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Highlights

(Dollars in Thousands)

	1982	1981	1980
Total Electric Plant*	\$2,783,000	\$2,472,000	\$2,224,000
Construction Expenditures (excluding nuclear fuel)	\$ 304,000	\$ 256,000	\$ 245,000
Net Generating Capability (Kilowatts)*	5,997,000	5,997,000	5,997,000
Gas/Oil Fueled	4,256,000	4,256,000	4,256,000
Lignite Fueled	1,741,000	1,741,000	1,741,000
Fuel Mix for Electric Generation (%)			
Gas	50.6	50.9	51.7
Oil	0.5	0.2	0.2
Lignite	48.9	48.9	48.1
Fuel and Purchased Power Expense	\$576,000	\$399,000	\$204,000
Fuel Cost per MMBtu	\$2.29	\$1.66	\$.84
Gas	\$3.65	\$2.46	\$.98
Lignite	\$.86	\$.81	\$.69
Number of Customers*	587,000	561,000	534,000
Operating Revenues	\$1,149,000	\$945,000	\$666,000
Supplemental Ratio of Earnings to Fixed Charges	3.4	3.9	3.6

*End of year.



Midland switchboard operator
Frankie Anderson.

On cover: Electrician leadman
Clarence Scruggs opens a transfer
switch on a feeder breaker at the
Company's new River Bend substation
in Wichita Falls.



exas Electric Service Company, an investor-owned electric utility, provides service in 48 counties throughout North Central and West Texas. This area includes the cities of Fort Worth, Arlington, Big Spring, Eastland, Grand Prairie, Midland, Odessa, Sweetwater, Wichita Falls and 69 other incorporated municipalities.

The Company is a wholly owned subsidiary of Texas Utilities Company which provides common stock capital and short-term financing to the Company. Dallas Power & Light Company and Texas Power & Light Company, whose respective systems are interconnected with that of the Company, are also subsidiaries of Texas Utilities.

Texas Utilities Electric Company was organized in 1982 as a wholly owned subsidiary of the Texas Utilities Company. Effective January 1, 1984, Texas Electric, Dallas Power & Light and Texas Power & Light will merge into and become divisions of the

new Electric Company.

Texas Utilities has three other subsidiaries which perform specialized services, at cost, for the Texas Utilities Company System, including the Company. Texas Utilities Services Inc. furnishes engineering, financial and other services. Texas Utilities Fuel Company owns a natural gas pipeline system, and acquires, stores and delivers fuel gas and oil, and provides other fuel services for the generation of electricity. And Texas Utilities Generating Company operates the jointly owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for surface mining and recovery of lignite for use as fuel at such stations.

President's message

Doing more with less. In these austere times, we at Texas Electric — no less than many of the people we serve — are facing this challenge.

Use of the term "hard times" to describe economic conditions in Texas Electric's service area

would be overstating the case considerably. Compared to many areas of the nation where the term was appropriate in 1982, our economy remains healthy.

Nevertheless, this region felt repercussions of the nationwide recession last year — repercussions compounded by a downturn in the petroleum industry.

This general economic

"Our goal — as always — is to hold down the price our customers have to pay for electricity . . . The answer lies in the ingenuity, productivity and dedication of our employees."



slowdown, and the real financial concerns of some of our customers, have made belt-tightening more than ever the order of the day at Texas Electric.

Our goal — as always — is to hold down the price our customers have to pay for electricity. Where we can help do this by reducing our operating costs, we are.

Our commitment is to reduce these operating costs without bringing about any deterioration in the quality of service we provide our customers.

This will not be an easy task, especially since we will be serving more customers with fewer employees.

The answer lies in the ingenuity, productivity and dedication of our employees.

Over many years, we've devised numerous ways to hold down costs and save money for our customers. A good example is our acquisition of relatively cheap lignite fuel and construction of generating plants to use it. Our customers have saved hundreds of millions of dollars because of this innovative planning, done years ago.

More recently, we've undertaken increased use of computers in areas where they can help employees become more productive — including the computerized meter-reading system pioneered by Texas Electric.

Our load management program is proving to be effective. By encouraging our customers to install more energy-efficient equipment, especially air conditioners, this long-range program is holding down growth in demand for electricity. This is reducing the need for new generating capacity, thereby reducing costs — now and in the future.

Another important action which will help us hold down costs is the reorganization of the Texas Utilities Company System. In February 1983, our preferred shareholders

approved the merger of Texas Electric with Dallas Power & Light and Texas Power & Light into a new utility, Texas Utilities Electric Company.

Texas Electric, DP&L and TP&L each will be a division of the new company, which also will include a fourth division primarily responsible for power plant engineering, design, construction and operation.

Although we'll still have our local service identity and the organizational changes will not be readily apparent to customers, this new structure will provide greater flexibility and will allow us to operate more efficiently and economically.

Last year at this time, we did not anticipate getting through 1982 without having to ask for a rate increase. We were able to do so, partly because of our efforts to cut costs and increase productivity. Although fuel costs have increased, it's been three years since we've asked for an increase in base rates, and we no longer can postpone a request. Strict budget cuts and other cost-saving steps we're taking help offset higher investment and interest costs and will help hold down the amount of increase we'll have to ask for this year.

These rising costs, of course, serve to re-emphasize the vital importance of conservation and of Texas Electric's efforts to help customers learn ways they can conserve on their use of electricity.

In addition, in 1983 the Company began its Energy Aid Program aimed at helping people who have severe financial hardships pay their energy bills. The Company made an initial contribution of \$30,000 to the program, and its employees and customers are being given the opportunity to make donations. The program is administered by established community agencies.

Finally, we realize the impact

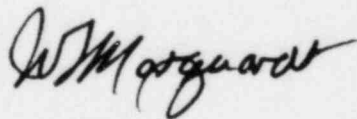
the political and legislative process can have on our customers' electric bills.

Our employees are doing their part to encourage responsible legislation. More than 4,000 people attended get-out-the-vote parties for employees and their families on the eve of the 1982 general election.

A political scientist once said, "To serve the public interest is not the same as being a servant of public opinion." We know rising costs are not popular. And we are dedicated to continuing our efforts to increase productivity and to operate as efficiently as possible.

But we know the essential costs of providing electric service are going up, and to fail to act responsibly on this knowledge would penalize our customers severely in the not-too-distant future, both in terms of the price of electricity and reliability of service.

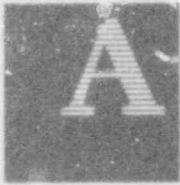
All of us, then, will persist in our efforts to assure our customers of a reliable supply of electricity and a high quality of electric service at as low a price as possible.



W. G. Marquardt
*President and
Chief Executive*

March 31, 1983

Economy relatively stable



s in the rest of the United States, the economy of Texas slowed in 1982.

By comparison to much of the nation, however, the state's economic outlook remained good.

The deepening nationwide recession had its impact on Texas, with parts of the state especially affected by the slowing of oil industry activities and adverse agricultural conditions.

Nevertheless, there were a number of indications that the overall economy of Texas Electric's service area would remain healthy. Unemployment rates in the Company's North Central and West Texas service area were below the overall average for the state. And the state's unemployment

level itself was below the national average.

Residential housing construction increased substantially in 1982, with almost 20,000 new units completed in the service area. This made 1982 the second most active year for housing unit completions in the area's history, surpassed only by 1980.

And industrial development continued in the Company's service area. More than 7.2 million square feet of manufacturing and

distribution facilities were completed, under construction or announced during the year by 172 industries. It is estimated these industries will provide more than 4,000 new jobs.



Eastland meter reader Mike Simmel.



Daniel Cowan, Lamesa associate customer representative, checks energy efficiency of windows as part of the Residential Conservation Service home energy analysis.

Holding down costs imperative

Saving money can be a matter of doing without, doing with less, doing more with what you have . . . and using new and innovative ways to provide service to customers at a lower cost.

Texas Electric and its employees have been taking all approaches to hold down costs while continuing

to provide the quality of electric service customers expect.

The Company's use of lignite fuel remains one of the most important examples of how innovative thinking has had — and will keep on having — far-reaching benefits for our customers.

Our eight lignite-fueled generating units have saved Texas Electric's customers hundreds of millions of dollars since the first unit began operating in late 1971.

Other practices and equipment in use may save lesser individual amounts. But the combined effects of these practices add up to millions in savings.

For example:

≡ *Computer programs developed by employees in the engineering department allow substation and transmission line construction cost*

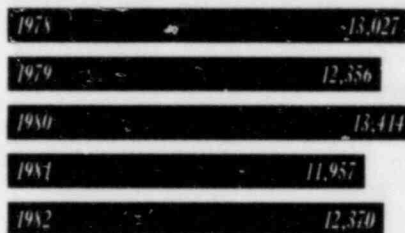


Clayton Bradbury, left, plant operator at the Morgan Creek power plant, and Eldon Smith, plant production supervisor.

estimates that once took many hours to prepare now to be completed in a few minutes.

- ≡ Computer programs used to perform complex engineering studies associated with transmission and distribution system problems substantially reduce the man-hours required and improve the accuracy and results of these studies.
- ≡ The data systems department provides data processing for all major systems, such as customer information and accounting, from a central location. Such automated systems make it possible to get and use information that otherwise could not be obtained feasibly.
- ≡ Use of the Company's transportation maintenance centers has resulted in more reliable transportation for service crews,

Average Annual KWH Use per Residential Customer*



*Excluding multiple-unit master metered residences.

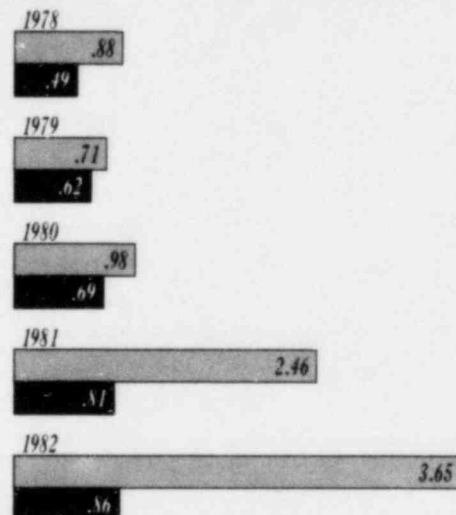
longer useful lives for equipment and economies of scale resulting from volume purchasing of equipment.

- ≡ Small auxiliary "package boilers" in use at two gas-fueled power plants keep "peaking" units warm and ready for fast start-up. Quicker start-ups, along with improved unit starting techniques and retrofitting of peaking units, contribute to substantial annual savings in fuel costs.

Major Generation Fuels—Cost

AVERAGE FUEL COST—\$/MILLION BTU

■ Natural Gas ■ Lignite Coal



Many dozens of other cost-saving practices also add up to substantial economies. Just two examples:

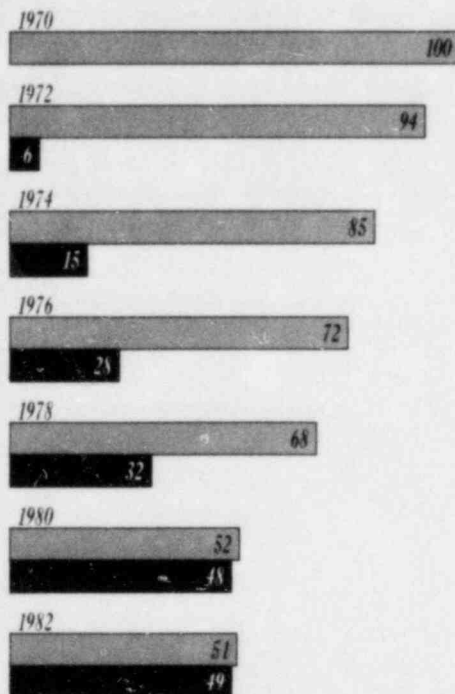
- ≡ Replacing fluorescent lamps with energy-efficient lamps results in significant savings each year in the Fort Worth headquarters building alone, with proportionate savings being experienced as all Company facilities are re-lamped.
- ≡ Texas Electric became the first company in the Dallas-Fort Worth area to begin sorting first-class mail by carrier route as well as ZIP code, bringing about a savings expected to be up to \$60,000 a year.

KWH Generation by Type of Fuel

PERCENT

■ Gas/Oil

■ Lignite



Cost-reduction measures also are important in the categories of doing without and doing with less.

These measures include reduction in number of employees, deferred replacement of Company vehicles and deferment of many other maintenance and construction projects.

Employment level is to be reduced by at least 110 people by the end of 1983. The reduction in personnel is expected to be accomplished through attrition.

Based on this goal, the number of Company employees will have

Number of Customers

1978	485,321
1979	507,453
1980	534,099
1981	561,486
1982	586,568

increased by only 13 percent during the five-year period from 1979 through 1983. At the same time, the number of customers served will have increased by an estimated 27 percent.

The reorganization of the Texas Utilities Company System also will help reduce the number of employees necessary to serve customers by enabling more efficient operations and long-term productivity gains.

The Company is able to continue providing high-quality service to more customers without a corresponding increase in personnel, largely because of the efforts of employees and their use of computers and other labor-saving measures.

Construction Expenditures (Excluding Nuclear Fuel)

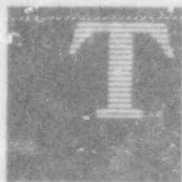
MILLIONS OF DOLLARS

1978	204
1979	206
1980	245
1981	256
1982	304
1983*	312
1984*	258
1985*	256

*Estimated



Comanche Peak progressing



o a great many people, Texas is the place to be . . . and the place to move to.

Texas Electric gained more than 25,000 new customers in 1982. In the last five years, the Company has added almost 124,000 new customers.

The rate of continued population growth in Texas Electric's service area will depend on a number of factors. But this area's relatively stable and diversified economy—

and its relatively low electricity costs—mean it should continue to be highly attractive to business and industry.

Meeting the growing demand for electricity posed by this influx of people and businesses is a challenge, but a challenge for which we feel well-prepared.

A primary reason we are well-prepared to meet the demands of coming years is our Comanche Peak nuclear plant, being built near Glen Rose. Comanche Peak also will use cheaper fuel. Uranium will cost about 70 cents per million Btu, compared to an average cost to Texas Electric in 1982 of 86 cents for lignite and \$3.65 for natural gas.

Unit 1 is scheduled to go into service in 1984. At the end of 1982, Unit 1 was 93 percent complete, Unit 2 was 57 percent complete and the plant as a whole was 81 percent finished.

Pre-operational testing had begun, with a major milestone—test of the reactor coolant system—completed in July 1982.

Early in 1983, two other milestone tests were completed: the structural integrity test and integrated leak rate test. These tests confirm the strength of the Unit 1 containment building and its ability to remain leak-tight when subjected to internal pressure.

An Atomic Safety and Licensing Board of the Nuclear Regulatory

Commission, which began a series of hearings on an operating license for Comanche Peak in late 1981, completed most of the hearing process during the past year.

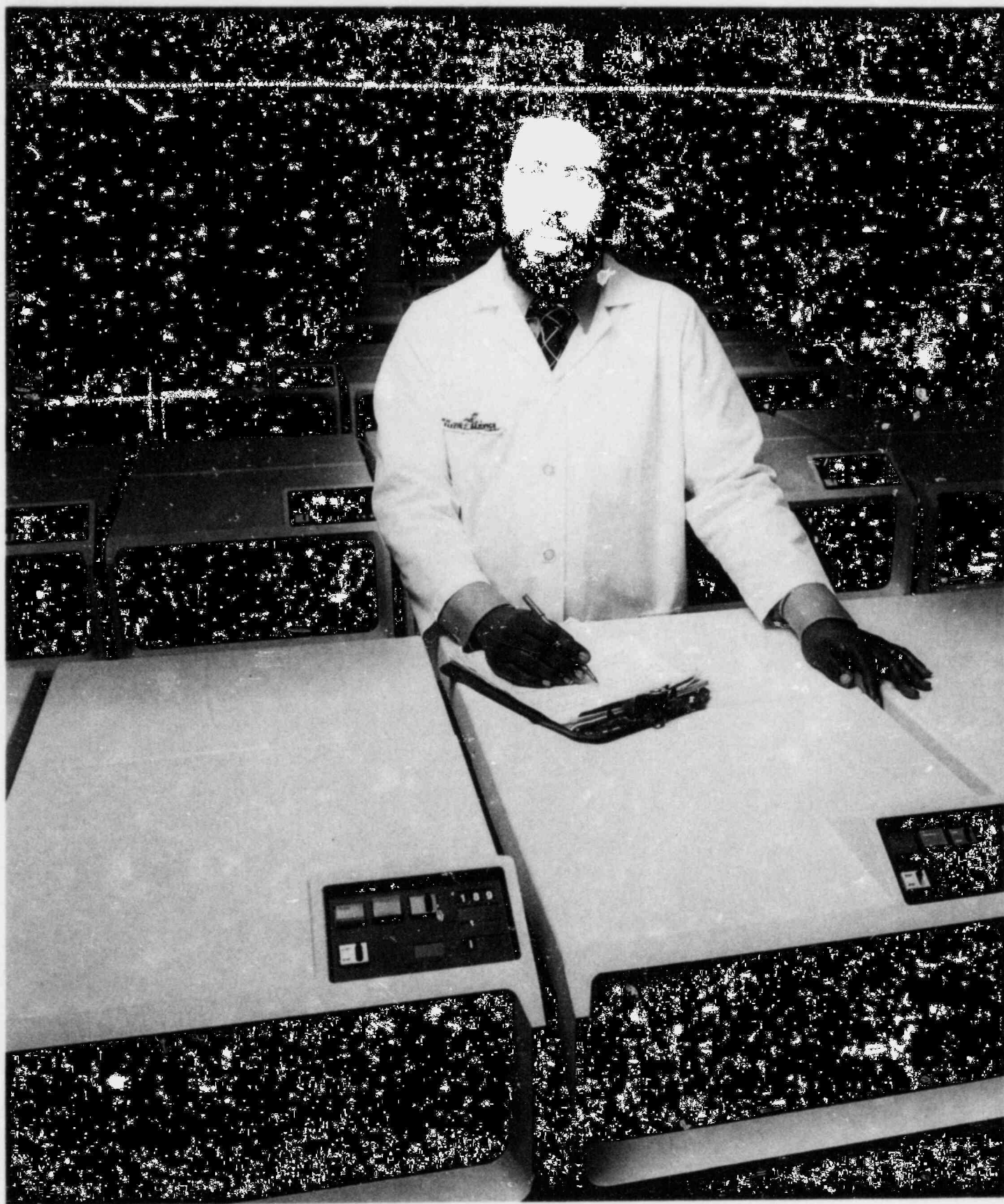
Nuclear power and Comanche Peak are showcased and explained in the Visitors Information Center, which opened in late 1982. The center is in the lobby of the Nuclear Operations Support Facility one mile inside Comanche Peak's front gate. Its informational displays are open to the public, and visitors can be taken on van tours of the plant site.

The Nuclear Operations Support Facility also contains offices for the plant's operations support group and facilities for training plant personnel. In addition, it is designed to serve, if needed, as an emergency operations facility.



Lineman-leadman Willard Mills. In background, the new Texas Commerce Tower under construction in Arlington.

At Morgan Creek power plant near Colorado City: chemical technician Kent Womack, left, and laboratory technician John Muncz.



Evidence was clear in 1982 that conservation by our customers and Texas Electric's load management program are contributing substantially to slowing the rate of growth in peak demand for electricity.

Although the Company added more than 25,000 new customers during the year, peak demand rose only 1.2 percent.

Holding down growth in peak demand is the intent of the Company's load management program, which was inaugurated in 1981. Success of the program will mean the Company will need to build fewer expensive new power plants to meet future demand for electricity.

Through the program, the Company offers customers financial incentives to encourage them to replace worn-out electric refrigerated air conditioners and heat pumps with high-efficiency units and to install heat-recovery

units and solar systems as assist devices for electric water heaters. New home builders and mobile home dealers also can participate by installing qualifying high-efficiency air conditioners or heat pumps.

In 1982, the load management project was augmented by a program to provide incentives to commercial and industrial customers who replace existing standard fluorescent lamps with specific reduced-wattage lamps.

By the end of 1982, the load management program had helped prompt installation of 10,433 high-efficiency central air conditioners, 5,244 room units, 2,374 central heat pumps, 254,000 reduced-wattage lamps and other high-efficiency equipment.

Helping customers learn how to hold down on their use of electricity at home also remained emphasized. Four years ago, Texas Electric began its Operation Tighten-Up program. Customers are invited to free neighborhood workshops to learn low- or no-cost ways to make their homes more energy efficient.

Customers also receive conservation information on tours

of Company facilities, by attending special programs and from the Company's home services department.

And in 1982, the Company went into the second year of its home energy analysis program. Through the Residential Conservation Service program, Company energy specialists make individual visits to the homes of customers who accept invitations to have their homes analyzed. Customers can be advised as to what they can do to make their homes more energy efficient, as well as how much they can expect to save on utility bills if they act on the recommendations.

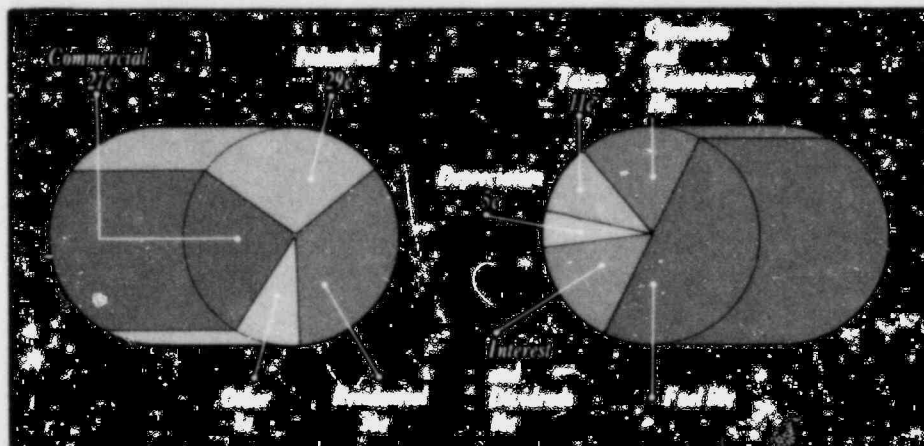
Senior computer operator Sylvester Bonner with banks of data storage units.



1992 Texas Electric Revenue Budget

Where it came from

Where it went



Harry Hargrave, left, general manager of the White Water theme park, and Lanny Coble, Grand Prairie senior customer representative, go over plans for expansion of White Water, part of the growing entertainment complex in Grand Prairie and Arlington.

Tommy Saenz, truck and automotive mechanic in the transportation maintenance center in Fort Worth, works on assembly of components for the bucket trucks used in work on transmission and distribution lines.



Construction forecasts and financing



onstruction expenditures for generating units and other facilities, excluding nuclear fuel, amounted to \$304 million in

1982, compared to \$256 million in 1981. Plans are to spend about \$312 million in 1983, \$258 million in 1984 and \$256 million in 1985.

The financial condition of the Company is an important factor

in Texas Electric's ability to raise capital for construction at reasonable costs from people willing to invest in the Company.

For many years, Texas Electric has maintained a AAA bond rating with rating agencies. This rating has proved invaluable in enabling the Company to obtain construction funds at more reasonable costs and under more favorable terms.

The Company raised \$30 million in March 1982 through the sale of common stock to its parent company, Texas Utilities. In April 1982 and December 1982, the

Company sold first mortgage bonds for a total amount of \$150 million. The Company also raised an additional \$14 million in December 1982 by issuing first mortgage bonds to collateralize the sale of pollution control bonds.

Early in 1983, the Company raised \$35 million through the sale of preferred stock.

Ownership of Jointly Owned Lignite Generating Stations

UNIT	SIZE MW	TEXAS ELECTRIC SHARE MW	SERVICE DATE
Big Brown 1	575	192	1971
Big Brown 2	575	191	1972
Monticello 1	575	173	1974
Monticello 2	575	172	1975
Martin Lake 1	750	150	1977
Martin Lake 2	750	150	1978
Monticello 3	750	375	1978
Martin Lake 3	750	338	1979

TOTAL 5300 1741

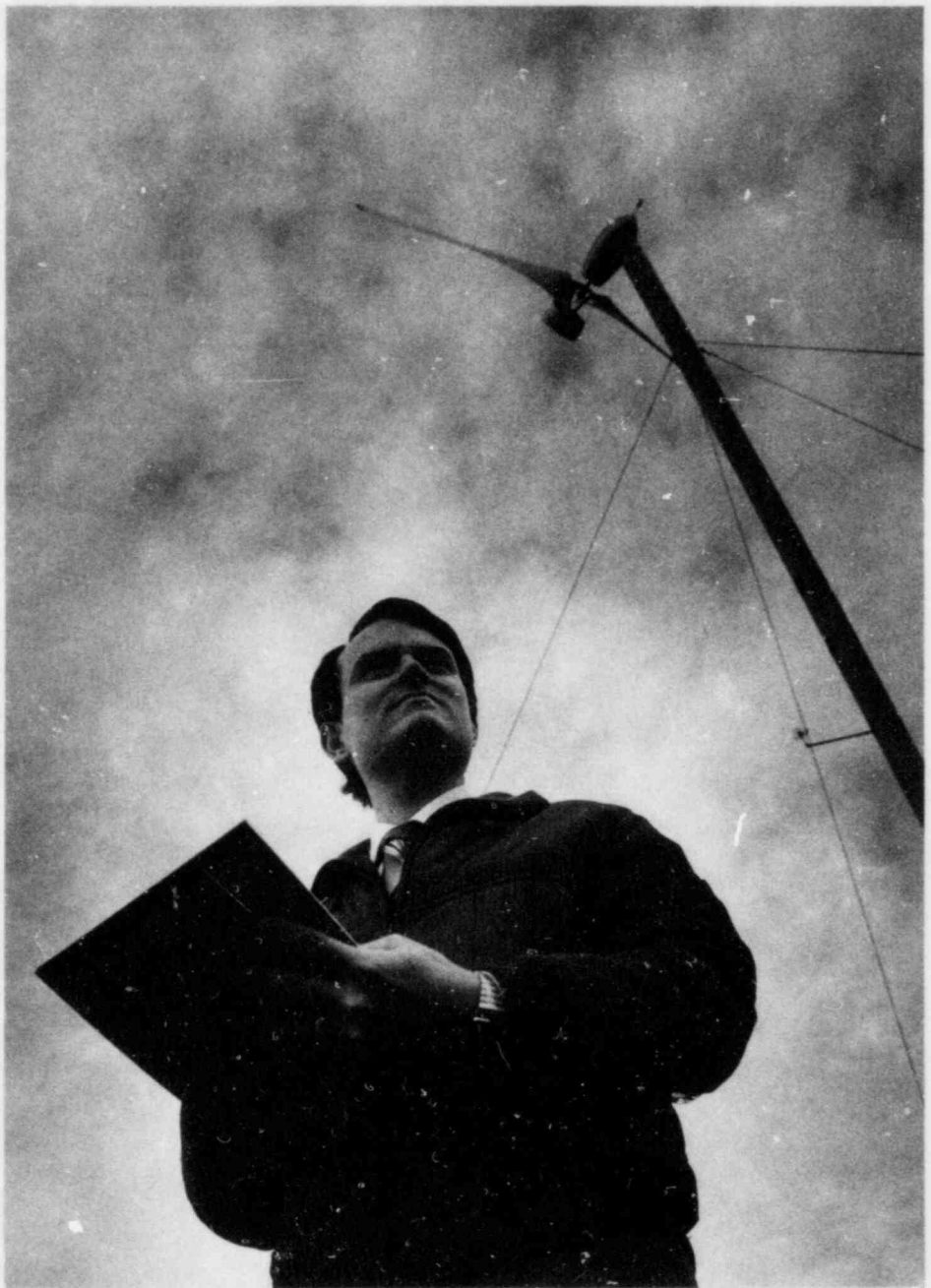
Planned Additions to Generating Capability 1983-1991

UNIT	SIZE MW	TEXAS ELECTRIC SHARE MW	COST PER KW	SERVICE DATE	FUEL
Comanche Peak 1	1150	412	1454*	1984	Nuclear
Comanche Peak 2	1150	412	1454*	1985	Nuclear
Forest Grove 1	750	450	1184	1989	Lignite
Martin Lake 4	750	356	714	1991	Lignite

*Cost for the Texas Utilities Company System



Clara Denman, standing, supervisor of the data entry group, and Bobby Wade, senior data entry operator.



Kelly McNair, associate engineer with the technical services group, checks performance of one of the wind generators built near Burkburnett by Carter Wind Systems Inc. Texas Electric cooperates with the wind energy project as part of its research and development program.



In December 1980, an appeal of a previous Texas Public Utility Commission ruling on the reasonableness of transactions between affiliated companies of the Texas Utilities Company System resulted in the court indicating its intention to enter an order that the PUC further reconsider its findings with respect to the application of Texas Electric's fuel cost factor.

The court entered such an order in December 1981 in light of its conclusion that provisions of the Texas Public Utility Regulatory Act require a prior determination by the PUC of the reasonableness of the charges involved in transactions among affiliated interests which are to be recovered by the Company under its fuel cost factor. The court did not order further refunds or require penalties to be levied but asked that these matters be considered further by the PUC. The Company appealed this judgment and filed for approval with the PUC, and those municipalities retaining original jurisdiction, a new procedure to provide for prior approval of payments to affiliates. On July 29, 1982, all suits, appeals, and remands relating to these rate proceedings were resolved by the entry of a non-appealable Agreed Final Order by the PUC which adopted a new procedure for prior approval of payments to affiliates and granted no further relief.

The PUC also has under review various methods of recovering the costs of all fuel used in the generation of electricity.

For the past several years, Central and South West Corporation, a holding company with an interstate system which is part of the Southwest Power Pool and an intrastate system which is part of the Electric Reliability

Council of Texas, has been involved in a dispute with the Company and other members of ERCOT relating to synchronous interconnections between SWPP and ERCOT with the principal issues being the Company's concern for the reliability of its system and objection to being subjected to the general jurisdiction of the Federal Energy Regulatory Commission. This controversy has been contested in numerous forums, including proceedings before FERC, a lawsuit in the United States District Court for the Northern District of Texas, a licensing proceeding before the Nuclear Regulatory Commission for the Comanche Peak station, a PUC proceeding and an ongoing Securities and Exchange Commission hearing. In January 1982, FERC issued an order approving a settlement among the various parties which provides for the establishment of two direct current asynchronous interconnections between SWPP and ERCOT. The settlement is made on a basis which would not subject the Company to the general jurisdiction of FERC. In September 1982, FERC entered an order dismissing this proceeding. The entry of this order terminates the litigation and various administrative proceedings relating to the dispute.

In a proceeding before the Railroad Commission, Gulf Oil Corporation filed an application to pass through purchased gas costs to Odessa Natural Corporation. Odessa filed a motion with the Railroad Commission to the effect that should Odessa be required to pay any additional amounts to Gulf, it should be allowed to pass these increased costs to the Company, which purchased the gas from Odessa. In December 1980, the Railroad Commission entered an order denying Gulf's claim.

In January 1981, Gulf filed an

appeal in the 250th Judicial District Court of Travis County, Texas, and the court upheld the decision of the Railroad Commission, which judgment was appealed by Gulf.

In August 1982, the Board of Directors of Texas Utilities directed management to proceed with the implementation of the revision of the organizational structure of the Texas Utilities System. Such revision will involve the merging of the Company, Dallas Power & Light and Texas Power & Light into Texas Utilities Electric Company, a recently formed wholly owned subsidiary of Texas Utilities, with the merging companies thereafter becoming divisions of the new Electric Company. In December 1982, the merger received the approval of the PUC which found that it was in the public interest. In February 1983, at special meetings of the preferred stockholders of the Company, Dallas Power and Texas Power, the proposed merger was approved by more than the required vote of the outstanding shares of the preferred stock of each of those companies. The Company believes that the revised structure should provide greater flexibility and achieve additional economies and efficiencies which will benefit shareholders, customers and employees of the System companies.

Financial Statements

*Opinion of Independent
Certified Public Accountants*

Texas Electric Service Company:

We have examined the consolidated financial statements (pages 24 to 32) of Texas Electric Service Company and subsidiary, Old Ocean Fuel Company, as of December 31, 1982 and 1981 and for each of the three years in the period ended December 31, 1982. 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, the financial statements referred to above present fairly the financial position of the companies at December 31, 1982 and 1981 and the results of their operations and the source of their funds for construction for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

*Fort Worth, Texas
March 25, 1983*

Five-Year Financial & Statistical Summary

Financial Statistics

	Year Ended December 31,				
	1982	1981	1980	1979	1978
Total Assets (thousands)	\$2,454,513	\$2,157,994	\$1,924,006	\$1,690,795	\$1,529,979
Electric Plant (thousands)	\$2,783,027	\$2,471,845	\$2,223,505	\$1,978,389	\$1,769,706
Accumulated depreciation	518,014	466,905	417,856	375,982	329,838
Construction expenditures (including allowance for funds used during construction)	304,277	255,816	245,106	206,346	200,541
Capitalization (thousands)					
Long-term debt	\$ 893,446	\$ 730,103	\$ 678,137	\$ 618,405	\$ 545,525
Preferred stock	209,606	209,606	209,606	174,991	174,991
Common stock equity	923,841	829,444	698,011	600,402	553,850
Total	\$2,026,893	\$1,769,153	\$1,585,754	\$1,393,798	\$1,274,366
Average Interest Cost on Long-term Debt	10.0%	9.1%	8.3%	7.6%	7.2%
Average Dividend Cost on Preferred Stock	8.1%	8.1%	8.1%	7.7%	7.7%
Net Income (thousands)	\$ 165,558	\$ 155,034	\$ 121,217	\$ 85,511	\$ 85,179
Dividends Declared on Common Stock (thousands)	\$ 84,160	\$ 71,100	\$ 58,320	\$ 50,500	\$ 46,080
Ratio of Earnings to Fixed Charges	3.9	4.6	4.3	3.8	4.1
Supplemental Ratio of Earnings to Fixed Charges*	3.4	3.9	3.6	3.4	3.8
Allowance for Funds Used During Construction as Percent of Earnings to Common Stock	40.0%	28.2%	25.2%	26.1%	27.5%
Return on Average Common Stock Equity	16.8%	18.4%	15.9%	12.3%	13.3%
Net Funds from Operations as Percent of Construction Expenditures (excluding allowance for funds used during construction)	42.1%	54.9%	49.5%	50.4%	47.1%

*The supplemental ratio of earnings to fixed charges includes the Company's allocable portion of interest on senior notes of affiliated companies which provide services to the Company.

Operating Statistics

	Year Ended December 31,				
	1982	1981	1980	1979	1978
Electric Energy Generated and Purchased (mwh)					
Generated — net station output	22,004,793	21,388,596	21,721,274	20,378,943	20,681,066
Purchased and net interchange	717,802	287,648	113,265	444,965	347,945
Total generated and purchased	22,722,595	21,676,244	21,834,539	20,823,908	21,029,011
Company use, losses and unaccounted for	1,738,418	1,705,088	1,641,934	1,534,200	1,459,322
Total electric energy sales	20,984,177	19,971,156	20,192,605	19,289,708	19,569,689
Fuel Mix for Electric Generation					
Gas	50.6%	50.9%	51.7%	51.5%	65.7%
Oil	0.5	0.2	0.2	2.8	1.1
Lignite	48.9	48.9	48.1	45.7	33.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Electric Energy Sales (mwh)					
Residential	6,540,768	6,086,019	6,513,255	5,758,252	5,868,457
Commercial	5,330,000	4,973,797	4,732,093	4,242,064	4,169,380
Industrial	7,448,983	7,352,039	7,155,624	6,989,265	6,772,579
Government and municipal	437,220	420,503	487,608	503,923	527,971
Total general business	19,756,971	18,832,358	18,888,580	17,493,504	17,338,387
Other electric utilities	1,227,206	1,138,798	1,304,025	1,796,204	2,231,302
Total electric energy sales	20,984,177	19,971,156	20,192,605	19,289,708	19,569,689
Operating Revenues (thousands)					
Residential	\$ 412,927	\$344,813	\$264,920	\$201,677	\$189,450
Commercial	307,736	252,331	169,332	135,009	125,257
Industrial	331,724	276,519	178,836	151,807	142,251
Government and municipal	27,469	23,449	18,990	16,259	15,266
Total general business	1,079,856	897,112	632,078	504,752	472,224
Other electric utilities	51,617	41,186	30,648	26,748	27,932
Total from electric energy sales	1,131,473	938,298	662,726	531,500	500,156
Other operating revenues	17,065	7,093	2,992	2,514	2,092
Total operating revenues	\$1,148,538	\$945,391	\$665,718	\$534,014	\$502,248
Electric Customers (end of year)					
Residential	504,515	483,908	460,227	437,484	416,889
Commercial	68,673	64,358	61,123	57,171	55,527
Industrial	11,266	10,839	10,238	9,727	9,497
Government and municipal	2,075	2,345	2,474	3,034	3,374
Total general business	586,529	561,450	534,062	507,416	485,287
Other electric utilities	39	36	37	37	34
Total electric customers	586,568	561,486	534,099	507,453	485,321
Residential classification includes indirect sales (apartments, etc.); dwelling units not included in number of customers					
	46,323	49,365	50,656	53,516	53,745

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The primary capital requirements of the Company for 1982 and as estimated for 1983 through 1985 are as follows:

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
	<i>Thousands of Dollars</i>			
Construction expenditures (excluding AFUDC) —	\$245,000	\$249,000	\$215,000	\$215,000
Nuclear fuel	12,000	22,000	33,000	28,000
Maturities of long-term debt	8,000	—	—	19,000
Total	<u>\$265,000</u>	<u>\$271,000</u>	<u>\$248,000</u>	<u>\$262,000</u>

The Company generates funds from operations sufficient to meet operating needs, pay dividends on its capital stock and finance a significant portion of its capital requirements. These funds are derived from net income, depreciation, deferred taxes, and investment tax credits. Factors affecting the ability of the Company to fund a portion of its capital requirements from operations include adequate rate relief and regulatory practices allowing a significant portion of construction work in progress in rate base, adequate depreciation rates, normalization of federal income taxes, full current recovery of the cost of fuel used in the generation of electricity, and the opportunity to earn competitive rates of return required in the capital markets. For 1982, approximately 42% of the funds needed for construction was generated from operations.

External funds of a permanent or long-term nature are obtained through the sales of common stock to Texas Utilities, preferred stock and long-term debt. The capitalization ratios of the Company at December 31, 1982 were approximately 44% long-term debt, 10% preferred stock and 46% common stock equity. To provide for immediate cash requirements during periods between long-term financings, the Company obtains short-term loans from Texas Utilities, which had lines of credit with commercial banks aggregating \$300,000,000 at December 31, 1982. The Company does not maintain separate credit arrangements with banks or other lenders.

On March 24, 1983, the Company issued and sold 350,000 shares of \$10.08 preferred stock for \$34,695,500. The Company expects to sell 2,000,000 shares of its authorized common stock to Texas Utilities at the end of March. The Company also expects to sell additional securities as needed, in amounts and of types presently undetermined. Although the Company cannot predict future regulatory practices and is to some degree exposed to fluctuating economic and security market conditions, it does not currently expect any changes in trends or commitments which might significantly alter its basic financial position or ability to finance capital requirements, including the proposed merger of the Company, Dallas Power & Light Company and Texas Power & Light Company into Texas Utilities Electric Company. The new organization resulting from the proposed merger should provide greater financing flexibility and achieve additional economies and efficiencies.

Results of Operations

Operating revenues have increased \$203,147,000 and \$279,673,000 for 1982 and 1981, respectively, primarily as the result of recovery of higher fuel costs on a current basis, increased rate levels and also, for 1982, as a result of increased energy sales. Energy consumption is affected by material variations in weather conditions and was particularly impacted by the unusually hot and dry summer of 1980 compared to the relatively normal temperatures during the summers of 1981 and 1982.

The increase in fuel and purchased power expense resulted from higher unit fuel costs due to the expiration of contracts for fuel gas from the Old Ocean Field at the end of 1980, the expiration of the Odessa Natural contract at the end of 1981 and also, for 1982, as a result of increased generation.

Operation and maintenance expenses have increased primarily as a result of inflationary pressures on the cost of labor, materials and services. Operation and maintenance were also affected by the higher costs of operating and maintaining lignite-fueled generating units, including the additional costs of operating and maintaining pollution control equipment required on several such units. Increases in taxes other than income resulted primarily from increases in revenue based taxes.

Increases in allowance for funds used during construction reflect the increasing balance in construction work in progress and increases in the AFUDC rate effective January 1982 and January 1981, respectively.

The increase in interest charges for 1982 was due primarily to the issuance of additional debt securities and, for 1981, as a result of the increase in short term borrowings from Texas Utilities and the increased rate on such borrowings.

The Company expects to pursue adequate and timely rate relief to offset increases in the cost of providing electric service.

The Company has prepared supplementary information concerning the effects of changing prices in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33; such information is included following the Notes to Financial Statements.

**Texas Electric
Service Company**
and Subsidiary — Consolidated

Statement of Income

	<i>Year Ended December 31,</i>		
	<i>1982</i>	<i>1981</i>	<i>1980</i>
	<i>Thousands of Dollars</i>		
Operating Revenues	<u>\$1,148,538</u>	<u>\$945,391</u>	<u>\$665,718</u>
Operating Expenses			
Fuel and purchased power	575,633	399,262	204,283
Operation	132,974	111,672	98,294
Maintenance	68,067	57,750	48,030
Depreciation	54,689	52,598	51,453
Federal income taxes (Note 7)	71,789	91,008	71,613
Taxes other than income	59,755	51,247	41,718
Total operating expenses	<u>962,907</u>	<u>763,537</u>	<u>515,391</u>
Operating Income	<u>185,631</u>	<u>181,854</u>	<u>150,327</u>
Other Income			
Allowance for equity funds used during construction	45,515	28,830	19,973
Other income and deductions — net	1,995	1,919	3,374
Federal income taxes	(998)	(883)	(1,552)
Total other income	<u>46,512</u>	<u>29,866</u>	<u>21,795</u>
Total Income	<u>232,143</u>	<u>211,720</u>	<u>172,122</u>
Interest Charges			
Interest on mortgage bonds	73,213	54,306	51,580
Interest on other long-term debt	3,253	3,296	3,460
Other interest	4,055	9,150	2,568
Allowance for borrowed funds used during construction	(13,936)	(10,066)	(6,703)
Total interest charges	<u>66,585</u>	<u>56,686</u>	<u>50,905</u>
Net Income	<u>165,558</u>	<u>155,034</u>	<u>121,217</u>
Preferred Stock Dividends	<u>17,001</u>	<u>17,001</u>	<u>15,288</u>
Net Income After Preferred Stock Dividends	<u>\$ 148,557</u>	<u>\$138,033</u>	<u>\$105,929</u>

See accompanying Notes to Financial Statements.

**Texas Electric
Service Company**
and Subsidiary — Consolidated

*Statement of Source of
Funds for Construction*

	<i>Year Ended December 31,</i>		
	<i>1982</i>	<i>1981</i>	<i>1980</i>
	<i>Thousands of Dollars</i>		
Funds from Operations			
Net income	\$165,558	\$155,034	\$121,217
Depreciation	54,689	52,598	51,453
Deferred federal income taxes — net	20,227	19,187	16,467
Federal investment tax credits — net	23,132	19,348	19,237
Allowance for funds used during construction	(59,451)	(38,896)	(26,676)
Total funds from operations	204,155	207,271	181,698
Less — Dividends declared:			
Preferred stock	17,001	17,001	15,288
Common stock	84,160	71,100	58,320
Total dividends declared	101,161	88,101	73,608
Net funds from operations	102,994	119,170	108,090
Funds from Financing			
Sales of securities:			
First mortgage bonds	166,453	62,338	75,000
Other long-term debt	(502)	—	502
Preferred stock	—	—	34,615
Common stock	30,000	64,500	50,000
Retirement of long-term debt	(8,262)	(12,810)	(3,332)
Increase (decrease) in notes payable to Texas Utilities Company (<i>parent</i>)	(6,000)	1,000	(39,000)
Net funds from financing	181,689	115,028	117,785
Other Sources (Uses) of Funds			
Changes in working capital, excluding notes payable and long-term debt due currently:			
Cash in banks and temporary cash investments	195	(1,025)	1,391
Accounts receivable — net	(9,283)	(13,414)	(9,269)
Inventories	(17,446)	(15,867)	(21,356)
Accounts payable	12,597	14,242	(390)
Taxes accrued	(1,821)	(2,820)	27,638
Other — net	(6,845)	3,742	6,098
Net change	(22,603)	(15,142)	4,112
Nuclear fuel	(12,087)	1,787	(11,023)
Other — net	(5,167)	(3,923)	(534)
Net other sources (<i>uses</i>) of funds	(39,857)	(17,278)	(7,445)
Total	\$244,826	\$216,920	\$218,430
Construction Expenditures			
Electric plant	\$304,277	\$255,816	\$245,106
Allowance for funds used during construction	(59,451)	(38,896)	(26,676)
Construction Expenditures (<i>excluding allowance for funds used during construction</i>)	\$244,826	\$216,920	\$218,430

See accompanying Notes to Financial Statements.

**Texas Electric
Service Company**
and Subsidiary — Consolidated

Balance Sheet

Assets		December 31,	
		1982	1981
		Thousands of Dollars	
Electric Plant			
In service:			
Production		\$ 914,502	\$ 861,892
Transmission		274,266	241,138
Distribution		500,939	451,941
General		55,021	44,806
Total		1,744,728	1,599,777
Construction work in progress		990,614	836,874
Nuclear fuel		45,152	33,065
Held for future use		2,533	2,129
Total electric plant		2,783,027	2,471,845
Less accumulated depreciation		518,014	466,905
Electric plant, less accumulated depreciation		2,265,013	2,004,940
Other Investments		1,451	1,720
Current Assets			
Cash in banks		5,664	5,859
Special deposits		1,457	1,458
Working funds		12,803	9,823
Accounts receivable:			
Customers		64,567	56,447
Other		6,319	4,742
Allowance for uncollectible accounts		(2,961)	(2,546)
Inventories — at average cost:			
Materials and supplies		13,885	12,255
Fuel stock		71,278	55,462
Other current assets		7,503	2,535
Total current assets		180,515	146,035
Deferred Debits		7,534	5,299
Total		\$2,454,513	\$2,157,994

See accompanying Notes to Financial Statements.

	Liabilities	
	December 31,	
	1982	1981
	<i>Thousands of Dollars</i>	
Capitalization		
Common stock (Note 3)	\$ 769,500	\$ 739,500
Retained earnings (Note 4)	154,341	89,944
Total	923,841	829,444
Preferred stock (Note 3)	209,606	209,606
Long-term debt—less amounts due currently (Note 5)	893,446	730,103
Total capitalization	2,026,893	1,769,153
Current Liabilities		
Notes payable—Texas Utilities Company (parent)	7,000	13,000
Accounts payable:		
Affiliates	54,346	33,862
Other	21,842	29,729
Dividends declared	4,250	4,250
Long-term debt due currently	—	8,000
Customers' deposits	7,112	6,321
Taxes accrued	39,338	41,159
Interest accrued	21,272	17,411
Other current liabilities	2,501	6,052
Total current liabilities	157,661	159,784
 Reserve for Insurance and Casualties	 2,982	 2,068
 Accumulated Deferred Federal Income Taxes	 121,184	 100,957
 Unamortized Federal Investment Tax Credits	 145,793	 126,032
 Commitments and Contingencies (Notes 2 and 6)		
Total	\$2,454,513	\$2,157,994

See accompanying Notes to Financial Statements.

**Texas Electric
Service Company**
and Subsidiary — Consolidated

*Statement of
Retained Earnings*

	<i>Year Ended December 31,</i>		
	<i>1982</i>	<i>1981</i>	<i>1980</i>
	<i>Thousands of Dollars</i>		
Balance at Beginning of Year	\$ 89,944	\$123,011	\$ 75,402
Add — Net income	<u>165,558</u>	<u>155,034</u>	<u>121,217</u>
Total	<u>255,502</u>	<u>278,045</u>	<u>196,619</u>
Deduct			
Dividends (<i>cash</i>):			
Preferred stock:			
\$ 4 series (\$ 4.00 per share per annum)	440	440	440
\$ 4.56 series (\$ 4.56 per share per annum)	296	296	296
\$ 4.64 series (\$ 4.64 per share per annum)	464	464	464
\$ 5.08 series (\$ 5.08 per share per annum)	407	407	407
\$ 7.44 series (\$ 7.44 per share per annum)	2,232	2,232	2,232
\$ 8.32 series (\$ 8.32 per share per annum)	2,496	2,496	2,496
\$ 8.44 series (\$ 8.44 per share per annum)	2,532	2,532	2,532
\$ 8.92 series (\$ 8.92 per share per annum)	1,784	1,784	1,784
\$ 9.36 series (\$ 9.36 per share per annum)	2,808	2,808	2,808
\$10.12 series (\$10.12 per share per annum)	3,542	3,542	1,829
Common stock (<i>per share</i> : 1982, \$2.80, 1981, \$2.56, 1980, \$2.20)	<u>84,160</u>	<u>71,100</u>	<u>58,320</u>
Total dividends	<u>101,161</u>	<u>88,101</u>	<u>73,608</u>
Transfer to common stock account (<i>Note 3</i>)	<u>—</u>	<u>100,000</u>	<u>—</u>
Total deductions	<u>101,161</u>	<u>188,101</u>	<u>73,608</u>
Balance at End of Year (<i>Note 4</i>)	\$154,341	\$ 89,944	\$123,011

See accompanying Notes to Financial Statements.

**Texas Electric
Service Company**
and Subsidiary — Consolidated

Notes to Financial Statements

1. Significant Accounting Policies

Consolidation — The consolidated financial statements include the Company and its wholly-owned subsidiary, Old Ocean; all significant intercompany items and transactions have been eliminated in consolidation.

Electric Plant — Electric plant is stated at original cost. The cost of property additions charged to electric plant includes labor and materials, applicable overhead and payroll-related costs and an allowance for funds used during construction.

Allowance For Funds Used During Construction — Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on other capital used to finance construction are charged to electric plant. The accrual of AFUDC is in accord with established accounting practices of the industry, but does not represent current cash income. Effective January 1, 1982, the Company capitalized AFUDC at a net of tax rate of 9% compounded semi-annually of expenditures incurred, except for that portion of construction work in progress allowed in rate base by regulatory authorities. Prior AFUDC rates effective in January 1981 and November 1979 were 8½% and 8%, respectively. These rates were determined on the basis of, but are less than, the cost of capital used to finance the construction program.

Depreciation — Depreciation is based upon an amortization of the original cost of depreciable properties on a straight-line basis over the estimated service lives of the properties. Depreciation as a percent of average depreciable electric plant in service approximated 3.5% for 1982 and 1981, and 3.6% for 1980.

Federal Income Taxes — The Company is included in the consolidated federal income tax return of Texas Utilities and subsidiary companies, and federal income taxes are allocated to all subsidiary companies based upon taxable income or loss. Deferred federal income taxes are generally provided for differences between book and taxable income; such differences result primarily from the use of liberalized depreciation and accelerated cost recovery allowable under the Internal Revenue Code. Investment tax credits are being amortized to income over the estimated service lives of the properties. (See Note 7.)

Reserve for Insurance and Casualties — The Company, as allowed by regulatory authorities, maintains a reserve for major uninsured losses and claims.

2. Affiliates

The Company is a wholly-owned subsidiary of Texas Utilities which provides common stock capital and short-term financing to the Company. Dallas Power and Texas Power, whose respective systems are interconnected with that of the Company, are also subsidiaries of Texas Utilities. Texas Utilities has three other subsidiaries which perform specialized services, at cost, for the System, including the Company: Texas Utilities Services Inc. furnishes engineering, financial and other services; Texas Utilities Fuel Company owns a natural gas pipeline system, acquires, stores and delivers fuel gas and provides other fuel services for the generation of electric energy; and Texas Utilities Generating Company operates the jointly-owned generating stations and furnishes related services, including the ownership and operation of fuel production facilities for the surface mining and recovery of lignite for use as fuel at such stations.

The Company, jointly with Dallas Power and Texas Power, has entered into agreements with Fuel Company to procure certain fuels and related services and with Generating Company for the production of lignite fuel and the operation of electric generating stations; payments are at cost of the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Generating Company. The Company is, in effect, obligated for its share of the principal, \$174,734,000 at December 31, 1982, and interest on long-term notes of Fuel Company and of Generating Company through the payments described above. Such notes mature at various dates through 1999 and have interest rates ranging from 8.50% to 10.45%.

In August 1982, the Board of Directors of Texas Utilities directed management to proceed with the implementation of a revision of the organizational structure of the System. Such revision will involve the merging of the Company, Dallas Power and Texas Power into Electric Company, with the merging companies thereafter becoming divisions of Electric Company. The merger is expected to become effective with the commencement of business on January 1, 1984.

For information concerning jointly-owned generating stations, see page 14.

**Texas Electric
Service Company**
and Subsidiary — Consolidated

Notes to Financial Statements

3. Common and Preferred Stocks

	<i>December 31, 1982</i>		<i>December 31, 1981</i>		<i>Redemption Price Per Share (before adding accumulated dividends)</i>	
	<i>Shares Outstanding</i>	<i>Amount Thousands of Dollars</i>	<i>Shares Outstanding</i>	<i>Amount Thousands of Dollars</i>	<i>Current</i>	<i>Eventual Minimum</i>
Common stock—without par value; authorized 80,000,000 shares	30,300,000	\$769,500	29,300,000	\$739,500		
Preferred stock—cumulative, without par value; entitled upon liquidation to \$100 a share; authorized 10,000,000 shares:						
\$ 4 series	110,000	\$ 11,000	110,000	\$ 11,000	\$102.00	\$102.00
\$ 4.56 series	65,000	6,563	65,000	6,563	112.00	112.00
\$ 4.64 series	100,000	10,016	100,000	10,016	103.25	103.25
\$ 5.08 series	80,000	8,004	80,000	8,004	103.60	103.60
\$ 7.44 series	300,000	30,006	300,000	30,006	104.26	102.40
\$ 8.32 series	300,000	29,655	300,000	29,655	108.32*	101.00
\$ 8.44 series	300,000	30,046	300,000	30,046	107.40	103.18
\$ 8.92 series	200,000	20,076	200,000	20,076	105.83	103.60
\$ 9.36 series	300,000	29,625	300,000	29,625	107.02	102.34
\$10.12 series	350,000	34,615	350,000	34,615	110.12*	100.00
	2,105,000	\$209,606	2,105,000	\$209,606		

*Redemption may not be effected currently through certain refunding operations.

The Company issued and sold shares of its authorized common stock to Texas Utilities as follows: March 1982, 1,000,000 shares for \$30,000,000; November 1981, 800,000 shares for \$24,000,000; July 1981, 1,500,000 shares for \$40,500,000; and February 1980, 2,000,000 shares for \$50,000,000.

The Company also issued and sold 350,000 shares of \$10.12 preferred stock for \$34,615,000 in June 1980.

In November 1981 the Company transferred \$100,000,000 from retained earnings to the common stock account.

The Company issued and sold 350,000 shares of \$10.08 preferred stock for \$34,695,500 in March 1983.

No shares of the Company's common or preferred stock are held by or for account of the Company nor are any shares of such capital stocks reserved for officers and employees or for options, warrants, conversions and other rights in connection therewith.

4. Retained Earnings Restrictions

The Company's articles of incorporation, the mortgage, as supplemented, and the debenture agreements contain provisions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At December 31, 1982, \$25,431,000 of retained earnings was thus restricted as a result of the provisions of the articles of incorporation.

The articles of incorporation restriction provides in effect that the Company shall not pay any common dividend which would reduce retained earnings to less than one and one-half times annual preferred dividend requirements. The mortgage restriction is based primarily on the replacement fund requirements of the mortgage. The restriction contained in the debenture agreements is designed to maintain the aggregate preferred and common stock equity at or above 33 1/3% of total capitalization.

5. Long-Term Debt (less amounts due currently)

	December 31,	
	1982	1981
	Thousands of Dollars	
First mortgage bonds:		
3¼% series due 1985	\$ 17,000	\$ 17,000
3¼% series due 1986	10,000	10,000
4¼% series due 1987	16,000	16,000
4½% series due 1988	10,000	10,000
4½% series due 1993	22,000	22,000
4½% series due 1995	16,000	16,000
5½% series due 1996	15,000	15,000
6½% series due 1997	18,000	18,000
7½% series due 1999	15,000	15,000
8½% series due 2000	25,000	25,000
7½% series due 2001	25,000	25,000
7½% series due 2002	30,000	30,000
8½% series due 2004	40,000	40,000
9½% series due 2004	60,000	60,000
8½% series due 2005	50,000	50,000
8½% series due 2006	100,000	100,000
9½% series due 2009	75,000	75,000
14½% series due 2010	75,000	75,000
15½% series due 2011	50,000	50,000
16% series due 2012	75,000	—
11½% series due 2012	75,000	—
Pollution control series:		
13½% Series A due 2011	20,230	20,230
10% Series B due 2012	13,700	—
Funds on deposit with trustee	(5,139)	(7,892)
Total	847,791	681,338
Pollution control revenue bonds:		
6¼% series due 2006	19,025	19,025
5.70% series due 2007	21,640	21,640
6.60% series due 2008	3,085	3,085
Funds on deposit with trustee	(1,931)	(1,430)
Total	41,819	42,320
Sinking fund debentures:		
5¼%, due 1985	2,270	2,507
6½%, due 1993	7,653	7,678
Total	9,923	10,185
Unamortized premium and discount:		
Unamortized premium	486	507
Unamortized discount	(6,573)	(4,247)
Total	(6,087)	(3,740)
Total long-term debt—less amounts due currently	\$893,446	\$730,103

Sinking fund and maturity requirements for the years 1983 through 1987 under long-term debt instruments in effect at December 31, 1982 are as follows:

Year	Sinking Fund (a)	Maturity (see above)	Minimum Cash Requirement (a)(b)
	Thousands of Dollars		
1983	\$3,988	—	—
1984	3,988	—	—
1985	3,775	\$19,270	\$19,270
1986	3,650	10,000	10,000
1987	3,450	16,000	16,000

(a) Excluding \$560,000 for each of the years 1983 and 1984 and \$320,000 for each of the years 1985 through 1987 satisfied prior to December 31, 1982.

(b) Other requirements may be satisfied by certification of property additions at the rate of 167% of such requirements.

The total amounts of sinking fund debentures authorized in the debenture agreements have been issued. The Company's first mortgage bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings and other provisions of the mortgage. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Substantially all of the electric plant is subject to the lien of the mortgage.

6. Commitments and Contingencies

The Company, Dallas Power and Texas Power have entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and have agreed, in effect, to guarantee the principal and interest on bonds issued to finance the reservoirs from which the water is supplied. At December 31, 1982, the Company was obligated for \$46,163,000 principal amount of such bonds, which mature at various dates through 2011 and have interest rates ranging from 5½% to 10⅞%. The Company is required to make periodic payments equal to such principal and interest for the years 1983 through 1987 as follows: \$4,028,000 for 1983, \$4,018,000 for 1984, \$4,023,000 for 1985, \$4,009,000 for 1986 and \$4,012,000 for 1987. In addition, the Company is obligated to pay certain variable costs of operating and maintaining the reservoirs. The Company's total payments for 1982 and 1981 were \$4,436,000 and \$3,604,000, respectively. Amounts payable under the contracts may be reduced, under certain circumstances, due to the sale of water to nonaffiliate parties. In June 1982, the Company, Dallas Power and Texas Power entered into an agreement, which is subject to regulatory approval, with a municipality for it to assume all contract rights and obligations of the three companies in connection with the principal amount of certain bonds (of which \$33,173,000 is the Company's share included above), related interest and costs of operating and maintaining the reservoir; however, the Company, Dallas Power and Texas Power would be contingently liable in the event of default by the municipality.

The Company is involved in various legal and administrative proceedings which, in the opinion of the Company, are not expected to have a material effect upon the financial position or results of operations of the Company.

**Texas Electric
Service Company**
and Subsidiary — Consolidated

Notes to Financial Statements

7. Federal Income Taxes

The details of federal income taxes are as follows:

	<i>Year Ended December 31,</i>		
	<i>1982</i>	<i>1981</i>	<i>1980</i>
	<i>Thousands of Dollars</i>		
Charged to operating expenses:			
Current federal income taxes	<u>\$28,430</u>	<u>\$52,473</u>	<u>\$35,909</u>
Deferred federal income taxes — net:			
Differences between depreciation methods and lives	<u>16,930</u>	<u>15,384</u>	<u>13,914</u>
Certain capitalized construction costs	<u>3,014</u>	<u>2,367</u>	<u>2,945</u>
Other	<u>283</u>	<u>1,436</u>	<u>(392)</u>
Total	<u>20,227</u>	<u>19,187</u>	<u>16,467</u>
Investment tax credits — net	<u>23,132</u>	<u>19,348</u>	<u>19,237</u>
Total federal income taxes charged to operating expenses	<u>71,789</u>	<u>91,008</u>	<u>71,613</u>
Charged to other income	<u>998</u>	<u>883</u>	<u>1,552</u>
Total federal income taxes	<u>\$72,787</u>	<u>\$91,891</u>	<u>\$73,165</u>

Federal income taxes were less than the amount computed by applying the federal statutory rate to pre-tax book income as follows:

	<i>Year Ended December 31,</i>		
	<i>1982</i>	<i>1981</i>	<i>1980</i>
	<i>Thousands of Dollars</i>		
Federal income taxes at statutory rate of 46%	<u>\$109,639</u>	<u>\$113,586</u>	<u>\$89,416</u>
Reductions in federal income taxes resulting from:			
Allowance for funds used during construction	<u>27,347</u>	<u>17,892</u>	<u>12,271</u>
Depletion allowance	<u>7,721</u>	<u>5,022</u>	<u>2,348</u>
Amortization of investment tax credits	<u>2,693</u>	<u>2,439</u>	<u>2,314</u>
Other	<u>(909)</u>	<u>(3,658)</u>	<u>(682)</u>
Total reductions	<u>36,852</u>	<u>21,695</u>	<u>16,251</u>
Total federal income taxes	<u>\$ 72,787</u>	<u>\$ 91,891</u>	<u>\$73,165</u>
Effective tax rate	<u>30.5%</u>	<u>37.2%</u>	<u>37.6%</u>

8. Retirement Plan

The Company has a retirement plan covering substantially all employees. The cost of the plan is determined by an independent actuary and is funded by the Company as accrued. The cost of the plan, including amounts capitalized, approximated \$9,265,000 for 1982, \$7,875,000 for 1981, and \$7,153,000 for 1980. As of January 1, 1982 and 1981, accumulated benefits and net fund assets were as follows:

	<i>1982</i>	<i>1981</i>
	<i>Thousands of Dollars</i>	
Actuarial present value of accumulated benefits:		
Vested	<u>\$69,962</u>	<u>\$66,587</u>
Nonvested	<u>5,814</u>	<u>7,142</u>
Total	<u>\$75,776</u>	<u>\$73,729</u>
Net fund assets	<u>\$64,804</u>	<u>\$62,314</u>

Assumed rates of return of 7% for 1982 and 5½% for 1981 were used in determining the value of accumulated benefits; if the 5½% rate had been used for 1982, the present value of accumulated benefits would have been approximately \$10,000,000 higher.

**Texas Electric
Service Company**
and Subsidiary — Consolidated

*Supplementary Information
Concerning Effects
of Changing Prices*

Unaudited information furnished in compliance with the reporting requirements of Financial Accounting Standards Board Statement No. 33, *Financial Reporting and Changing Prices (FASB 33)*, follows. The Statement indicates the need for experimentation in providing information about the effects of changing prices. Such information is intended to help readers better understand the impact of inflation on the Company. Because the information is presented on an experimental basis, it should be viewed with caution. Calculation of the information inherently involves the use of assumptions, approximations, and estimates and, therefore, the resulting measurements should be considered in that context and not as precise indications of the effects of inflation. The effects of changing prices are not recognized for income tax or rate-making purposes; therefore the supplementary information should not be interpreted as adjustments to earnings reported in the Financial Statements.

Information concerning the effects of general inflation (*constant dollar*) was determined by converting historical cost amounts into dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers.

Information concerning changes in specific prices (*current cost*) represent such changes in electric plant from the date costs were initially incurred to present, and differs from constant dollar information to the extent that the specific prices have increased at a rate different than the general rate of inflation. The current cost of electric plant was computed by indexing the existing historical cost of plant by the Handy-Whitman Index of Public Utility Construction Costs for the South Central Region and other appropriate indices. Such current costs are not necessarily representative of the replacement cost of the Company's productive capacity that might be incurred in a future period.

Depreciation on the constant dollar and current cost basis was determined by applying the Company's straight-line depreciation rates used for financial accounting purposes to the appropriate indexed electric plant amounts, and is the only income statement item that has been restated from the Financial Statements. In compliance with FASB 33, no adjustment has been made to federal income taxes.

Under rate-making rules prescribed by the Public Utility Commission of Texas, only the original cost of utility plant is recoverable through revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars and current cost over

the original cost is not recoverable through rates as depreciation and is reflected as Reduction to Net Recoverable Cost of Electric Plant. The Company believes, based on past experiences, that it will be allowed to recover the investment in electric plant when replacement of facilities actually occurs.

During periods of inflation, the holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The amount shown as Gain From Decline in Purchasing Power of Net Amounts Owed reflects the net of these two items and is primarily attributable to the substantial amount of long-term debt which has been used to finance electric plant. Since depreciation on this electric plant is limited by regulation to the recovery of historical costs, a holding gain on debt is not allowed and recovery is limited to only the embedded cost of debt capital. To reflect the results of rate regulation, Gain From Decline in Purchasing Power of Net Amounts Owed is offset by the Reduction to Net Recoverable Cost of Electric Plant.

**Texas Electric
Service Company**
and Subsidiary — Consolidated

*Summary of Net Income
Adjusted for Effects of Changing Prices*

(Thousands of Dollars)	Year Ended December 31, 1982		
	Historical Cost Reported in Financial Statements	Adjusted for Changing Prices	
		General Inflation (Constant Dollar)	Specific Prices (Current Cost)
		Average 1982 Dollars	
Operating revenues	\$1,148,538	\$1,148,538	\$1,148,538
Operating expenses (a)	962,907	1,029,867	1,042,631
Operating income	185,631	118,671	105,907
Other income	46,512	46,512	46,512
Total income	232,143	165,183	152,419
Interest charges	66,585	66,585	66,585
Net income	\$ 165,558	\$ 98,598	\$ 85,834
Increase in specific prices of electric plant held during the year (b)			\$ 241,143
Reduction to net recoverable cost of electric plant		\$ (12,733)	(93,578)
Effect of general inflation on electric plant			(147,533)
Effect of general inflation in excess of increase in specific prices of electric plant after reduction to net recoverable cost			32
Gain from decline in purchasing power of net amounts owed		38,848	38,848
Net change in purchasing power		\$ 26,115	\$ 38,880

(a) Includes depreciation of \$54,689,000 for historical cost, \$121,649,000 for constant dollar and \$134,413,000 for current cost.

(b) At December 31, 1982, electric plant, net of accumulated depreciation, was \$4,150,875,000 for current cost and \$2,265,013,000 for historical cost.

*Comparison of Selected Financial Data
Adjusted for Effects of Changing Prices*

(Thousands of Dollars)	1982	1981	1980	1979	1978
Operating revenues	\$1,148,538	\$1,003,350	\$ 779,818	\$ 710,135	\$743,090
Constant Dollar Information			Average 1982 Dollars		
Net income	98,598	103,397	88,303	60,974	
Net assets at year end at net recoverable cost	1,120,655	1,067,103	1,015,449	975,059	
Current Cost Information					
Net income	85,834	88,034	69,655	40,329	
Effect of general inflation in excess of increase in specific prices of electric plant after reduction to net recoverable cost	32	(96,109)	(160,596)	(179,310)	
Net assets at year end at net recoverable cost	1,120,655	1,067,103	1,015,449	975,059	
General Information					
Gain from decline in purchasing power of net amounts owed	38,848	84,776	118,619	127,598	
Consumer price index — average	289.1	272.4	246.8	217.4	195.4

Texas Electric Service Company

(A Subsidiary of Texas Utilities Company)

Officers

W. G. Marquardt
President and Chief Executive

D. E. Kelch
Vice President

R. T. Martin
Vice President

E. D. Searth
Vice President

W. M. Taylor
Vice President

E. L. Watson
Vice President

J. P. Knierim
Treasurer and Assistant Secretary

C. E. Layton
Secretary

J. M. O'Donnell
Assistant Treasurer

Freda Sousae
Assistant Secretary

Transfer Agent for Preferred Stocks
The First National Bank of Fort Worth

Registrar for Preferred Stocks
Continental National Bank of Fort Worth

Trustee for First Mortgage Bonds
Texas American Bank/ Fort Worth, N.A.

Trustee for Sinking Fund Debentures
The First National Bank of Fort Worth

General Offices / Fort Worth, Texas

Managers

B. R. Edmondson
A. S. Dechert
H. A. King, Jr.
K. M. Webb
G. A. Bales
Albert Cano
R. L. Fain
W. D. Freeman
R. J. Peters
C. C. Richardson
Leroy Sullivan

J. H. Sanders
LeRoy Olsak
Mrs. Jimmie Knight

R. D. Keeney
B. W. McKinnis
D. R. Armstrong
J. T. Salter
B. D. Lancaster

R. N. Rhodes
B. B. Hardee
H. F. Clark, Jr.

C. W. Barclay
Ira Adams
M. E. Trimble, Jr.
L. F. Stoebner
C. W. Barclay
W. M. Griffin
J. C. Blair, Jr.

J. D. Redding
R. D. Alsup
B. J. Vincent
V. L. Smith
W. N. House
J. R. Neskoriak

Fort Worth Area

Arlington
Suburban
Grand Prairie
Fort Worth / Suburban Area
Suburban Area
Suburban
Suburban
Suburban
Suburban
Suburban

Big Spring Division

Lamesa
O'Donnell

Eastland Division

Breckenridge
DeLeon, Gorman
Graham
Ranger

Sweetwater Division

Colorado City
Snyder

Western Division

Andrews
Crane
Grandfalls, Monahans, Wink
Midland
Odessa
Stanton

Wichita Falls Division

Archer City
Burkburnett
Henrietta
Iowa Park, Electra
Seymour

Notice to Shareholder:

The "Tax Equity and Fiscal Responsibility Act of 1982" includes provisions which require that 10% of each interest and dividend payment be withheld and that the amounts withheld be sent to the Internal Revenue Service for application against shareholder tax obligations. These provisions of the Act become effective on July 1, 1983.

The Company has been advised by its Legal Counsel that certain exemptions are allowed under the Act which may exempt a shareholder from the withholding requirement. Individual shareholders are urged to contact the Internal Revenue Service or their accountant concerning questions about the exemption qualification or other provisions of the Act.

This report is submitted for the purpose of providing stockholders and others information about Texas Electric Service Company, and not in connection with any proposed sale of, or offer to sell or buy, any stock or securities.

Texas Electric Service Company

Directors

T. L. Austin, Jr., Dallas

Chairman of the Board and

Chief Executive

Texas Utilities Company

Jno. P. Butler, Midland

Senior Chairman of the Board

The First National Bank of Midland

Ed. B. Collett, Fort Worth

Investments

J. A. Gooch, Fort Worth

Senior Member of the firm of Cantey,

Hanger, Gooch, Munn & Collins

Paul Leonard, Fort Worth

Investments

W. G. Marquardt, Fort Worth

President and Chief Executive

Texas Electric Service Company

Dr. James M. Moudy,

Fort Worth

Chancellor Emeritus

Texas Christian University

Charles R. Perry, Odessa

President, Perry Investments, Inc.

E. Bruce Street, Graham

Investments

W. K. Stripling, Jr., Fort Worth

Investments

Chas. C. Thompson,

Colorado City

Chairman of the Board and President

City National Bank of Colorado City

C. H. Wilemon, Jr., Arlington

Chairman, Texas Commerce Bank —

Arlington

Cities and Towns Served

Ackerly

Aledo

Andrews

Annetta

Annetta North

Annetta South

Archer City

Arlington

Azle

Belleue

Benbrook

Big Spring

Blue Mound

Breckenridge

Burkburnett

Burleson

Carbon

Coahoma

Colorado City

Crane

Crowley

Dalworthington Gardens

Dean

DeLeon

Eastland

Edgecliff

Electra

Everman

Forest Hill

Forsan

Fort Worth

Gorman

Graham

Grandfalls

Grand Prairie

Haltom City

Haslet

Henrietta

Holliday

Hudson Oaks

Hurst

Iowa Park

Jolly

Kennedale

Lake Worth

Lakeside

Lakeside City

Lamesa

Loraine

Mansfield

Midland

Monahans

North Richland Hills

Odessa

O'Donnell

Pantego

Pleasant Valley

Pyote

Ranger

Richland Hills

River Oaks

Roscoe

Saginaw

Sansom Park

Seymour

Snyder

Stanton

Sweetwater

Thorntonville

Watauga

Westbrook

Westover Hills

Westworth

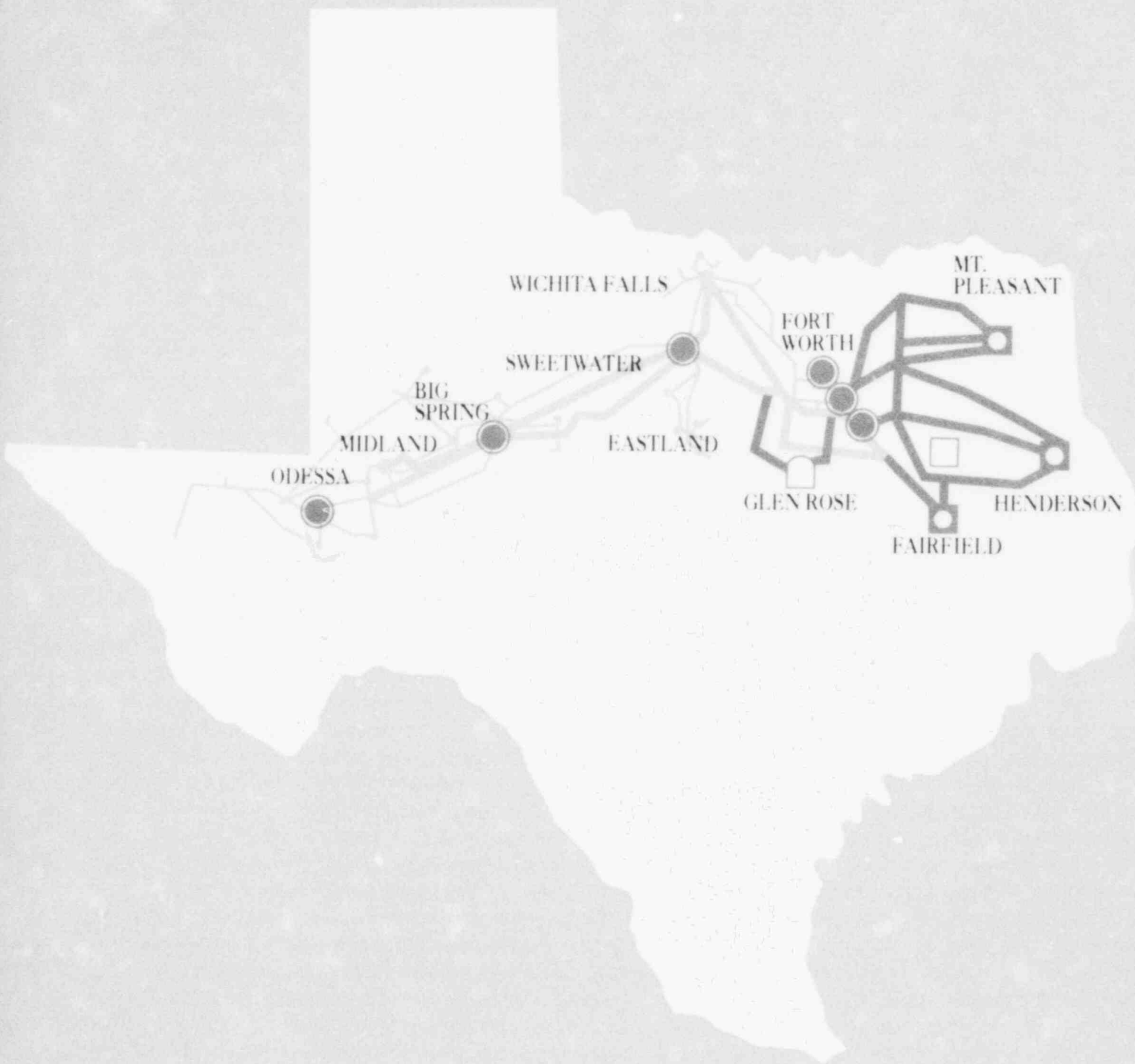
White Settlement

Wichita Falls

Wickett

Willow Park

Wink



TRANSMISSION LINES

- 345 KV
- - - Other High Voltage
- 345 KV of Interconnected Systems

GENERATING STATIONS

- Gas
- ◻ Lignite Under Construction
- ◻ Lignite
- ◻ Nuclear Under Construction