as a part of electric plant the cost of borrowed funds used for such purposes, net of interest earned on "idle" advances of the borrowings. This procedure is in accordance with that prescribed by REA.

Depreciation

Provision has been made for depreciation on a straight-line basis at annual composite rates as follows:

Production plant	3.10%
Transmission plant	2.75%
Distribution plant	2.88%
General plant	
Structures and improvements	2.50%
Transportation	15.50%
Communications	6.50%
Other general plant	6.00%



Patronage capital certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificates.

Unrecovered purchased fuel costs

Natural gas purchased under the take or pay terms of contracts with various individual producers is recorded at contract cost, which includes production taxes and royalties. The amount of gas paid for in advance is classified as a deferred debit. Unpaid production taxes and royalties, related to the above contracts, are included in deferred credits until such time that the gas purchased and not taken will actually be recovered by the Cooperative.

An allowance for unrecoverable gas is provided for by charges to income. The allowance is based upon estimates by the Cooperative and its consulting engineers as to the volume of gas losses in each well.

2. Assets pledged

All assets are pledged as security for the long-term debt to REA, NRUCFC, and FFB.

3. Utility plant

Listed below are the major classes of utility plant as of December 31, 1980 and 1979.

	1980	1979
Intangible plant	\$ 2,170	\$ 2,170
Production plant	59,876,066	60,123,178
Transmission plant	43,060,717	39,641,455
Distribution plant	16,335,052	15,207,252
General plant	3,591,049	3,087,442
Completed construction not classified	30,199	2,925,327
Electric plant in service	122,895,253	120,986,824
Construction work in progress	104,551,711	70,222,040
Nuclear fuel in process of refinement and enrichment	2,861,498	1,925,589
	<u>\$230,308,462</u>	<u>\$193,134,453</u>

Notes to Consolidated Financial Statements

DECEMBER 31, 1980 and 1979

Included in construction work in progress at December 31, 1980, are costs of \$23,606,786 for the construction of 78 miles of 345 KV transmission line from the San Miguel Power Plant to the Marion Substation of LCRA; and costs of \$67,094,052, for the purchase of 3.8% ownership in the Comanche Peak Steam Electric Station. The estimated completed cost of the transmission line is \$26,400,000. The Cooperative's cost of its 3.8% share in the Comanche Peak Steam Electric Station is estimated to be \$101,997,000.

4. Patronage Capital and Other Equities

Detail of patronage capital		
	1980	1979
Assignable	\$ 1,696,662	\$ 1,650,450
Assigned	15,402,599	13,782,468
	17,099,261	15,432,918
Detail of other equities		
Capital gains and losses	9,383	9,383
Non-operating margins	2,647,967	2,586,676
Retained earnings of subsidiary	277,541	32,764
	2,934,891	2,628,823
Total patronage capital and other equities	\$20,034,152	\$18,061,741

Under provisions of the long-term debt agreements, until the total of equities and margins equals or exceeds 40% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25% of the patronage capital or margins received by the Cooperative in the next preceding year.

The by-laws of the Cooperative do not provide for the assignment of non-operating margins or earnings of subsidiaries. The by-laws were amended, effective January 1, 1976, to permit offsetting current year operating margins against operating deficits of prior years.

5. Long-term debt—REA mortgage notes

Mortgage notes to REA are 2% and 5%, 35 year notes payable with principal and interest installments of approximately \$1,280,000 due quarterly. The debt includes an estimated \$3,039,000 of principal and deferred interest payable within the next twelve months. The notes are scheduled to be fully repaid at various dates from March 8, 1981 to April 30, 2015. Unadvanced loan funds of \$3,086,000 are available to the Cooperative on loan commitments from REA.

6. Long-term debt—NRUCFC mortgage notes

Long-term debt to NRUCFC consists of 7% to 17 3/4% mortgage notes payable with principal and interest installments of \$65,100 due quarterly

with \$402,000 principal payable within the next twelve months. The notes are scheduled to be fully repaid at various dates from December 10, 1981 to November 30, 2007. The Cooperative intends to exercise an option to extend the maturity date of an intermediate loan with NRUCFC to a maturity date of thirty-five years after the initial maturity date. At December 31, 1980, the balance of this loan, maturing December 10, 1981 is \$2,387,278 and has been classified as long-term debt for financial statement purposes. Unadvanced loan funds of \$8,541,643 are available to the Cooperative on loan commitments from NRUCFC.

7. Long-term debt—FFB mortgage notes

Long-term debt to Federal Financing Bank (FFB) consists of 8.818% to 15.081%, 2 year notes payable with interest payments due quarterly. The notes are scheduled to be fully repaid at various dates from May 2, 1981 to December 24, 1982. The Cooperative has an option to extend the due dates for a period not less than two years nor greater than seven years after the date of the advance; or to extend the maturity date to thirty-four years after the end of the calendar year in which the advance was made. At December 31, 1980, the Cooperative had \$59,003,647 of advances with short-term maturity dates which they intend to refinance under the above options. Unadvanced loan funds of \$55,326,000 are available to the Cooperative on loan commitments from FFB.

8. Line of credit agreement

The Cooperative has established a line of credit, for short-term financing, with NRUCFC for \$12,000,000. At December 31, 1980, the amount owed NRUCFC under such agreement is \$3,800,000 due March 25, 1981, at an annual interest rate of 17 3/4%.

9. Retirement plan

The Cooperative has a contributory retirement plan covering substantially all of its employees. Total retirement costs charged to operations for 1980 and 1979, were \$194,803 and \$193,792, respectively, and include charges for current and prior service costs. The Cooperative's policy is to fund retirement costs annually as it is accrued.

The actuarially computed value of vested benefits at December 31, 1979 (date of latest information available) was \$1,908,691, which was exceeded by the book value of the pension fund assets by \$44,637.

The Cooperative's retirement plan was amended effective January 1, 1976, to conform with the

Notes to Consolidated Financial Statements

DECEMBER 31, 1980 and 1979

requirements of the Employee Retirement Income Security Act of 1974.

10. Transactions with member cooperatives

The Cooperative has contracts with 17 of its 19 member distribution cooperatives, through June 30, 2020, for the sale of wholesale electric energy. Contracts with the other 2 member cooperatives are through the period June 30, 2010. Sales of electric energy to the 19 members were \$76,382,941 and \$58,230,463 for 1980 and 1979, respectively.

11. Federal income taxes

Federal income taxes are paid on taxable income of the subsidiary only. No provision has been made for Federal income taxes for the Cooperative in reliance on a determination letter, dated March 12, 1969, issued by Internal Revenue Service, which states that in the opinion of the Service the Cooperative meets the requirements of Section 501(c) (12) of the Internal Revenue Code and is entitled to exemption from Federal income tax. Tax returns, of the subsidiary, for the years 1977 through 1979 are presently being reviewed by the Internal Revenue Service.

12. Commitments and contingencies

Unrecovered purchased fuel costs

The Cooperative has contracted to purchase gas from various individual producers, in addition to other suppliers. The remaining term of the majority of these contracts is approximately 13 years. Under the terms of the contract agreements, the Cooperative has agreed to purchase and receive, or pay for if available and not taken, an average daily quantity of gas as set forth in the contracts, effective January 1, 1976. The contracts provide for the recovery of gas paid for, but not taken, over the remaining life of the contracts. It is the opinion of management, that with proper monitoring of reservoir performance and field surveillance of operating conditions, failure to recover gas paid for but not taken will be minimal; and that such failures, should they occur, are a proper increment of the cost of actual gas delivered and therefore recoverable, under the Cooperative's rate structure, from its customers.

Construction Commitments

The Cooperative's expenditures for its 1981 construction program are estimated to be approximately \$45,700,000, of which \$44,600,000 will be financed by REA, NRUCFC and Federal

Financing Bank loan funds and \$1,100,000 by general funds. Approximately \$14,400,000 of the estimated 1981 construction program expenditures is for additions to the Comanche Peak Steam Electric Station.

Subscription Agreement

The Cooperative is committed under the terms of a subscription agreement to purchase additional CFC capital term certificates totaling approximately \$1,745,308. Subscriptions are payable annually on October 1, in each of the years 1981 through 1984.

Operating Agreements

Under the terms of operating agreements, the Cooperative has guaranteed the cities of Whitesboro and Sanger a minimum annual income from the operation of their electric systems. Management is of the opinion that the Cooperative will incur no liability as a result of such guarantees.

13. Reclassifications

Certain reclassifications of 1979 amounts previously reported have been made to conform to the 1980 presentation.

Report of Independent Accountants

Main Hurdman & Cranstoun

certified public accountants

Central Texas Tower
P.O. Box 7616
Waco, TX 76710
(817) 776-4190

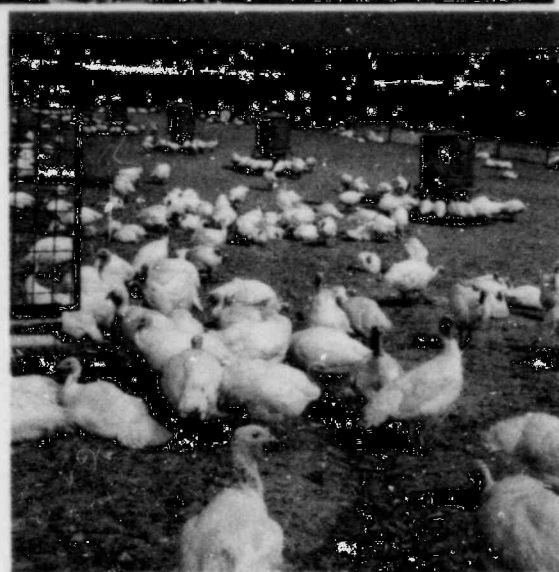
The Board of Directors
Brazos Electric Power Cooperative, Inc.

We have examined the consolidated balance sheet of Brazos Electric Power Cooperative, Inc. and subsidiary as of December 31, 1980 and 1979, and the related consolidated statements of revenue and patronage capital and other equities and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Brazos Electric Power Cooperative, Inc. and subsidiary at December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Main Hurdman & Cranstoun

March 5, 1981



Board of Directors



William G. Parker
President
Comanche County
Electric Cooperative
Association



F. C. Luedtke
Vice-President
McLennan County Electric
Cooperative, Incorporated



Robert H. Bunting
Secretary-Treasurer
I-A-C Electric Cooperative,
Incorporated



Woodrow Hensarling
Mid-South Electric Cooperative
Association



Horace R. LeNoir
Limestone County
Electric Cooperative,
Incorporated



J. W. Richards, Jr.
Robertson
Electric Cooperative,
Incorporated



Joe Zajicek
Bartlett
Electric Cooperative,
Incorporated



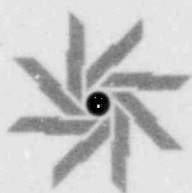
Grover F. Furr
Fort Belknap
Electric Cooperative,
Incorporated



J. F. Herring, Jr.
Tri-County
Electric Cooperative,
Incorporated



William Sanders
Erath County
Electric Cooperative
Association



The Brazos System

Management

Richard E. McCaskill Executive Vice President
and General Manager

Francis M. Bushnell, Jr. Executive Assistant and
Manager-Public Relations

Clarence W. Carpenter Manager-Finance and Administration

Billy W. Dyess Manager-Project Construction and Engineering

Dan B. Swenke, Jr. Manager-Operations

W. B. Townsend, Jr. Manager-Corporate Planning



Robert T. Lewis, Jr.
Cooke County
Electric Cooperative
Association



T. J. Holbert*
B-K
Electric Cooperative,
Incorporated



Jack Elam
Hamilton County
Electric Cooperative
Association



Billy Poland
Johnson County
Electric Cooperative,
Incorporated



Melvin Jordan
Navarro County
Electric Cooperative,
Incorporated

*Resigned upon
retirement—January 31, 1981.
Don R. Gregg elected
to the vacancy.



G. W. Cates
Hill County
Electric Cooperative,
Incorporated



M. E. Holley
Denton County
Electric Cooperative,
Incorporated



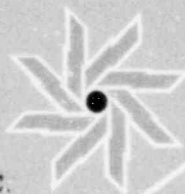
Luther Parks
Bellairs
Electric Cooperative,
Incorporated



Joe Forman
Wise
Electric Cooperative,
Incorporated

The Brazos System

BRAZOS ELECTRIC POWER COOPERATIVE, INC.
HOME OFFICE: 2404 LA SALLE
WACC, TEXAS 76706



...helping you enjoy the better life