THE FUTURE BUILDS ON THE PAST. THE PAST GIVES PERSPECTIVE TO THE FUTURE. 1942-1992

CITY PUBLIC SERVICE
1992-93 ANNUAL REPORT

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HIGHLIGHTS OF THE YEAR

- Assets increased by $88,892,000 to $4,685,683,000
- City equity increased $30,150,000 to $1,778,842,000
- City payments increased $4,498,000 to $113,515,000
- Gross revenues increased $31,992,000 to $847,376,000
- Cost to residential customer per KWH increased 3.6% to ..... 6.62¢
- Cost to residential customer per MCF of gas increased 3.2% to $5.09
- Maximum electric system load increased 18,000 KW to 2,817,000
- 9,223 electric customers were added to total 485,345
- KWH sales increased 2.3% to 12,287,295,753
- MCF sales increased 2.2% to 25,362,687

SUMMARY OF APPLICATION OF REVENUES

Gross revenue for 1992-93		$847,376,000
Application of Revenue:		
Fuel, purchased power and resale gas		$201,699,000
Other operating and general expenses		143,754,000
Maintenance of the systems		65,170,000
For debt requirements and other interest	$256,305,000	
Interest charged to construction	29,055,000	
Net debt requirements and other interest		227,250,000
Payments to the City of San Antonio		113,515,000
Balance from operations available for construction		95,988,000
Total		$847,376,000
Gross amount spent for replacements, improvements and expansion of gas and electric systems		$171,952,000
Funds obtained from:		
Operations		$ 95,988,000
Commercial Paper		57,913,000
Improvement and Contingencies Fund		(2,551,000)
Contributions and advances in aid of construction		5,602,000
Litigation Settlement Proceeds		15,000,000
Total		$171,952,000

PROFILE OF CITY PUBLIC SERVICE

San Antonio, the third largest metropolitan area in Texas, has a population of approximately 1.4 million.

Tourism, manufacturing, construction, insurance, retailing and medical care have been the traditional economic mainstays, along with one of the largest concentrations of military installations in the U.S. In recent years, San Antonio has broadened its economic base to include numerous high-tech firms in the fields of electronics, data processing, biotechnology and telemarketing.

THE FUTURE BUILDS ON THE PAST. THE PAST GIVES PERSPECTIVE TO THE FUTURE.

1942-1992
CELEBRATING 50 YEARS OF SERVICE

Meeting the energy needs of this thriving area is City Public Service, one of the largest municipally-owned utilities in the nation. CPS provides electric service to approximately 485,000 customers throughout its 1,566-square mile service area, which includes all of Bexar County and portions of seven neighboring counties. The gas system supplies approximately 290,000 customers in the San Antonio urban area.

CPS was founded in 1942 when the City of San Antonio purchased the utility systems by issuing $33.9 million in revenue bonds. A five-member Board of Trustees, with the Mayor of San Antonio filling one of the seats, sets policy for the utility.

CPS operates seven power plants in the San Antonio area with a combined capacity of 3,736 megawatts and owns 28 percent of the South Texas Project nuclear plant which adds another 700 megawatts of capacity.

The gas system is comprised of 3,973 miles of gas lines through which natural gas is delivered to CPS customers.

City Public Service had 3,513 employees as of January 31, 1993.

REFLECTIONS ON 50 YEARS OF SERVICE

Change has been an important characteristic of the utility industry during the last 50 years. From providing a commodity that customers considered a luxury, utilities have become the mainstay of modern life making it possible for businesses to flourish and individuals to enjoy a high standard of living. Probably no other industry has such a profound effect on people as they go about their daily lives.

Dr. Frank Bryant and Arthur von Rosenberg

As City Public Service ends its 50th year of serving San Antonio as a municipal utility, the occasion offers the opportunity to reflect on the history that has made CPS the thriving organization it is today. During the 50 years it has been owned by the City of San Antonio, CPS has grown and changed as has the city it serves.

From a population of 300,000 in 1942, San Antonio has become the tenth largest city in the country. During the same time, the electric capacity of 90.5 megawatts at two power plants has increased to 4,436 megawatts as CPS has expanded its facilities to meet the needs of a growing community. Likewise the gas system has expanded from 734 miles of main in 1943 to 3,873 miles today.

While change has been an important element in the CPS history, some things do not change—the tradition of excellent service which has been a hallmark of the utility since its beginning. CPS continues that tradition today because of its motivated, well-trained and professional work force. With an eye toward the future, CPS pledges to continue providing quality service at a reasonable price as it embarks on its second 50 years of service to San Antonio.

Frank Bryant Jr. M.D.

Dr. Frank Bryant
Chairman

Arthur von Rosenberg

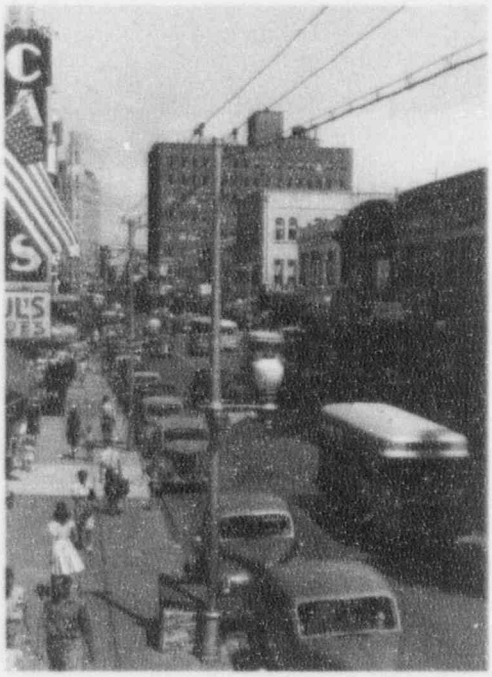
Arthur von Rosenberg
General Manager

The South Texas Nuclear plant, which contributes to the valley's fuel diversification program, provides a strong contrast to the pre-fired Houston Steel Plant as it appeared in the 1940s.

By building on its past, City Public Service has positioned itself well for the future. Achievements and growth during the last 50 years have laid the foundation for good decisions that continue to benefit the utility's customers. During 1992-93, the utility's 50th year, CPS achieved both operating and financial successes which are keys to a positive future.

FUEL DIVERSIFICATION: A KEY FOR SUCCESS

CPS has a diversified fuel base that has resulted in favorable rates for its customers. Since the early 1970s when the country faced severe shortages of natural gas and the price increased rapidly, CPS has followed a philosophy of diversifying the fuel used to generate electricity. Continuing the record of the past several years, CPS customers' monthly residential bills for the average usage of gas and electricity ranked lowest among the 10 largest cities in the country during the 1992-93 fiscal year. CPS customers also consistently paid less for electric energy and natural gas than in other major cities in the state.



When City Public Service was purchased in 1942, the electric peak demand was 88 megawatts. Today, 50 years later, hourly peak demand has reached 2,817 megawatts.

The CPS fuel diversification program was begun in 1973, when the Board of Trustees authorized participation in a nuclear project and building of two coal-fired generating units. The twin coal-fired J.T. Deely units were placed in service in 1977 and 1978. The two nuclear units went into commercial operation in 1988 and 1989 and together can furnish 700 megawatts of power to San Antonio. In November 1992 the 500-megawatt J.K. Spruce Plant went into commercial operation following testing which began last summer and provided further diversification in meeting the city's electrical needs.

The Spruce Plant, which was built under a $444 million fixed-price contract, burns about two-thirds of a trainload of low-sulfur Western coal per day at full operation. The unit includes state-of-the-art environmental equipment—two baghouses which remove approximately 30,000 pounds of fly ash per hour and three flue gas scrubbers which reduce sulfur dioxide emissions significantly.

The location of the new plant adjacent to the older Deely coal-fired generating units at Calaveras Lake takes advantage of existing coal yard facilities which were expanded to serve the Spruce unit while continuing to serve the Deely Plant. Completion of the plant gives the utility a total of 1,336 megawatts of coal-fired capacity.

Two additional trains of railcars were purchased during the year to deliver the additional coal which will be required for the new plant. The purchase brings the utility's ownership of railcars to more than 1,000.

The second element of the fuel diversification program, the South Texas Project nuclear plant, finished a successful year of operation. Unit 1 produced 90.3 percent of its maximum potential generation during its 18-

month fuel cycle which ended September 19 when the unit was shut down for refueling. The unit generated about 14.5 billion kilowatt hours of electricity, the most energy ever produced by a Westinghouse reactor during a single fuel cycle. Unit 2 ranked fourth in the world in 1992 when it generated 10,807,760 megawatt hours, breaking the previous U.S. annual production record of 10.45 million megawatt hours. For the fiscal year, Unit 1 operated 62.8 percent of the time while Unit 2 had a capacity factor of 93.2 percent. The combined capacity factor of 78 percent compares with 69.75 percent in 1991-92. The improved performance reflects the fact that 1991-92 represented the first year the plant had one unit on line for the entire 12 months without a refueling outage, as a result of changing to an 18-month refueling cycle during 1991.

During the fiscal year, nuclear-fueled generation provided a record 37 percent of the CPS electrical generation while coal accounted for 41 percent. Natural gas was used to fuel the remaining 22 percent of the generation. The favorable fuel mix resulted in a cost of $1.08 per million BTUs. The fuel cost was $.14 per million BTUs greater than the prior fiscal year due to an increase in natural gas prices and higher coal costs. The price of natural gas increased more than 12 percent during 1992-93.

To assure the continuation of adequate supplies of natural gas at competitive rates, CPS entered into a 10-year contract with Reata Industrial Gas, L.P., an affiliate of Valero Natural Gas Partners, L.P. Cost protection is built into the contract through a ceiling on gas prices based on the weighted average cost of gas delivered to selected electric utilities and gas distribution systems in Texas. Renegotiation of the 1988 Reata gas contract should save CPS ratepayers $13.3 million during the next five years.

The Spruce Plant, the newest City Public Service generating station, includes state-of-the-art environmental equipment. The new plant is located adjacent to the Deely Plant to take advantage of newly expanded coal yard facilities. Two additional trains of railcars were purchased to serve the new plant.

PAST GROWTH CONTINUES

When the utility was purchased by the City of San Antonio in 1942, the electric peak demand stood at 88 megawatts. Growth has continued during the utility's 50-year history, reflecting the vibrance of the San Antonio area.

One measure of the growth in the city and the utility is the new hourly peak demand records which have been set yearly in all except four years since 1942. In fiscal year 1992-93, CPS customers set new records for hourly peak demand and 24-hour usage. On July 1, 1992, the hourly peak demand reached 2,817 megawatts, surpassing the

2,799 megawatt record set in August 1991. On July 2, a new 24-hour generation record of 52,256 megawatt hours was set, up 1.6 percent from the previous year. The peak demand is expected to continue its steady growth, reaching nearly 3,700 megawatts by 2000.

The number of customers also has grown during the years. From 90,705 electric customers in 1942, CPS customers reached an all-time high of 485,345 in 1992-93, an increase of 9,223 over the previous fiscal year. Gas customers also increased to a record 290,497, up from 287,502 the previous year. Gas customers in 1942 numbered 64,975.

Housing starts in San Antonio during 1992 indicated that the growth in customers will continue. Home builders started 4,200 single family houses in 1992, a 73 percent jump from 1991. Housing starts are projected to rise by 20 percent in 1993.

PROGRESS, FAR FROM CONSISTING IN CHANGE, DEPENDS ON RETENTIVENESS… THOSE WHO CANNOT REMEMBER THE PAST ARE CONDEMNED TO FULFILL IT.

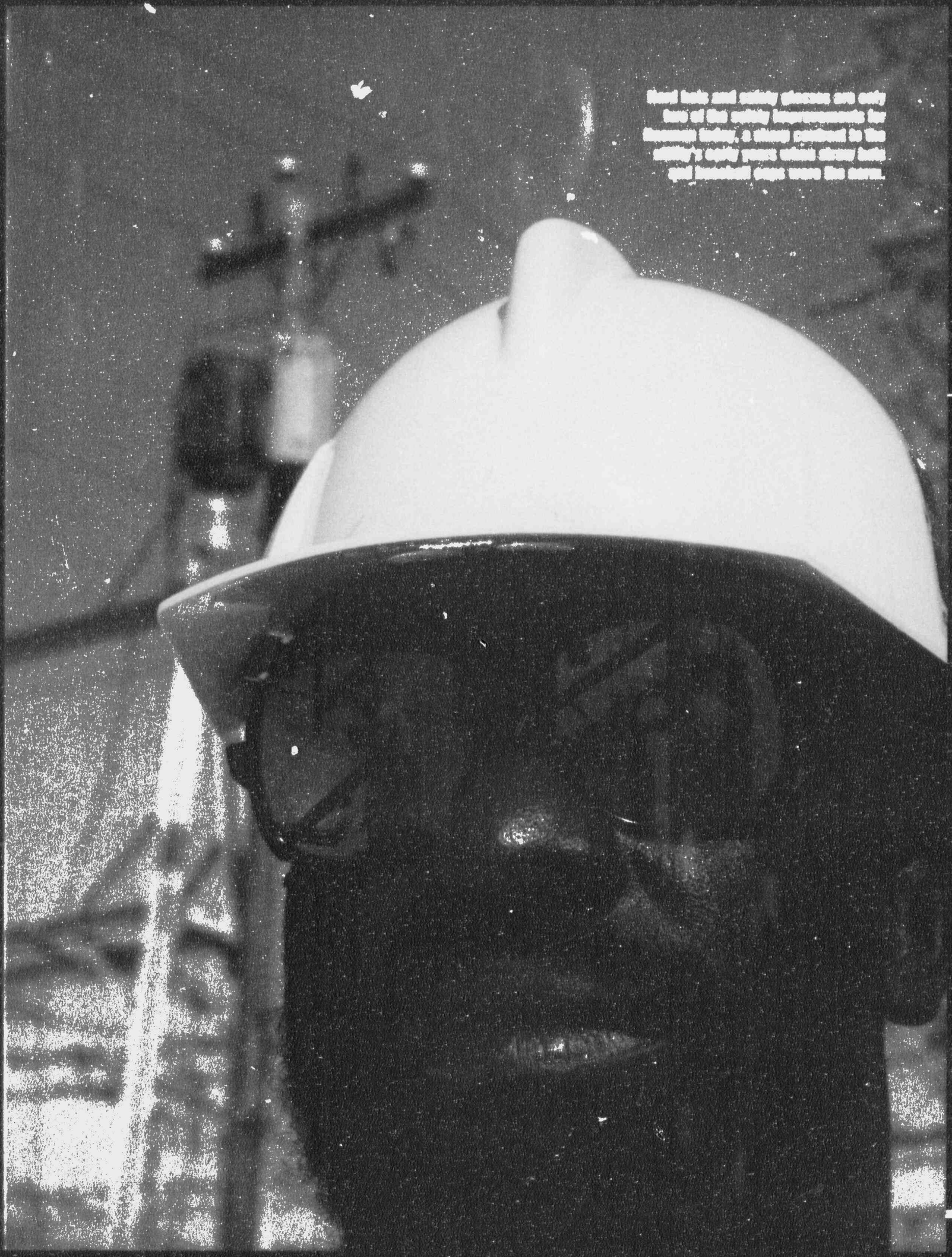
GEORGE SANTAYANA

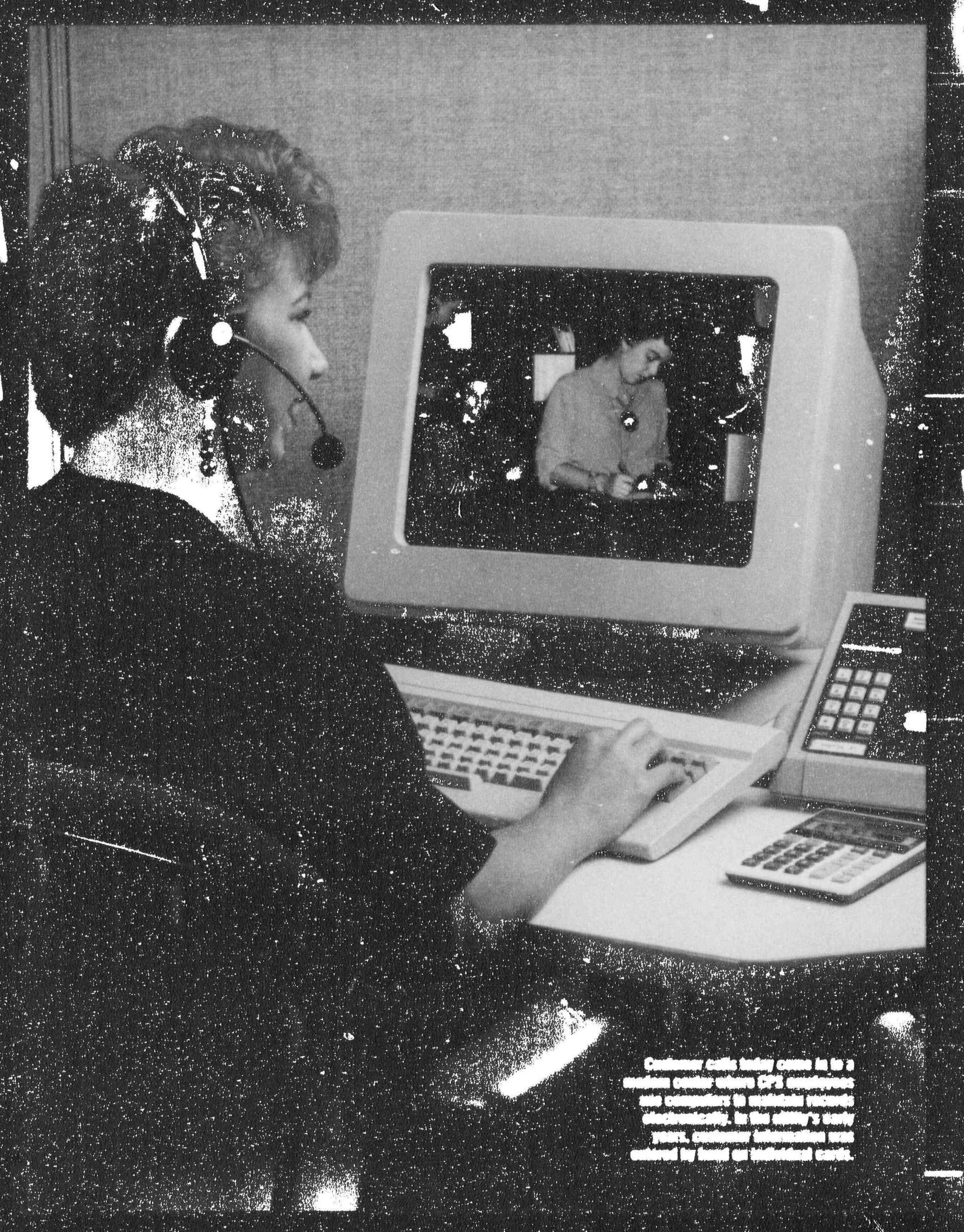
LIFE AND REASON

Long-term, CPS expects electric customers to increase by 10,000 per year during the last years of the decade, with the total number reaching 550,000 by the turn of the century. New gas customers are expected to increase 1 percent per year during the balance of the decade.

Electric use per residential customer also is projected to increase from the current average of 11,420 kilowatt hours per year to more than 12,500 kilowatt hours per year in 2000. From a low of 1,062 kilowatt hours in 1947, the earliest year for which statistics are available, the average annual usage for residential customers has increased more than tenfold. Despite the utility's extensive conservation efforts which have substantially reduced the growth in demand from earlier years, the growth in kilowatt hour sales continues and reflects the ever-increasing ways in which electricity contributes to modern life.

Increased use of compressed natural gas as a fuel for vehicles represents another potential area of growth for CPS. State law requires school districts, transit authorities, state agencies, local governments and private fleets with 25 or more vehicles to phase in use of alternative fuels during the remainder of the decade. Although CPS will not be affected until 1998, the utility has converted 12 vehicles to operate on CNG and gasoline, purchased four new CNG vehicles and built a refueling station which was opened for use in 1992. Use of CNG is expected to save CPS money on vehicle maintenance costs and opening of the refueling station should encourage other organizations to use CNG as they make vehicle conversions to meet State law.





FINANCIAL STABILITY

Assets of CPS have grown rapidly during the utility's 50-year history. From assets of $37.7 million in 1942 when the utility was purchased, CPS has grown to $4.69 billion in assets, with the City of San Antonio's equity standing at $1.79 billion.

Another measure of the utility's success is the increase in revenue. From $10.7 million in revenue in 1942, CPS revenue has climbed to reflect growth in the number of customers and their increased usage of utilities. At fiscal year-end, revenue stood at $847.4 million, an increase of $32 million over the previous year.

As a result of the increased revenue, the benefits to the City of San Antonio also have increased with the City payment for fiscal year 1992-93 reaching $113.5 million. In 1942, the city received only $160,000. Cumulatively, CPS has paid $1.58 billion in cash and services to the City of San Antonio during its 50 years as a municipal utility. These payments have allowed the City to keep tax rates low while providing needed services for the community.

In 1946, each crew had a lamp man who picked up lamps, refilled them with kerosene and replaced them on barricades at job sites for the night. He also served as the crew's water man.

Operating expenses were $3 million less than budgeted for the fiscal year. Efforts to contain costs have proved to be effective with major success being achieved in reducing staff, cutting interest expenses and taking advantage of new technology.

Since a hiring freeze was initiated in December 1989, staff has been reduced 6.6 percent including new employees added to operate the Spruce Plant. In a more appropriate comparison, if the 123 employees hired to operate the new plant are deducted from the current personnel strength, the staff reduction stands at 9.8 percent compared with 1989 figures.

CPS took advantage of lower interest rates during the year to issue $700.8 million in refunding bonds. Bonds with interest rates of 7 percent to 11.7 percent issued between 1975 and 1988 were refunded and $198 million in short-term commercial paper notes were converted to long-term debt during the year. The average interest rate on the new bonds was 5.97 percent. The 1992 refunding bonds should save ratepayers $56 million during the next 11 years.

In rating these new bonds, both Moody's Investor Services Inc. and Fitch Investors Service Inc. gave CPS higher bond ratings over the previous highly favorable AA rating because of the financial strength of the utility. Moody's Aa1 rating and the Fitch AA+ rating put CPS in an elite class, since only two other public utilities in the country have bond ratings above AA. The ratings recognize the strengths of CPS: responsive management, lower capital needs and a strong fuel diversification program.

One of the major tourist attractions in the state, the Alamo maintains a strong tie to San Antonio's history and reflects the city's interest in its past.

The utility also takes advantage of new technology to reduce costs through increased efficiency. CPS has adopted a new standard for personal computers and will make the conversion during the next fiscal year. The upgrade will allow employees to work more efficiently and automate even more functions.

MAKING A DIFFERENCE IN THE COMMUNITY

Recognizing the special role of a municipal utility in the community it serves, CPS has made a commitment to assist San Antonio in its economic development efforts. CPS continued to support the work of the Economic Development Foundation, an organization dedicated to attracting new businesses to the San Antonio area. Utility employees made presentations to representatives of potential new businesses and helped plan electric and gas service.

Money still goes a long way when spent for electric service in San Antonio. Compared to the ten largest cities in the country, CPS residential bills for average usage are the lowest as a result of sound financial management and careful planning.

Relationships with the San Antonio business community were improved with continuation of special programs. The utility provided audit services to business customers to help them conserve gas and electricity and worked with them to insure they are being billed under the most favorable rate for their utility service. Seminars, particularly for owners of small businesses and minority business owners, were held to provide information about products needed at CPS and the requirements for doing business with the utility.

As the city strives to create jobs through attracting business and to improve the standard of living for all citizens, CPS employees volunteer their time and talents to help effect change. CPS employees contributed more than $438,800 to United Way and volunteered their time to work at United Way agencies to make those dollars go farther in solving community problems.

The Volunteers in Public Service, a CPS program to match employee talents with needs for volunteer work in the community, contributed 8,641 hours of time to community service. The 847 volunteers raised money to purchase toys for needy children, purchased and installed playground equipment at a housing project, organized supplies for the Red Cross, distributed food to the homeless and much more. These and similar volunteer efforts have been recognized in the past with local and national awards.

The CPS volunteers also initiated a partnership program with a local elementary school where employees serve as tutors after work hours. The experience offers students the opportunity to establish a relationship with role models while they get assistance with their academic program.

Concern for the community led CPS to another successful year of serving customers through special customer

programs, such as presentations about the efficient use of gas and electricity and energy surveys of residential, commercial and industrial properties. In addition, CPS personnel presented programs on the safe use of gas and electricity to more than 101,000 people in the service area. More than half of the persons viewing these safety programs were school children.

LEADERSHIP AT CPS AND IN THE INDUSTRY

City Public Service enjoys an excellent reputation in the industry. The utility's success has led to the recognition of CPS management and staff members for their achievements.

Use of compressed natural gas as a vehicle fuel represents a potential area of growth for CPS.

During the year, the CPS General Manager was recognized by the Texas Public Power Association for his outstanding leadership and dedication to public power. Mr. Arthur von Rosenberg also was cited by the National Utility Alliance for his dedication in furthering the cause of diversity in the work place.

Mr. von Rosenberg was elected to serve a two-year term as chairman of the Electric Reliability Council of Texas, an organization of Texas electric utilities dedicated to the reliability of electric service throughout the state. The ERCOT service area covers 75 percent of Texas, approximately 195,000 square miles with about eight million residents. He also began a four-year term as one of two ERCOT representatives on the Board of Trustees of the North American Electric Reliability Council and is a member of the Board of the Electric Power Research Institute.

The CPS Board of Trustees saw changes to its elected officials during the year as Dr. Frank Bryant, who had served as Vice Chairman, was elected Chairman on February 1, 1992. Mr. Pat Legan, who previously served as Chairman, continued to serve as a Trustee and was re-elected to a five-year term expiring March 31, 1997.

Mr. Al Aleman, who has served on the Board since March 1989, was elected Vice Chairman.

At the staff level, Mr. J. K. Harz retired as Assistant General Manager for Administration on April 1, 1992, after nearly 39 years of service with the utility.

LOOKING AHEAD TO THE NEXT 50 YEARS

As City Public Service completed its 50th year of service as a municipally-owned utility, the Trustees and staff remain committed to meeting the challenges of providing reliable, cost-effective natural gas and electric service. The records established during the first half-century of municipal ownership reflect a proud history which serves as a reminder of the goals which the utility pursues.

The City of San Antonio stands on the threshold of increasing greatness, offering an excellent quality of life as the business climate benefits from the confluence of technology and trade. CPS will play a major part in this promising future by providing the energy needed to power a great city.

TOP LEFT: Dr. Frank Bryant, Chairman of the Board, a physician in family practice.

The South Texas Medical Center serves as the hub of the medical service industry which plays an increasingly important role in the San Antonio economy.

TOP RIGHT: Al Aleman, Vice Chairman of the Board, owner of Aleman Food Service.

Rivercenter Mall represents the confluence of the retail and tourist businesses in San Antonio.

CENTER LEFT: Gloria Hernandez, Trustee, owner of Suchy's Flowers and Gifts.

The River Walk beckons visitors from throughout the world to one of the most popular tourist spots in San Antonio, second only to the Alamo.

CENTER RIGHT: Pat Legan, Trustee, owner of Legan Properties.

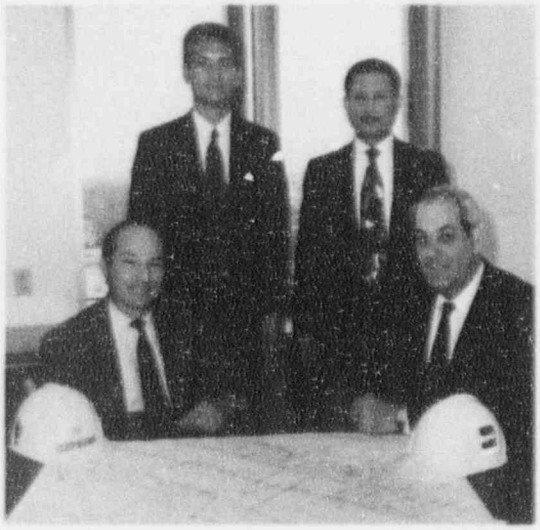
The Biomedical Research Park helps bring new business to San Antonio as part of the city's economic development efforts.

LOWER LEFT: Nelson W. Wolff, Ex-officio Trustee, Mayor of San Antonio.

The 65,000 seat Alamodome which opens in 1993, is expected to attract large conventions, sports events and entertainment.

CPS MANAGEMENT STAFF

The Downtown Customer Service Center serves as a convenient location for more than 30,000 CPS customers a month to pay their bills and discuss their utility service.
Howard Freeman, Assistant General Manager for Finance; John Leal, Manager of Personnel; Anthony Edwards, Manager of Employee Relations; Ralph Alonzo, Manager of Customer Services; Donald Thomas, Manager of Financial Services; Cy Hutchinson, Manager of Data Processing Services; Barbara Stover, Manager of Public Relations.

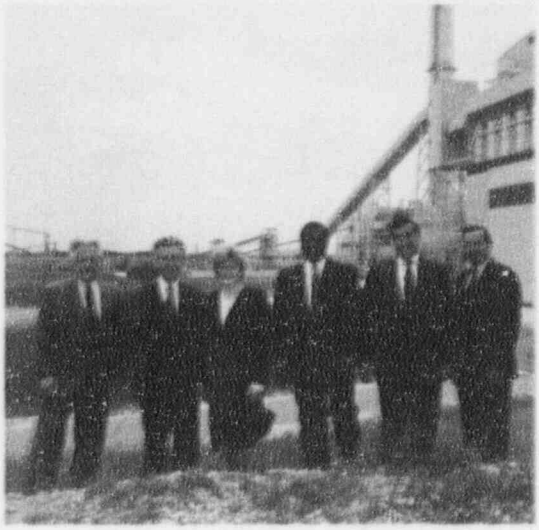


In the Gas and Electric Operations Center, computers allow the CPS staff to control the operation of the gas and electric systems.
Kenneth Fiedler, Assistant General Manager for Operations; Nick Flores, Manager of Operations; William Gunst, Manager of Production.

Work continues on maintaining and expanding the natural gas and electric systems to meet the needs of a dynamic city.
Joe Trevino, Assistant General Manager for Transmission and Distribution Engineering and Construction; Les Barrow, Manager of Construction; Paul Garza, Manager of Field Administration; Leonard Hill, Manager of Transmission and Distribution Engineering.

The skyline of San Antonio changes as the city continues to grow.
Arthur von Rosenberg, General Manager and Stewart Schooler, Manager of Legal Services.

Facilities at Calaveras Lake have been planned to handle the addition of a future coal-fired generating unit.
Lou Fleckenstein, Manager of Materials and Transportation; Martin Clausewitz, Manager of Power Engineering; Jamie Axtell, Assistant General Manager for Planning and Development; Steve Braimer, Manager of Administrative Services; Bill Geissler, Manager of Generation and Environmental Planning; Donald Schnitz, Manager of Gas Engineering and Fuels.



MANAGEMENT'S FINANCIAL SUMMARY FOR FISCAL YEAR 1992-93

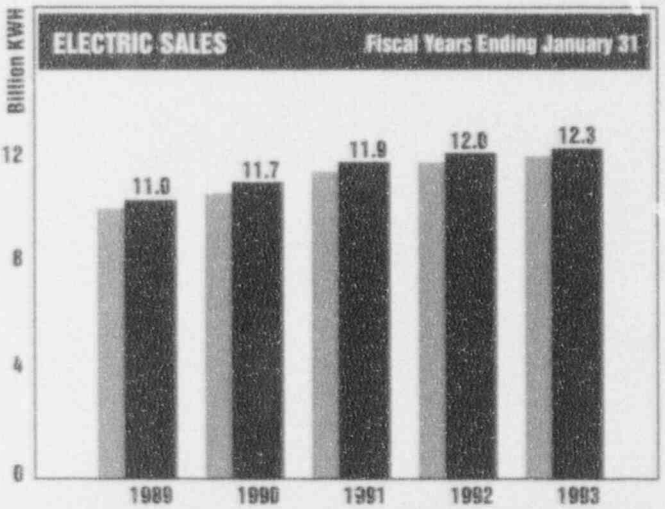
The 1992-93 fiscal year marked City Public Service's 50th anniversary as a city-owned utility. During the year, CPS recorded positive accomplishments that included expansion of its fuel diversification program, continuation of its competitive rates, emphasis on reducing debt costs and the upgrading of its bond rating by two prominent financial evaluation services.

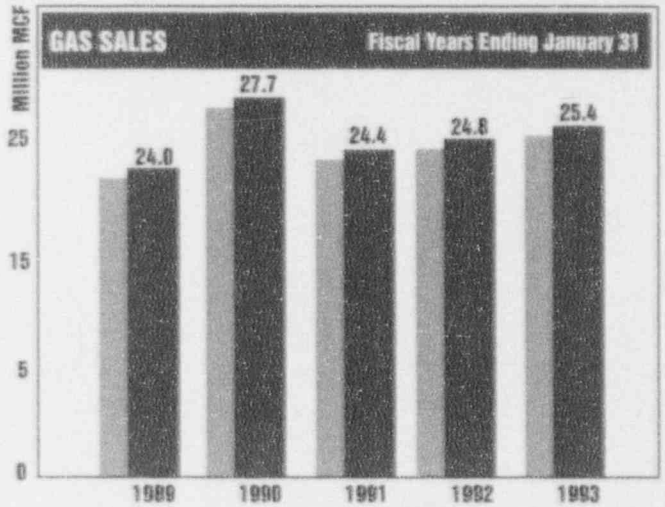
CONSTRUCTION

The utility continued its fuel diversification program with completion of the J.K. Spruce Plant, a coal-fired 500 megawatt generating station. Completion of the plant had a positive effect on capital electric production expenditures, which were $56 million less than the previous year.

The CPS strategy for payment of its construction program relied on revenue from current and prior years for almost 55 percent of the capital expenditures. Commercial paper financed almost 34 percent of construction costs while more than $20 million came from litigation proceeds and customer contributions.

With no major projects planned, CPS expects to fund its lower capital needs during the next few years primarily from revenue and commercial paper. Long-term bonds will continue to be used periodically to convert outstanding commercial paper to long-term debt in periods when interest rates are advantageous.





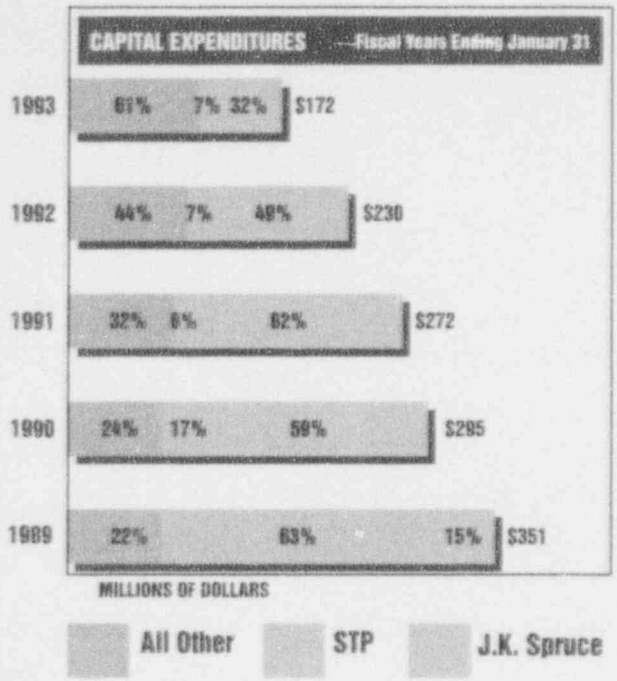
FINANCING RESULTS

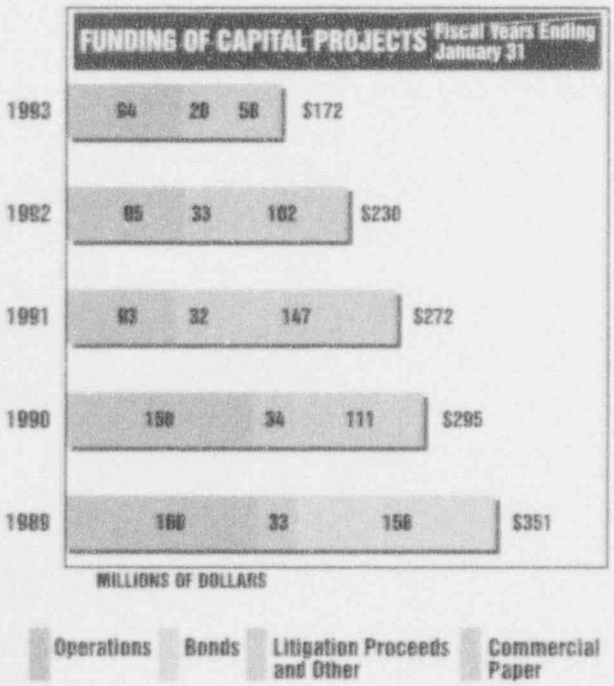
During the year, CPS issued almost $701 million in bonds to refund outstanding higher-interest bonds at lower rates. The utility also converted $198 million of tax exempt commercial paper to long-term bonds. The refunding issue will save $56 million in interest through the year 2004.

The 1992 refunding bond issue continues the program which was begun in 1985, bringing the total interest savings to nearly $249 million. The savings are achieved from 1986 through 2015.

CPS was awarded the highly favorable Aa1 rating by Moody's Investor Services and AA+ rating by Fitch Investor Service. The upgrade from AA puts CPS in an elite class with only two other public utilities which have bond ratings above AA.

The $30 million outstanding balance of commercial paper at year-end had a weighted average interest rate of 2.61 percent. Net revenue bonds outstanding totaling 2.7 billion at year-end had a very favorable 6.295 percent weighted average interest rate.





SALES

Electric sales set a record, reaching 12.3 billion kilowatt hours. The increase in sales over last year reflects a modest increase in the number of customers, which has been the trend in recent years.

Gas sales totaled 25.4 million MCF, a slight increase over last year. Gas sales have been affected the last three years by mild weather.

REVENUE

Gross revenue increased $32 million from the previous year, reaching $847 million. Operating revenue was up $42 million because of higher fuel and distribution gas cost recoveries and from increased sales. Non-operating revenue declined by $10 million because of lower interest rates.

CPS earned about 84 percent of its revenue from electric sales and approximately 13 percent from gas sales. Other sources of revenue included interest on investments and miscellaneous income.

The average revenue of $0.058 per KWH and $4.44 per MCF represents a slight unit cost increase over last year and is a result of higher fuel and resale gas costs.

EXPENSES

Operating and maintenance expenses for the fiscal year totaled $411 million, up $35 million from the previous year. Fuel, power and resale gas expenses of about $202 million accounted for more than 49 percent of the costs to operate and maintain the electric and gas systems, an increase of more than $27 million from last year.

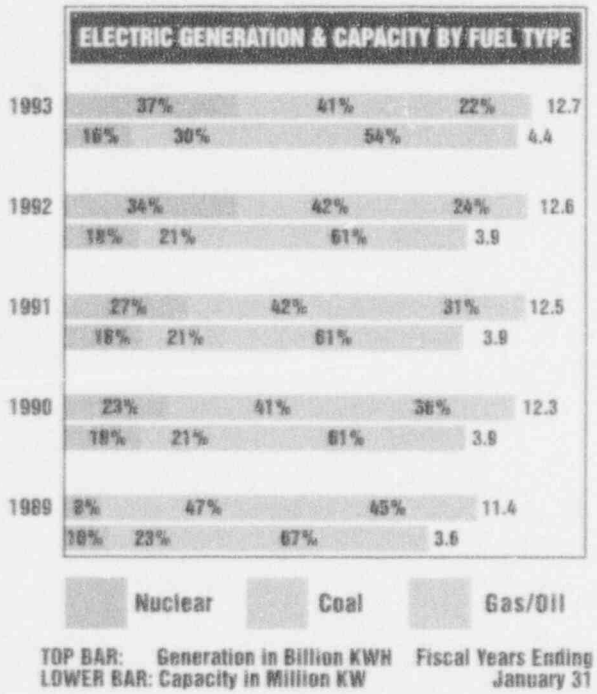
Coal-fueled electric generation accounted for 41 percent of CPS generation for the year, while 37 percent was from nuclear fuel; these were the lowest-cost fuel sources in 1992-93. CPS use of higher-cost natural gas and oil has declined gradually and represented only 22 percent of total CPS generation. Gas-fueled generating facilities represent 54 percent of CPS electric generating capacity.

Non-fuel operating and maintenance expenses excluding the South Texas Project nuclear plant were up $8 million primarily because of the requirement to fund post retirement health care costs. Non-fuel costs for the STP remained almost unchanged from last year.

SUBSEQUENT EVENTS

Both units of the South Texas Project were shut down in early February 1993 because of problems with the auxiliary feedwater pumps. Subsequent visits from Nuclear Regulatory Commission teams resulted in a Confirmatory Action Letter listing 10 operating and regulatory issues which must be addressed before the plant can return to service. The Project Manager, Houston Lighting and Power, is attempting to address the 10 issues and will notify the NRC when it is ready for an inspection and public briefing.

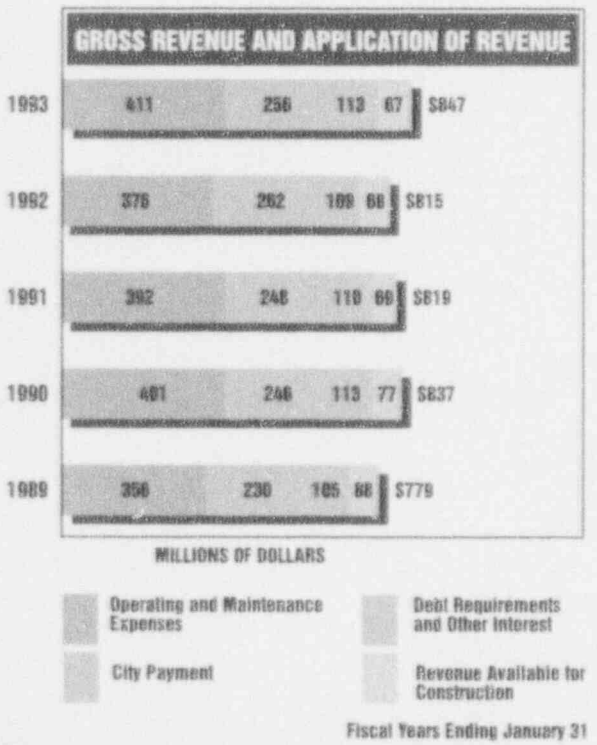
On June 25, 1993, the NRC placed the STP units on its "watch list" of plants with "weaknesses that warrant increased NRC attention." This action added no new constraints but reaffirms that the plant will not be able to resume operation until all 10 issues have been addressed and verified to NRC satisfaction. The costs of compliance and schedule for operation are not known; however, the outage is not expected to have a material adverse effect on the utility's financial condition and operations. Higher fuel costs will be recovered through fuel adjustment charges to customers, and CPS has adequate capacity to serve its customers.

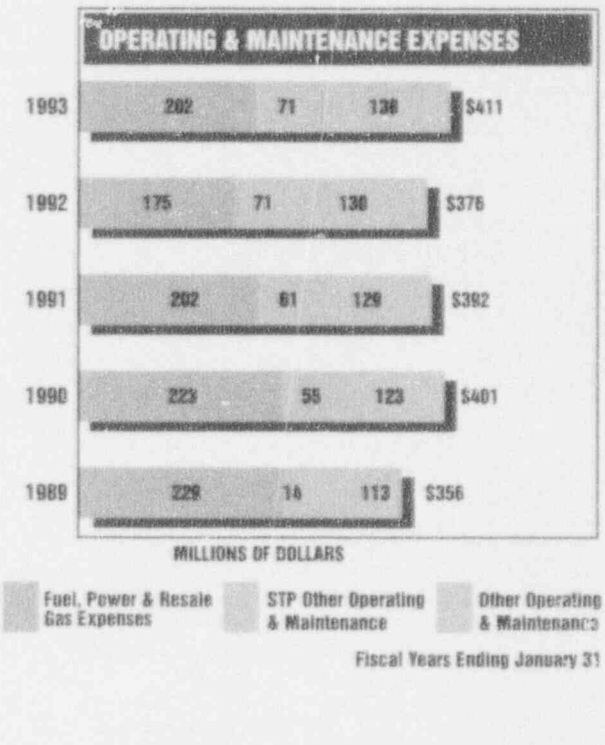


SUMMARY

As CPS begins its next half-century of service, its assets stand at $4.7 billion and its financial health is strong. The utility's operation has been judged by two bond rating agencies to be in the top category among municipal utilities throughout the country.

The utility projects that its excellent financial health will continue as it provides outstanding service at rates that are among the lowest in the state and nation.





BALANCE SHEETS JANUARY 31, 1993 AND 1992

	Notes	1993	1992
Assets		*(In thousands)*	
UTILITY PLANT, at cost:	1,3,9		
Electric		**$ 4,197,904**	$ 3,555,434
Gas		**252,947**	241,777
General		**109,806**	99,983
Total plant in service		**4,560,657**	3,897,194
Less-Accumulated depreciation		**917,783**	806,770
Plant in service, net		**3,642,874**	3,090,424
Construction work in progress		**110,693**	616,719
Nuclear fuel, less accumulated amortization of $74,131 in 1993 and $51,208 in 1992		**88,497**	94,128
Held for future use		**34,129**	33,800
Utility plant, net		**3,876,193**	3,835,071
RESTRICTED CASH AND INVESTMENTS:	1,2,3		
Bond reserve —			
Old series bonds	4	**17,398**	17,637
New series bonds	4	**212,265**	206,697
Improvements and contingencies fund		**111,770**	109,645
Cash restricted for payment of construction retainage payable		**-**	20,673
Other		**26,375**	15,630
Total restricted cash and investments		**367,808**	370,282
CURRENT ASSETS:			
Cash, including temporary cash investments	1,2	**48,806**	49,854
Cash restricted for payment of construction retainage payable		**21,628**	-
Customer accounts receivable, less allowance for doubtful accounts of $2,593 in 1993 and $2,215 in 1992		**62,908**	52,957
Litigation settlements benefits receivable	9,10	**9,601**	24,231
Other receivables		**2,767**	3,459
Inventories and supplies, at average cost —			
Materials and supplies		**54,004**	49,288
Fuel stock		**29,495**	27,210
Prepayments		**5,965**	7,574
Total current assets		**235,174**	214,573
LITIGATION SETTLEMENTS BENEFITS RECEIVABLE	9,10	**-**	9,601
DEFERRED DEBITS AND OTHER	1	**206,508**	167,264
TOTAL		**$ 4,685,683**	$ 4,596,791

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

Equity and Liabilities	Notes	1993	1992
		(In thousands)	
LONG-TERM DEBT:			
Revenue Bonds —	3,4		
Old series		$ 38,250	$ 50,970
New series		2,978,500	2,777,875
Less — Unamortized discount on new series bonds		(93,256)	(67,953)
Unamortized discount on capital appreciation bonds		(301,591)	(315,140)
Revenue bonds, net		2,621,903	2,445,752
Commercial paper	5	30,000	160,000
Long-term debt, net		2,651,903	2,605,752
EQUITY:			
Appropriated retained earnings —	3		
Bond current requirements —			
Old series bonds		216	-
Bond reserve —			
Old series bonds		17,398	17,637
New series bonds		159,807	154,239
Improvements and contingencies fund		111,770	109,645
Total appropriated retained earnings		289,191	281,521
Reinvested earnings		1,489,651	1,467,171
Total equity		1,778,842	1,748,692
CURRENT LIABILITIES:			
Current maturities of revenue bonds	4	86,455	77,825
Accounts payable and accrued liabilities		68,929	59,462
Litigation settlement benefits payable to customers	10	9,338	9,853
Construction retainage payable		21,628	-
Customer service deposits		23,509	23,145
Total current liabilities		209,859	170,285
DEFERRED CREDITS AND OTHER:			
Customer advances for construction		7,203	5,801
Other		29,076	48,198
Total deferred credits and other		36,279	53,999
LITIGATION SETTLEMENT BENEFITS PAYABLE	10	8,800	18,063
COMMITMENTS AND CONTINGENCIES	3,6,9,10		
TOTAL		$ 4,685,683	$ 4,596,791

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

STATEMENTS OF EARNINGS AND APPLICATION OF EARNINGS

	Notes	Years Ended January 31, 1993	1992
		(In thousands)	
REVENUE:	1		
Electric		**$ 708,257**	$ 672,434
Gas		**112,611**	106,927
Interest and other income		**26,508**	36,023
Gross revenue		**847,376**	815,384
EXPENSES:	1		
Fuel, purchased power and resale gas		**201,699**	174,759
Other operating and general		**143,753**	136,975
Maintenance		**65,170**	63,860
Depreciation		**120,879**	114,332
Interest and debt expense		**201,265**	201,198
Allowance for interest used during construction		**(29,055)**	(31,418)
Payments to the City of San Antonio	8	**113,515**	109,017
Total expenses		**817,226**	768,723
NET EARNINGS		**30,150**	46,661
ADD:			
Depreciation		**120,879**	114,332
Amortization of capital appreciation bond discount		**13,549**	10,766
Amortization of bond discount and refunding debt costs		**19,010**	15,506
Interest requirements on new series bonds (payable from improvements and contingencies fund)		**159,169**	160,959
AVAILABLE FOR APPLICATION		**$ 342,757**	$ 348,224
APPLICATION:			
To pay long-term debt requirements —			
Old series bonds —			
Principal payments		**$ 12,306**	$ 11,500
Bond reserve		**(239)**	83
To reinvested earnings, net loss on sale of assets		**-**	(1)
To improvements and contingencies fund —			
Minimum requirement (12 1/2 percent of gross revenue)	3	**105,922**	101,923
Balance of available net earnings		**224,768**	234,719
APPLICATION		**$ 342,757**	$ 348,224

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

STATEMENTS OF CHANGES IN EQUITY

	Years Ended January 31, 1993	1992
	(In thousands)	
BOND CURRENT REQUIREMENTS, old series bonds:		
Balance, beginning of year	$ -	$ -
Additions — For old series bond principal payments	216	-
Balance, end of year	$ 216	$ -
BOND RESERVE, old series bonds:		
Balance, beginning of year	$ 17,637	$ 17,554
Additions — Net accumulation of income not transferred	-	83
Deductions - Transfer of income	(239)	-
Balance, end of year	$ 17,398	$ 17,637
BOND RESERVE, new series bonds:		
Balance, beginning of year	$ 154,239	$ 140,352
Additions — Transfer from improvements and contingencies fund for debt service	5,568	13,887
Balance, end of year	$ 159,807	$ 154,239
IMPROVEMENTS AND CONTINGENCIES FUND:		
Balance, beginning of year	$ 109,645	$ 105,703
Additions —		
From application of earnings —		
Minimum requirement (12 1/2 percent of gross revenue)	105,922	101,923
Balance of available net earnings	224,768	234,719
Total	440,335	442,345
Deductions —		
New series bonds —		
Additions to reserve	5,568	13,887
Payment of bond interest	159,169	160,959
Payment of bond principal	69,965	62,520
Construction expenditures	93,863	95,334
Total	328,565	332,700
Balance, end of year	$ 111,770	$ 109,645
REINVESTED EARNINGS:		
Balance, beginning of year	$ 1,467,171	$ 1,438,422
Additions —		
From improvements and contingencies fund —		
For construction	93,863	95,334
For new series bonds principal payments	69,965	62,520
From application of earnings —		
For old series bonds principal payments	12,090	11,500
Net loss on sale of assets	-	(1)
Total	175,918	169,353
Deductions —		
Depreciation	120,879	114,332
Amortization of capital appreciation bond discount	13,549	10,766
Amortization of bond discount and refunding debt costs	19,010	15,506
Total	153,438	140,604
Balance, end of year	$ 1,489,651	$ 1,467,171

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

STATEMENTS OF CASH FLOWS

	Years Ended January 31, 1993	1992
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 30,150	$ 46,661
Noncash items included in net earnings —		
Allowance for interest used during construction	(29,055)	(31,418)
Depreciation expense	120,879	114,332
Amortization expense —		
Debt expense	14,043	11,789
Discount on new series bonds	4,967	3,717
Amortization of capital appreciation bond discount	13,549	10,766
Loss on sale of utility plant	-	1
Changes in current assets and current liabilities	16,808	(34,008)
Proceeds from freight litigation settlement	9,231	17,565
Refund of freight litigation settlement benefits payable to customers	(9,778)	(20,110)
Decrease in other assets	5,631	15,262
Decrease in other liabilities	(21,317)	3,532
Net cash provided by operating activities	155,108	138,089
NET CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to utility plant	(142,783)	(198,387)
Net cash used by investing activities	(142,783)	(198,387)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions in aid and customer advances for construction	5,608	2,720
Sale of refunding bonds	664,600	335,055
Sale of commercial paper	68,000	85,000
Defeasance of bonds refunded	(422,215)	(123,645)
Commercial paper refunded	(198,000)	(200,000)
Debt costs	(723)	(3,802)
Excess of reacquisition amounts over principal of bonds refunded in advance	(44,434)	(9,737)
Principal payments on revenue bonds	(82,055)	(74,020)
Proceeds from STP litigation settlement	15,000	30,000
Net cash provided by financing activities	5,781	41,571
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 18,106	$ (18,727)
CASH AND CURRENT RESTRICTED CASH, including temporary cash investments:		
Beginning of year	$ 49,854	$ 73,910
End of year	70,434	49,854
Net increase (decrease)	20,580	(24,056)
RESTRICTED CASH AND INVESTMENTS:		
Beginning of year	370,282	364,953
End of year	367,808	370,282
Net increase (decrease)	(2,474)	5,329
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 18,106	$ (18,727)

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

NOTES TO FINANCIAL STATEMENTS JANUARY 31, 1993 AND 1992

1. Summary of Significant Accounting Policies

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

BASIS OF ACCOUNTING — The accounting records of CPS are maintained in accordance with generally accepted accounting principles for rate-regulated enterprises, as prescribed by the Financial Accounting Standards Board (FASB) and, where applicable, the Governmental Accounting Standards Board (GASB). The accounting records of CPS follow the Uniform System of Accounts for Gas and Electric Utilities issued by the National Association of Regulatory Utility Commissioners. Certain prior period amounts have been reclassified for comparative purposes.

FISCAL YEAR — The fiscal year ended January 31, 1993, is referred to herein as 1993 and the year ended January 31, 1992, as 1992.

REVENUES AND EXPENSES — Revenue is recognized as billed on a cycle basis. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. Prior to fiscal year 1992, fuel and resale gas costs were fully expensed when incurred. In fiscal year 1992, CPS began recognizing fuel and resale gas costs on the same basis as it recognizes revenue. Management believes this accounting change results in an improved presentation of the financial statements as it relates to the results of CPS' operations. At February 1, 1991, the cumulative effect of this change in accounting principle increased deferred fuel and gas costs by $768,000, which expense has been recognized in fiscal 1992.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the Federal Government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is included in fuel expense, in the amount of $.00094 per kilowatt hour (KWH) for its share of electricity produced by STP. For further discussion regarding the STP, see Note 9.

UTILITY PLANT — Utility plant is stated at the cost of construction, including costs of contracted services, direct material and labor, indirect costs, including general engineering, labor and material overhead, and an allowance for interest used during construction (AIUDC). CPS computes AIUDC using rates representing the cost of borrowed funds on projects estimated to cost in excess of $1 million for projects estimated prior to February 1, 1992, and $250,000 for projects estimated after February 1, 1992. Retirements of utility plant, together with removal cost less salvage, are charged to accumulated depreciation. The maintenance of property, and replacements and renewals of items determined to be less than a unit of property, are charged to maintenance expense. General utility plant assets consist of land, buildings and equipment for general and administrative purposes that are used commonly in electric and gas operations.

CPS computes depreciation using the straight-line method over the estimated service lives of the various classes of depreciable property as determined by periodic engineering studies. Depreciation as a percentage of average depreciable plant was 2.99 percent in both 1993 and 1992.

OTHER RESTRICTED CASH — These funds, which are generally restricted as to use for other than current operations, or are designated for expenditures in the acquisition or construction of noncurrent assets, consist primarily of the current portion of the New Series Bonds sinking fund, customer assistance program funds, insurance reserves, retainage on long-term construction contracts and short-term investments from tax-exempt commercial paper proceeds.

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

DEFERRED DEBITS AND OTHER — These amounts consist primarily of the unamortized balances of bond issuance expenses and the excess of reacquisition amounts over revenue bond principal amounts refunded in advance. Amortization is recorded over the period of the outstanding bonds.

STATEMENT OF CASH FLOWS — For purposes of reporting cash flows, CPS considers all highly liquid debt instruments purchased with a maturity of approximately three months or less to be short-term investments. Accordingly, CPS' temporary cash investments and restricted cash and investments are cash equivalents. No material noncash investing or financing transactions occurred during 1993 and 1992.

In order to determine net cash provided by operating activities, net earnings have been adjusted by, among other things, changes in current assets and current liabilities, excluding changes in cash and temporary cash investments, current maturities of long-term debt and litigation settlements benefits receivable and payable. Those changes shown as an (increase) decrease in current assets and as an increase (decrease) in current liabilities are as follows:

	1993	1992
	(In thousands)	
Customer accounts receivable	$ (9,951)	$ 2,789
Other receivables, net of current maturities of litigation settlements benefits receivable	692	257
Inventories and supplies	(7,001)	(16,541)
Prepayments	1,609	(373)
Accounts payable and accrued liabilities	9,467	(21,184)
Construction retainage payable	21,628	
Customer service deposits	364	1,044
Changes in current assets and current liabilities	$ 16,808	$(34,008)

The following provides information related to cash interest paid by CPS for the years indicated:

	1993	1992
	(In thousands)	
Interest (net of AIUDC)	$ 141,565	$ 145,704

2. Cash, Temporary Cash Investments and Investments:

CPS cash deposits at January 31, 1993 and 1992, were entirely collateralized by banks for the account of CPS. Deposits are collateralized by securities held by a third party in CPS' name.

CPS' investments, including both restricted and unrestricted, at January 31, 1993 and 1992, were all in U.S. Treasury securities and were held for the account of CPS at its general depository bank. CPS' investments are generally limited to U.S. Government or U.S. Government guaranteed obligations. Investments were $431.5 million with a market value of $444.7 million at January 31, 1993.

3. Revenue Bond Indenture Requirements:

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

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

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

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

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

As of January 31, 1993, bond reserve requirements for the Old Series Bonds and New Series Bonds have been met.

4. Revenue Bonds:

A summary of revenue bonds is as follows:

	Maturities	Weighted-Average Interest Rate on Outstanding Bonds at January 31, 1993	January 31 1993	January 31 1992
			(In thousands)	
Old Series,				
1973-1974	1994-1997	6.862%	$ 50,970	$ 63,060
New Series Serial Bonds,				
1975-1992	1994-2017	6.293%	2,549,670	2,341,045
Unamortized New Series Bonds issue discount			(93,256)	(67,953)
New Series Capital Appreciation Bonds,				
1989 & 1991	2002-2012		502,565	502,565
Unamortized Capital Appreciation Bonds discount			(301,591)	(315,140)
		6.295%	2,708,358	2,523,577
Less-Current maturities			86,455	77,825
Revenue bonds, net of current maturities			$2,621,903	$2,445,752

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

Year	Principal Due: Old Series Bonds	Principal Due: New Series Bonds	Principal Due: Total
1994	12,720	73,735	86,455
1995	12,000	80,030	92,030
1996	12,750	85,510	98,260
1997	13,500	91,010	104,510
1998		111,160	111,160

During 1993 and in prior years, CPS refunded certain previously issued and outstanding New Series Bonds through the issuance of New Series Revenue Refunding Bonds. The refunded bond issues and trust accounts are not included in CPS financial statements. At January 31, 1993, portions of the bonds which have been defeased in-substance were still outstanding as follows:

Fiscal year 1987 refunding	$253,350,000
Fiscal year 1988 refunding	168,725,000
Fiscal year 1990 refunding	324,925,000
Fiscal year 1992 refunding	33,765,000
Fiscal year 1993 refunding	391,265,000

Based on the borrowing rates currently available to CPS for revenue bonds with similar terms and average maturities, the fair value of CPS' revenue bonds is essentially equal to its carrying value.

CPS may issue New Series Revenue Refunding Bonds during fiscal 1994. If it elects to do so, it would be to achieve interest savings on certain outstanding New Series Bonds.

5. Commercial Paper:

In October 1988, the City Council of San Antonio, Texas (City Council), adopted an ordinance authorizing the issuance of up to $300 million in Tax-Exempt Commercial Paper (TECP) to assist in the financing of eligible projects, including fuel acquisition and capital improvements to the utility systems (the Systems). The program's scheduled maximum maturities will not extend beyond November 1, 2028. As of January 31, 1993, $30 million in principal amount was outstanding, with a weighted-average interest rate of approximately 2.61 percent and an average life outstanding of approximately 79 days. In September 1992, CPS converted the outstanding $198 million in TECP to long-term bonds. CPS issued $15 million in October 1992 and $15 million in December 1992, bringing the total outstanding commercial paper to $30 million. All proceeds have been, or will be, used to pay for capital projects.

The TECP has been classified as long-term in connection with the refinancing terms under a revolving credit agreement with a consortium of banks which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $300 million for the purpose of paying amounts due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 1994, and may be renewed for additional periods. There have been no borrowings under the credit agreement as of January 31, 1993. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of the Old Series Bonds, the New Series Bonds and any New Series Bonds to be issued in the future.

6. Benefit Plans:

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

The total employer and employee pension funding, which includes amortization of past-service costs over 30 years using the unit credit cost actuarial method, is summarized as follows:

	1993	1992	1991
		(In thousands)	
Employee contributions	$ 5,380	$ 5,230	$ 4,649
CPS contributions	15,002	13,814	12,887
Total contributions	$ 20,382	$ 19,044	$ 17,536
Covered payroll	$ 110,737	$ 107,597	$ 95,640
Total payroll	$ 114,947	$ 111,310	$ 105,961
Employee contributions to total covered payroll	5%	5%	5%
CPS contributions to total covered payroll	13%	13%	13%

Of the amounts contributed during years 1993, 1992 and 1991, approximately $12.8 million, $11.7 million and $10.4 million, respectively, was funded each year to cover normal costs of the Plan. The remaining contribution in each year was funded to cover the amortization of the unfunded actuarial accrued liability.

The Government Accounting Standards Board (GASB) Statement No. 5 requires that a pension benefit obligation be measured using the actuarial present value of credited projected benefits, as adjusted for projected salary increases. This measure is independent of the funding method used to determine contributions to the Plan; however, the significant actuarial assumptions used to compute the contribution requirement are the same as those used to compute the pension benefit obligation. On January 1, 1991, the Plan was amended to determine plan benefits and contributions on total compensation rather than base pay as in prior years and to change the reduction in early retirement benefits prior to age 55 from 2-1/4 percent per year to 4 percent. The actuarial valuation and the actuarially determined contribution requirement as of December 31, 1992, were computed using an assumed rate of return of 8.5 percent and projected salary increases averaging 6.5 percent. As a result, under GASB No. 5, the following represents CPS' pension benefit obligation (in thousands) as of December 31, 1992, 1991 and 1990:

	1992	1991	1990
For retirees, beneficiaries and inactive participants	$122,620	$104,232	$ 90,347
For active participants —			
Employer and employee - financed vested benefits	197,427	197,573	186,084
Employer-financed nonvested benefits	43,220	39,894	30,907
Total pension benefit obligation	363,267	341,699	307,338
Net assets available for plan benefits (at fair market value)	322,031	288,494	219,678
Unfunded pension benefit obligation	$ 41,236	$ 53,205	$ 87,660

Prior to GASB No. 5, CPS reported the Plan status as the actuarial present value of accumulated plan benefits. Under such method, the actuarial present values of accumulated plan benefits using an assumed rate of return of 8.5 percent was $247,973,000 at December 31, 1991. At that time, net assets available for plan benefits were $288,494,000 at fair market value. As of December 31, 1992, the actuarial present value of accumulated plan benefits was $269,203,000. This value compares to the net asset value of $322,031,000 as reported above.

Employees that retired prior to 1983 are receiving annuity payments from an insurance carrier as well as receiving some benefits directly from CPS. These incremental costs for 1993

and 1992 were $625,000 and $637,000, respectively, and were recorded when paid.

7. Other Postemployment Benefits:

CPS provides certain health care and life insurance benefits for retired employees. All former CPS employees are eligible for these benefits upon retirement from CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs. These costs approximated $1,590,000 and $1,404,000 for 1993 and 1992, respectively.

In addition, retired employee and covered dependents contributed $573,000 and $451,000 for their health care and life insurance benefits in 1993 and 1992, respectively. In 1993, there were approximately 1,456 retirees and covered dependents eligible for health care and life insurance benefits, as compared to approximately 1,415 in 1992.

In view of the potential economic significance of these benefits, CPS has initiated a preliminary review of the present value of the postemployment benefit obligations, which management currently estimates to be $90 million. CPS began partial accrual and funding of projected future benefits to current retirees in 1992. Funding totaled $2,000,000 in 1992 and $5,000,000 in 1993.

8. Payments to the City:

The trust indenture provides for benefits and services totaling 14 percent of CPS gross revenues, as defined, to be paid or provided to the City. Payments to the City for 1993 and 1992, based on allowable revenue, were as follows:

	1993	1992
	(In thousands)	
In lieu of taxes	$ 11,244	$ 11,722
Refund gas and electric services	16,387	17,110
Additional payments	85,884	80,185
	$ 113,515	$ 109,017

9. South Texas Project (STP):

CPS is one of four participants in the STP, which consists of two-1,250 megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Houston Lighting & Power Company (HL&P), the project manager, Central Power and Light Company (CPL) and the City of Austin (Austin). Under the terms of the STP Participation Agreement, each participant provides funding for its share of construction and operating expenditures. Full power operating licenses were issued by the Nuclear Regulatory Commission (NRC) on March 22, 1988, for Unit 1 and March 28, 1989, for Unit 2. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28 percent ownership in the STP is for 700 megawatts of plant capacity. At January 31, 1993, CPS' investment in the STP utility plant was approximately $2 billion, net of accumulated depreciation.

LITIGATION — On January 7, 1988, HL&P filed pleadings against CPS, CPL and its parent company, Central and South West Corporation (CSW), in the State District Court in Matagorda County. Suit was also filed by HL&P against these parties in the Dallas County District Court in which litigation by Austin against HL&P was pending, seeking to have CPS and CPL/CSW brought into the Austin litigation as third-party defendants. The causes of action asserted by HL&P against CPS and CPL/CSW are basically the same in both suits. HL&P denied Austin's claims based on breach of contract, including mismanagement, in connection with HL&P's performance as project manager, but asserted that it is entitled to indemnity and contribution from CPS and CPL/CSW to the extent any liability is imposed on HL&P for these or Austin's other claims, which include fraudulent inducement and breach of obligation by HL&P as project manager.

In March 1988, CPS and CPL made a call for binding arbitration and designated arbitrators, under the terms of the STP Participation Agreement, concerning their disputes with HL&P over the STP including any breach of its obligations by HL&P, and have requested that any proceedings on HL&P's pleadings against CPS and CPL be stayed pending the arbitration. The arbitration call, which is binding on the participants and should supersede HL&P's district court actions against CPL and CPS, asserts issues concerning (1) the extent to which HL&P has breached its obligations under the Participation Agreement and the amount of damages caused by such breach and (2) that neither CPS nor CPL is liable to HL&P for any portion of the damages alleged against HL&P by Austin. CPS has filed a pleading denying HL&P's allegations, seeking an order compelling arbitration and subject thereto, urging a counterclaim for damages. Trial of Austin's claims in Dallas resulted in a jury verdict on July 5, 1989, finding that, although HL&P failed to supply the participants with information as and when required by the Participation Agreement, no costs were incurred in the construction of STP due to that breach, which in reasonable probability, would not have been otherwise incurred. The Dallas Appeals Court has affirmed judgement in favor of HL&P, and Austin is seeking review by the Texas Supreme Court.

On August 20, 1990, the Dallas District Court ruled that the disputes raised in the call for arbitration of CPS and CPL are arbitrable and should be submitted to arbitration before a panel chosen as provided by the STP Participation Agreement. Since that time, HL&P has unsuccessfully challenged certain aspects of the arbitration procedures in various appeals courts and has filed a petition for writ of certiorari pending in the United States Supreme Court. CPL has settled its claims against HL&P and arbitration of CPS' claims has not yet begun. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

In December 1985, a suit involving the STP was settled on the agreement of Brown & Root, the former architect/engineer and constructor for the STP, to pay the plaintiffs, CPS and the other participants, $750 million. CPS commenced receipt of its $210 million share of the settlement in January 1986, of which $15 million was outstanding at January 31, 1992. Quarterly installments, without interest, in the amount of $7.5 million are remitted to CPS pursuant to an unqualified contractual obligation of Aetna Life Insurance Company. The two remaining payments were received in 1993.

NUCLEAR INSURANCE — The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities, is in effect until August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $7.8 billion per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $66.15 million, which may be adjusted for inflation, for each licensed reactor, but not more than $10 million per reactor for each nuclear incident in any one year. CPS and each of the other participants of STP are subject to such assessments, which CPS and the other participants have agreed will be borne on the basis of their respective ownership interests in STP. CPS' ownership interest in STP is 28 percent. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $400 million for the nuclear industry as a whole, provides protection from nuclear related claims of workers employed in the nuclear industry after January 1, 1988, who do not use the workers' compensation system as sole remedy and bring suit against another party. STP could be assessed up to about $3.1 million per reactor or a total of $6.2 million to pay its maximum share for this liability coverage.

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

The participants of STP currently maintain on-site property damage insurance in the amount of $2.590 billion, which was the maximum amount of such insurance available at December 31, 1992. The $2.590 billion of nuclear property insurance is composed of a $1.265 billion primary layer of insurance and a layer of excess insurance that would contribute $1.325 billion of additional coverage that is subject to a retrospective assessment from each electric utility which is a member of Nuclear Electric Insurance Limited (NEIL). An additional $35 million of primary layer insurance coverage became available on January 1, 1993. The participants of STP increased the primary insurance coverage to the $1.3 billion maximum available on the policy renewal date of March 1, 1993. In the event that property losses as a result of an accident at the nuclear plant to any utility insured by NEIL exceed the accumulated funds available to NEIL, the maximum retrospective assessment for STP would be approximately $7.6 million for the current policy year that began November 15, 1992. CPS would be liable for its ownership interest as to premium and any retrospective assessment with respect to STP and for the cost of cleanup, repair or replacement in excess of the policy limits.

NUCLEAR DECOMMISSIONING — In July 1990, CPS together with the other owners of the STP filed with the NRC a certificate of financial assurance for the decommissioning of the nuclear plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. CPS' portion of the estimated costs for decommissioning the STP nuclear power plant is approximately $150 million in 1989 dollars, which exceeds NRC minimum requirements. This cost estimate will be reviewed and updated periodically and could change by a material amount. CPS will record ratably the expense of decommissioning over the life of the STP nuclear power plant. Beginning in 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The trust accounts and related decommissioning liability are not included in CPS' financial statements.

At January 31, 1993, CPS has accumulated approximately $18.5 million of decommissioning funds in the external trust. Decommissioning expenses were approximately $5.1 million for each of the fiscal years 1993 and 1992.

10. Commitments and Contingencies:

In December 1986, CPS approved a settlement offer from two railroads involved in disputed issues about the proper and lawful freight rates. As a result, CPS received payments of $9.2 million and $17.6 million in fiscal year 1993 and 1992, respectively. CPS will receive an additional final payment totaling $9.6 million, during fiscal 1994 from the railroad settlement, which is expected to be returned to customers as payments are received. The final amount due in 1994 has been recorded as litigation settlements benefits receivable.

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

Purchase and construction commitments amounted to approximately $832 million at January 31, 1993. This amount includes approximately $532 million that is expected to be paid for natural gas purchases to be made under the contracts currently in effect; the actual amount to be paid will be dependent upon CPS' actual requirements during the contract period. Also included is $50 million for coal purchases, $204 million for coal transportation and $22 million for treated cooling water based upon the minimum firm commitment under these contracts. Also included is $5 million for the balance still owing on a turnkey contract for construction of a new 500 megawatt coal-fired electric generating plant which was placed in operation November 1992.

11. Segment Information:

	1993			1992		
	Electric	Gas	Total	Electric	Gas	Total
		(In thousands)			*(In thousands)*	
REVENUE	$ 708,257	$ 112,611	$ 820,868	$ 672,434	$ 106,927	$ 779,361
EXPENSES —						
Operating and maintenance expenses	332,608	78,014	410,622	300,504	75,090	375,594
Depreciation	112,689	8,190	120,879	106,596	7,736	114,332
Total	445,297	86,204	531,501	407,100	82,826	489,926
OPERATING INCOME	$ 262,960	$ 26,407	289,367	$ 265,334	$ 24,101	289,435
Interest and other income			26,508			36,023
Net interest and debt expense and payments to the City of San Antonio			(285,725)			(278,797)
NET EARNINGS			$ 30,150			$ 46,661
CAPITAL EXPENDITURES	$ 152,537	$ 19,415	$ 171,952	$ 216,243	$ 13,588	$ 229,831
Identifiable assets	$ 3,811,277	$ 223,692	$ 4,034,969	$ 3,790,538	$ 211,279	$ 4,001,817
General assets			650,714			594,974
Total assets			$ 4,685,683			$ 4,596,791

ARTHUR ANDERSEN & CO.
FLORES, GARCIA & ASSOCIATES
San Antonio, Texas

To the Board of Trustees of
City Public Service:

We have audited the accompanying balance sheets of City Public Service as of January 31, 1993 and 1992, and the related statements of earnings and application of earnings, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the management of City Public Service. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Public Service as of January 31, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co. Flores, Garcia & Assoc.

San Antonio, Texas,
March 12, 1993

FIVE-YEAR FINANCIAL REVIEW

(Unaudited)

	Years Ended January 31,				
	1993	1992	1991	1990	1989
				(In thousands)	
REVENUE AND APPLICATION					
Revenues:					
Electric sales	$ **708,257**	$ 672,434	$ 677,062	$ 683,106	$ 636,086
Gas sales	**112,611**	106,927	104,360	118,607	106,114
Interest and other income	**26,508**	36,023	37,088	34,773	36,191
Total revenues	$ **847,376**	$ 815,384	$ 818,510	$ 836,486	$ 778,391
Revenues applied:					
Cost of operating systems:					
Fuel, purchased power and resale gas	$ **201,699**	$ 174,758	$ 201,803	$ 223,008	$ 228,547
Other operating and general expenses*	**143,753**	136,975	127,081	117,423	84,781
Maintenance	**65,170**	63,860	63,200	60,508	42,948
Total	$ **410,622**	$ 375,593	$ 392,084	$ 400,939	$ 356,276
Operating fund	$ **-0-**	$ -0-	$ -0-	$ -0-	$ -0-
Debt requirements for Old Series Bonds:					
Interest	$ **4,067**	$ 4,720	$ 5,337	$ 5,938	$ 6,454
Principal requirements	**12,306**	11,500	10,945	10,375	9,905
Reserve requirements	**(239)**	83	154	121	-0-
Debt expense	**7**	9	10	11	12
Total	$ **16,141**	$ 16,312	$ 16,446	$ 16,445	$ 16,371
Payments and services to City:					
Payment in lieu of taxes	$ **11,244**	$ 11,722	$ 11,353	$ 11,050	$ 9,891
Refunds for services	**16,387**	17,110	17,378	17,059	16,255
Additional payment	**85,884**	80,185	80,922	84,236	78,638
Total	$ **113,515**	$ 109,017	$ 109,653	$ 112,345	$ 104,784
Debt requirements for New Series Bonds/Other:					
Interest expense	$ **159,169**	$ 160,959	$ 165,787	$ 168,675	$ 172,023
Principal requirements	**69,965**	62,520	53,625	42,995	27,535
Reserve requirements	**5,568**	13,886	1,588	10,304	(1,720)
Debt expense	**69**	81	(95)	110	9,049
Other interest*	**5,394**	9,158	10,883	7,310	6,279
Total	$ **240,165**	$ 246,604	$ 231,788	$ 229,394	$ 213,166
Allowance for interest used during construction	**(29,055)**	(31,418)	(22,093)	(24,780)	(88,008)
Additions to plant:					
Total expenditures for year	$ **171,952**	$ 229,831	$ 272,468	$ 295,139	$ 351,122
Less construction funds provided by sources other than revenues	**78,089**	134,497	179,003	145,365	191,409
Revenues used for additions to plant	$ **93,863**	$ 95,334	$ 93,465	$ 149,774	$ 159,713
Additions to Improvements and Contingencies fund	**2,125**	3,942	(2,833)	(47,631)	16,089
Total	$ **95,988**	$ 99,276	$ 90,632	$ 102,143	$ 175,802
Total revenues applied	$ **847,376**	$ 815,384	$ 818,510	$ 836,486	$ 778,391
BALANCE SHEET DATA					
Utility plant at cost**	$ **4,793,976**	$ 4,641,841	$ 4,444,335	$ 4,194,614	$ 3,925,479
Annual construction additions	**171,952**	229,831	272,468	295,139	351,122
Accumulated depreciation	**917,783**	806,770	704,212	608,257	522,371
Annual depreciation allowance	**120,879**	114,332	111,158	102,498	66,397
Principal and interest coverage	**1.78x**	1.83x	1.81x	1.91x	1.95x

* *Prior fiscal years restated to segregate other interest.*

** *Prior fiscal years reclassified to reflect Contributions in Aid of Construction.*

FIVE-YEAR OPERATIONS REVIEW

(Unaudited)

	1993	1992	1991	1990	1989
					Years Ended January 31,
					(In thousands)
OPERATING REVENUES					
Electric:					
Residential	$ **320,067**	$ 306,709	$ 305,974	$ 311,104	$ 283,355
Commercial and industrial	**284,289**	267,241	268,098	268,738	256,794
Street lighting	**9,845**	9,367	9,207	9,015	8,459
Public authorities	**78,061**	75,392	78,100	79,538	75,259
Other utilities	**10,805**	8,548	10,426	9,133	7,572
Miscellaneous	**5,190**	5,177	5,257	5,578	4,647
Total electric	$ **708,257**	$ 672,434	$ 677,062	$ 683,106	$ 636,086
Gas:					
Residential	$ **68,208**	$ 65,768	$ 63,779	$ 73,330	$ 63,858
Commercial and industrial	**37,332**	34,110	33,614	37,112	34,662
Public authorities	**6,283**	6,225	6,230	7,367	6,746
Miscellaneous	**788**	824	737	798	848
Total gas	$ **112,611**	$ 106,927	$ 104,360	$ 118,607	$ 106,114
SALES (000 OMITTED)					
Electric — KWH:					
Residential	**4,831,794**	4,793,631	4,711,423	4,732,736	4,343,500
Commercial and industrial	**5,420,383**	5,281,292	5,157,802	5,001,737	4,833,460
Street lighting	**87,567**	86,661	85,058	82,791	81,257
Public authorities	**1,619,005**	1,623,979	1,650,207	1,646,668	1,551,533
Other utilities	**328,547**	225,942	296,500	238,741	179,981
Total	**12,287,296**	12,011,505	11,900,990	11,702,673	10,989,731
Gas — MCF:					
Residential	**13,397**	13,340	13,116	15,237	12,949
Commercial and industrial	**10,166**	9,658	9,467	10,291	9,240
Public authorities	**1,800**	1,812	1,816	2,131	1,838
Total	**25,363**	24,810	24,399	27,659	24,027
PURCHASE FOR RESALE:					
Electric (1,000) KWH	**292,686**	67,900	24,214	3,986	18,148
Gas (1,000) MCF	**25,326**	25,078	25,260	28,286	23,968
ELECTRIC GENERATION — (1,000) KWH*	**12,710,278**	12,621,547	12,509,782	12,425,044	11,677,624
Electric Gen. Capacity, KW (Gas)**	**2,400,000**	2,400,000	2,400,000	2,400,000	2,400,000
Electric Gen. Capacity, KW (Coal)	**1,336,000**	836,000	836,000	836,000	836,000
Electric Gen. Capacity, KW (Nuclear)	**700,000**	700,000	700,000	350,000	
ELECTRIC PEAK DEMAND — KW	**2,817,000**	2,799,000	2,741,100	2,697,000	2,664,000
NUMBER OF CUSTOMERS:					
Electric	**485,345**	476,122	469,962	466,478	462,849
Gas	**290,497**	287,502	285,699	284,324	284,130
RESIDENTIAL AVERAGES:					
Electric:					
Revenue per customer	$ **756.51**	$ 734.82	$ 740.93	$ 758.65	$ 696.61
KWH per customer	**11,420**	11,485	11,409	11,541	10,678
Revenue per KWH	**6.62 ¢**	6.40 ¢	6.49 ¢	6.57 ¢	6.52 ¢
Gas:					
Revenue per customer	$ **253.96**	$ 247.32	$ 241.32	$ 277.94	$ 242.46
MCF per customer	**49.9**	50.2	49.6	57.8	49.2
Revenue per MCF	$ **5.09**	$ 4.93	$ 4.86	$ 4.81	$ 4.93

* *1989 and 1990 include Test Energy of 290,524 and 149,972 respectively.*

** *Oil rating for the gas/oil units is 2,198,000 KW for the five-year period.*

City Public Service

CITY PUBLIC SERVICE
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