City Public Service

1993-94 Annual Report

Significant Facts for the Year

- Gross revenues increased $83,129,000 to $930,505,000
- City payments increased $11,367,000 to $124,882,000
- Debt requirements on the New Series Bonds decreased $12,086,000 to $217,048,000
- Cost to residential customer per KWH increased 5.7% to .... 7.00¢
- Cost to residential customer per MCF of gas increased 6.9% to $5.44
- Maximum electric system load increased 91,000KW to 2,908,000
- 9,040 electric customers were added to total 494,385
- KWH sales increased 3.6% to 12,725,377,388
- 1,744 gas customers were added to total 292,241
- MCF sales increased 3.7% to 26,307,734

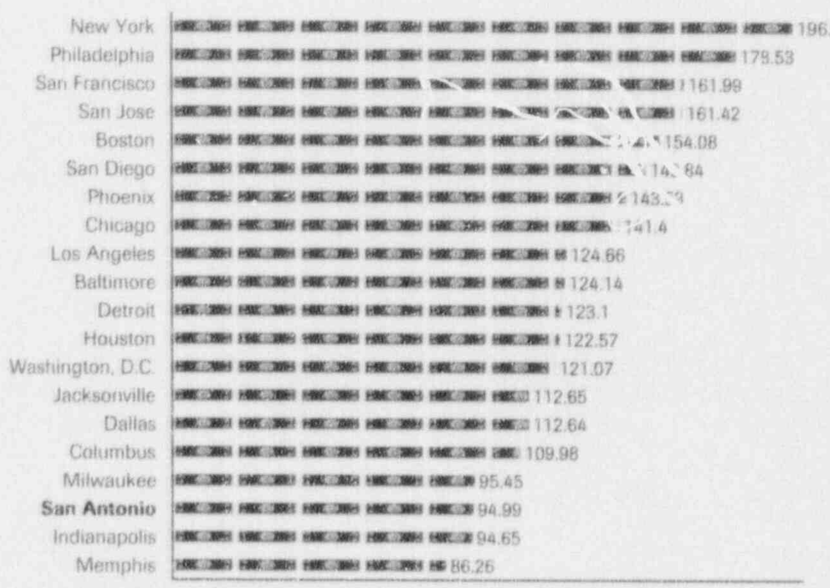
Summary of Application of Revenues

Gross revenue for 1993-94		$930,505,000
Application of revenue:		
Fuel, purchased power, and resale gas		$260,215,000
Other operating and general expenses		166,054,000
Maintenance of the systems		88,528,000
For debt requirements and other interest	$246,172,000	
Interest charged to construction	1,977,000	
Net debt requirements and other interest		244,195,000
Payments to the City of San Antonio		124,882,000
Balance from operations available for construction		46,631,000
Total		$930,505,000

Gross amount spent for replacement, improvements and expansion of gas and electric systems	$124,162,000
Funds obtained from:	
Operations	$46,631,000
Commercial Paper	53,811,000
Improvements and Contingencies Fund	16,641,000
Contributions and advances in aid of construction	7,079,000
Total	$124,162,000

Average Monthly Residential Gas & Electric Bills for the 20 Largest U.S. Cities

5 MCF/1,000 KWH
12 months ending January 1994



Profile of City Public Service

Purchased by the City of San Antonio in October 1942, City Public Service is one of the largest municipal utilities in the country, serving 494,385 electric customers throughout its 1,566 square mile service area. The gas system supplies approximately 292,241 customers in the San Antonio urban area.

CPS generates power for its customers at two coal-fired and five natural gas-fired plants with a combined capacity of 3,736 megawatts in the San Antonio area. The utility also owns 28 percent of the South Texas Project nuclear plant on the Texas coast, which adds another 700 megawatts of capacity. The gas system is comprised of 3,902 miles of gas lines through which natural gas is delivered to CPS customers.

The CPS goal is to produce reliable, low-cost energy to serve the San Antonio area, which has a population of 1.4 million and is the third largest metropolitan area in the state. 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.

City Public Service had 3,576 employees as of January 31, 1994.

The 1993-94 fiscal year was one of accomplishment and challenges for City Public Service—accomplishments because of two significant bond refinancings which will save ratepayers $160.2 million between now and fiscal year 2014 and challenges to provide reliable, low-cost energy to its customers. The refinancings restructure the utility's debt to take a major portion of the savings in the next three years, periods which previously had peak debt requirements. When coupled with savings from refunding issues since 1985, CPS has been able to achieve debt service savings of $408.8 million for its customers.

CPS proved the soundness of its planning and its operating capabilities, even in the face of major challenges such as the one which occurred this year with the South Texas Project. The decision made by CPS in the mid-1980s to further diversify the fuels used to generate electricity through addition to its coal-fired capacity put CPS in a good position to deal with the shutdown of the South Texas Project nuclear plant in early February 1993. Without nuclear generation for the year, CPS relied mainly on its coal-fired plants to serve its customers' electrical needs. And was able to do this without any major operational difficulties.

In addition to dealing with the operational ramifications of serving customers without benefit of the nuclear plant, CPS also continued to gather the information needed to pursue remedies available for past management of the nuclear plant by Houston Lighting & Power and to insure that the causes of these problems do not recur. CPS is hopeful that these efforts will be successful and that, with the recent reorganization of HL&P's nuclear staff in charge of operating STP, operation of the project will be more reliable in the ensuing years.

Despite a difficult year in dealing with the South Texas Project, CPS recorded many successes in serving customers and maintaining its financial stability during the 1993-94 fiscal year. Electric sales and revenue reached all-time highs while records also were set for 24-hour electric usage and hourly peak demand.

Electric rates continued to be low, despite the need to use more expensive natural gas to generate a greater-than-expected portion of customers' electrical requirements. Compared with residents of other major cities in the state, CPS customers consistently paid less for their gas and electricity than did customers of other utilities. CPS customers' bills also were the lowest among the 10 largest cities in the country.

CPS will continue to provide quality service at low rates in the future. Modern facilities and a conscientious work force assure that the San Antonio area will continue to benefit from reliable utility service and very competitive rates which help provide incentives for business growth and relocation to San Antonio.

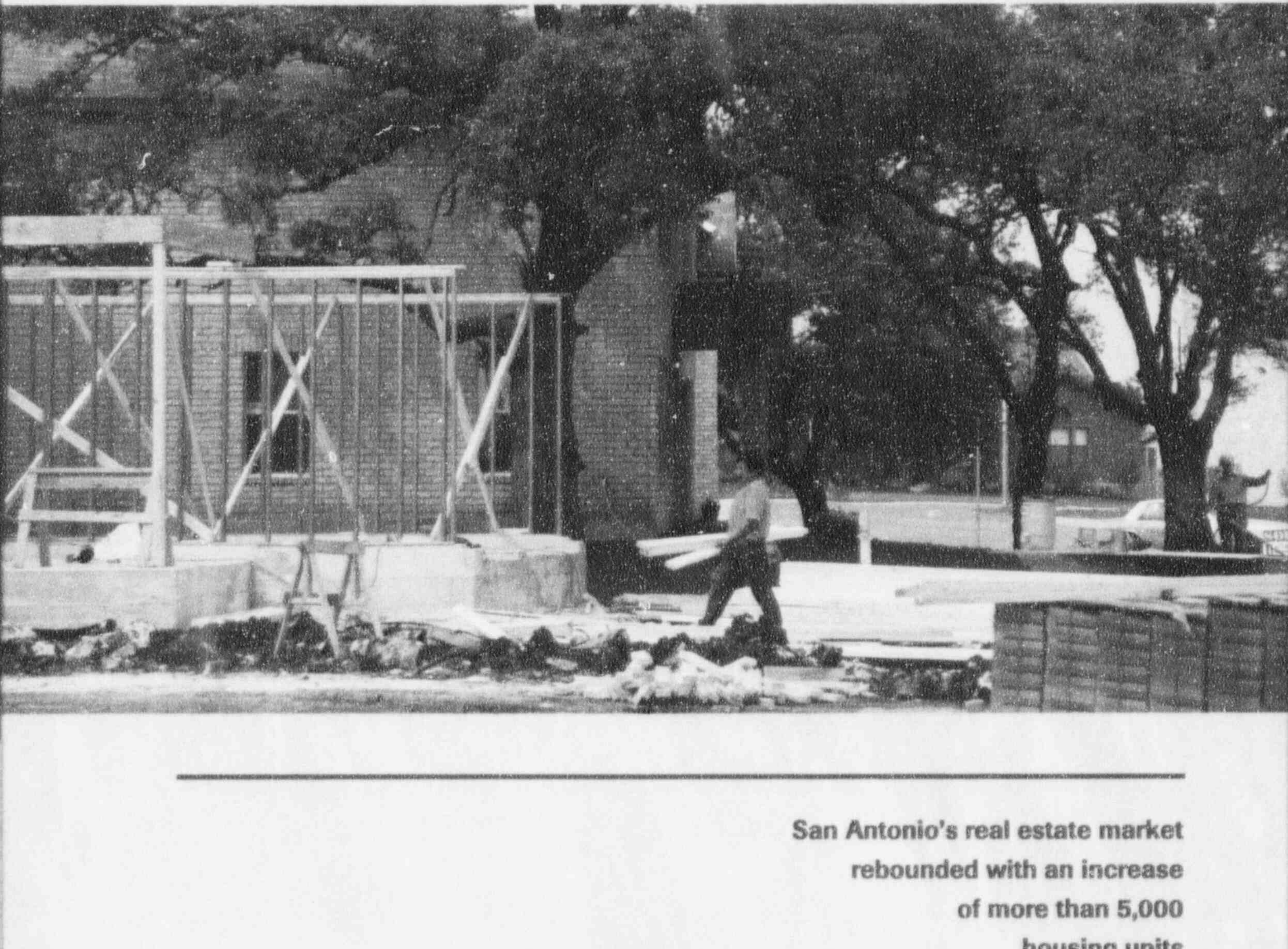
While the success of CPS can be attributed in part to business strategies over the years, the real secret is the CPS employees. With a fine organization in place, CPS looks forward to the opportunities which lie ahead to serve the San Antonio area. The utility is poised to continue providing utility service to the nation's tenth largest city as San Antonio maintains its positive economic pace.

Frank Bryant Jr.

Dr. Frank Bryant
CHAIRMAN

Arthur von Rosenberg

Arthur von Rosenberg
GENERAL MANAGER



San Antonio's real estate market rebounded with an increase of more than 5,000 housing units built during the year.

With the most modern environmental equipment, the utility's coal-fired plants produced 73 percent of CPS generation for the year.

City Public Service recorded a year of accomplishment in operations and financial stability during 1993-94. The utility continued to provide its customers with excellent service at rates which remain among the lowest in the state and nation when compared with other large cities. CPS also, through two refinancing transactions during the year, reduced its debt requirements by $161.2 million through 2014. This financial restructuring, combined with earlier refinancing will save more than $31 million annually during the next three years. As the utility looks ahead, its management and work force remain dedicated to finding new and more efficient ways to serve customers so CPS retains its leadership position in the industry.

Operations Benefit from Fuel Diversification

The City Public Service strategy of diversifying the fuels it uses to generate electricity paid big dividends during the 1993-94 fiscal year. With both units of the South Texas Project nuclear plant out of service except a few days at the beginning of the year, CPS relied on coal and natural gas to generate the electricity its customers required. Because of the availability of generation from these fuels, CPS was able to meet its customers' needs.

CPS has followed a philosophy of diversifying the fuels used to generate electricity since the 1970s when the utility and the country faced severe shortages of natural gas and the price of gas increased rapidly. In 1973 the CPS Board of Trustees authorized participation in a joint nuclear project and construction of two CPS-owned coal-fired generating units. The twin coal-fired J.T. Deely units began service in 1977 and 1978, and the coal-fired capacity was increased through addition of the J.K. Spruce Plant in 1992. The two nuclear units went into service in 1988 and 1989. The fuel diversification provided by these plants makes it possible for CPS to take advantage of changes in fuel prices to serve its customers at the most reasonable costs.

Both units of the South Texas Project nuclear plant 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 and supplements listing 16 operating and regulatory issues which were to be addressed before the plant could return to service. The Project Manager, Houston Lighting & Power, has been working during the year to address the issues and expects Unit 1 to return to service in the first quarter of 1994. Unit 2 is projected to restart 60 to 90 days later.

Work at the STP has included reducing the backlog of maintenance items and engineering support work, reducing the workload of operators to increase their effectiveness and hiring a new senior management team at the project to improve work direction. These actions are expected to provide long-term benefits for the plant through future efficiencies at the same time

the action meets NRC requirements to restart the plant.

With the STP out of service, the new J.K. Spruce coal-fired plant became even more important to the utility. In its first full year of operation, the Spruce Plant operated at 92 percent of capacity, producing 4,303,296 megawatt hours of electricity. The utility's three coal-fired units together produced 73 percent of CPS generation for the year, with the remaining 27 percent coming from natural gas.

CPS met the challenge of increased coal usage at a time when shipping was hampered by flooding in the Midwest. Because supplies were reduced through slow shipments, six additional trains were leased to supplement the nine CPS-owned trains which normally operate. By the end of the year, CPS had a little more than a one-month coal supply and continued to work toward increasing the stockpile. The three generating units together use approximately one-and-one-half train loads per day.

The shutdown of the STP also resulted in increased dependence on natural gas, a more expensive fuel for generating electricity. The result was that electric bills for CPS customers were 8 percent to 10 percent higher than if the preferred nuclear and coal-fueled generation mix had been available. Higher operating and maintenance costs associated with the nuclear unit repair work did not affect customers' bills.

Despite using more natural gas for generation, CPS customer bills remained among the lowest in the state and nation. The average CPS residential customer paid $94.99 for 1,000 kilowatt hours of electricity and 5,000 cubic feet of gas in fiscal 1993-94.

As the city grows, attention has turned to environmental and aesthetic awareness as evidenced by the passage of City of San Antonio ordinances on utility corridors, billboards and landscaping. Presently, 25 percent of the CPS electric system is underground and underground service continues to be the trend in subdivision planning. However, in an effort to aesthetically enhance the environment and respond to public concern, the CPS Board of Trustees created the CPS Overhead Conversion Fund to change some existing overhead facilities to underground. Although conversions are very costly, this fund did not require a rate increase.

Under the Conversion Fund program, beginning with the 1993-94 fiscal year, the CPS Board allocated one percent of the retail electric revenues, approximately $6.9 million based on 1992-93 electric revenues, to modify existing overhead facilities and for construction of new overhead transmission facilities. The City of San Antonio receives 75 percent of the allocation with the remainder for suburban cities and unincorporated areas. The municipalities are responsible for selecting projects to be converted, and moneys which are not used in any year can be carried over to the next fiscal year.

In addition to creating an overhead conversion fund, CPS staff is reviewing electric facility construction standards to afford greater consideration for aesthetics. Options being explored include establishing utility corridors and using concrete and steel poles, armless conductor supports and added landscaping around substations.

As part of a program to enhance the environment, CPS began a pilot project to install more aesthetically pleasing armless poles.

Through continuation of its long-standing financial strategies, CPS completed a successful year. The utility achieved record high electric sales and gross revenues and attained savings through debt reduction and cost containment efforts. The successes were accomplished in an environment made difficult by the increase in South Texas Project operating and maintenance costs which resulted from the year-long efforts to get the project back in service.

The nuclear plant shutdown at the beginning of the fiscal year resulted in STP expenses totaling $109.9 million for maintenance and operation, $34.6 million more than projected. The shutdown also caused an increase in the use of higher-cost natural gas to generate electricity with the added fuel costs passed on to customers. These costs, combined with an increase in sales, resulted in record high electric revenue of $782 million, up $73 million from the previous year.

The higher cost of gas for resale and a 3.7 percent increase in usage spurred more gas revenue for the 1993-94 fiscal year, totaling $125.5 million. Gas revenues were 11.4 percent or $12.9 million greater than last year.

In addition to its already low rates, the utility is assisting business through a new rate for its largest electric customers. The rate results in a 10 percent reduction in bills, an estimated $7.4 million in savings annually for customers who use at least 5,000 kilowatts a month. These include military bases; large hospitals; federal, state and local governmental facilities; visitor attractions such as Fiesta Texas and Sea World; and manufacturers such as Golden Aluminum.

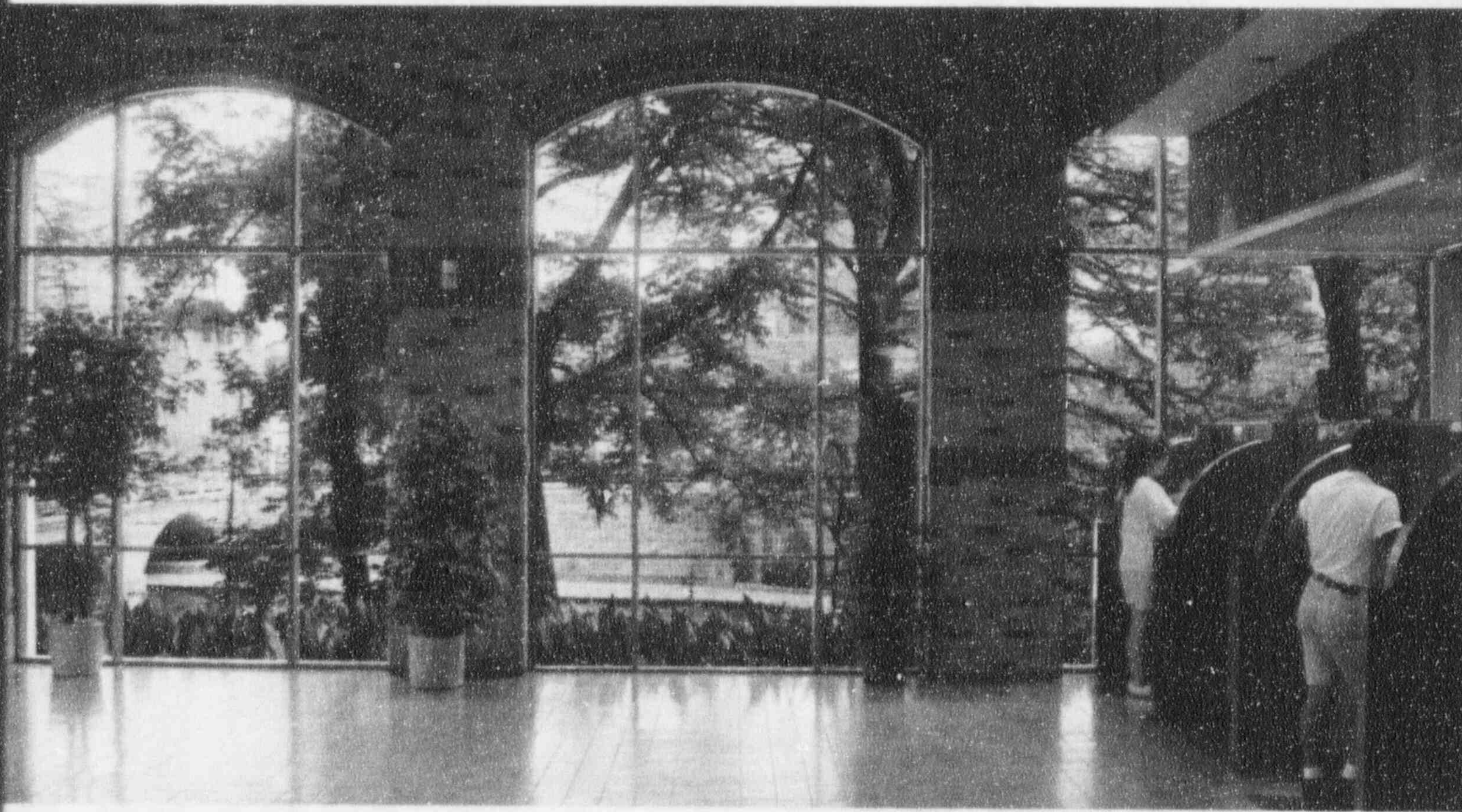
The utility also implemented residential, commercial and industrial interruptible rates to help postpone the need for new power plants. Commercial customers, who agree to interrupt at least 500 kilowatts of electricity, or industrial customers who agree to interrupt 1,000 kilowatts of electricity or more, have the option of being served on an interruptible basis to lower their costs. Modifications made to the Large Power Time of Use Rate are expected to save businesses $980,000. CPS also introduced an experimental Residential Time of Use Rate which offers savings for residential customers who can shift usage of electricity to off-peak hours. The decline in CPS revenues resulting from the lower rates should be offset by savings in interest costs, an aggressive cost-cutting program and anticipated business expansions and new businesses resulting from the favorable rates.

Conservative financial management strategies continued to help CPS obtain excellent bond ratings when issuing $777.7 million in refunding bonds in January. Fitch Investor Service Inc. and Moody Investor Service continued their AA+ and Aa1 ratings while Standard and Poor's Corporation maintained an AA rating. The new bonds, with an average interest rate of 5 percent, will save CPS $129.5 million during the next 20 years. The bond sale included $666.7 million to advance refund higher-interest CPS bonds issued between 1985 and 1992 at interest rates of 6 percent to 9.3 percent. The sale also converted $65 million in short-term commercial paper to long-term debt to take advantage of low interest rates.

In August 1993, CPS redeemed more than $232 million in outstanding bonds through the sale of lower-interest Tax Exempt Commercial Paper. The redemption is expected to achieve interest savings of about $30 million during the next nine years. The combined effect of these two actions will bring the interest rate on all CPS long-term debt to 5.76 percent.

CPS Interest Savings Through Refunding Issues

Series 1994	$129,519,528
TECP 1993	30,700,000
Series 1992	56,034,557
Series 1991	15,458,264
Series 1989	[illegible],884,045
Series 1987	72,109,551
Series 1986	36,751,320
Series 1985	9,380,258
Total	$408,797,505



Located on the beautiful River Walk, the Downtown Customer Service Center is one of four locations where the utility provides individual service to its half-million customers.

San Antonio: The Utility Serves a Growing Area

The economic outlook in Texas improved in 1993 with particular strength in certain regions of the state. One of the particularly bright spots, the San Antonio economy showed renewed vigor during the year with resulting growth in the use of natural gas and electricity. The city's real estate market rebounded with an increase of more than 5,000 housing units built during the year. This one percent growth in the housing inventory is surpassed, however, by the job growth rate of 2.9 percent achieved as a result of business expansion and business relocations. Office building occupancy citywide rose to 84 percent, up almost 5 percent from 1992. Apartment occupancy at the end of the year was 94.7 percent.

During the year, San Antonio welcomed Southwestern Bell, the 29th largest corporation in the country, which now has its corporate headquarters in downtown San Antonio. Integrated Cargo Management Systems likewise located its corporate headquarters in the Alamo City. World Savings and Loan is constructing a 900-employee national center for customer service, while Caremark International has established a claims operation. The Economic Development Foundation of San Antonio counts more than 1,600 additional jobs in the CPS service area due to the relocation of new businesses to San Antonio during the year. Since the EDF began operating in 1975, the organization has assisted 88 companies in relocating to San Antonio, bringing 28,000 jobs and more than $21 million annually in revenue for CPS.

Passage of the North American Free Trade Agreement at the national level is expected to have a positive effect on San Antonio's economy. Businesses wishing to expand into Mexico are expected to set up San Antonio operations to take advantage of the city's proximity and cultural ties to that country. City leaders are working to position San Antonio as a major focal point for conducting business in Mexico.

Emphasis on tourism continues as Fiesta Texas, Sea World, the Alamo and River Walk have been joined by the Hyatt Hill Country Resort, a new conference/resort destination which attracts professional conventions. The Alamodome, which opened in 1993, served as the host site for the U.S. Olympic Festival, Alamo Bowl and other sporting events and will provide additional space for large conventions.

San Antonio is a good location for expanding business as shown by the growth of West Telemarketing, the largest processor of inbound calls in the U.S. The company plans to expand its facilities and increase its work force of 2,700 to 3,500 during 1994.

CPS attention to local businesses also includes small business. To provide increased opportunity for small and minority businesses, CPS held six business opportunity seminars informing 400 companies on how to conduct business with the utility. The participation of more local businesses in the CPS purchasing process helps stimulate the San Antonio economy and creates competition to keep the utility's costs low.

As San Antonio's economy has prospered, CPS likewise has experienced growth. The hourly peak demand for electricity increased 3.2 percent from the previous year with a new all-time record of 2,908 megawatts set on July 30, 1993. The 1992 record was 2,817 megawatts. The previous 24-hour record likewise was broken with the new level reaching 54,298 megawatt hours, a 3.9 percent increase over the previous year's record.

The number of customers also has grown. CPS added 9,040 new electric customers during fiscal 1993-94, a 1.9 percent increase. New natural gas customers numbered 1,744.

CPS serves a growing area where an average population growth of 1.4 percent annually is forecast for the next 25 years. While residential electric usage is expected to grow more slowly in the future than it has in the past, usage is expected to be about 20 percent greater in 2015 than it is today.

CPS studies show the utility has

adequate capacity to serve customers with current generating facilities into the next century. To meet the anticipated customer growth beyond that time, CPS expects to begin construction of a 500 megawatt coal-fired unit later this decade with the unit to go on line in 2001. The plant probably will be constructed adjacent to the J.K. Spruce Plant at Calaveras Lake to take advantage of existing coal-handling facilities and water from the lake.

CPS Develops Its Employees and Facilities

CPS continues to develop its employees to assure the utility has an excellent work force, both for the present and the future. The utility also takes advantage of improved technology to increase efficiency.

Special programs provide training for employees. During the year, 2,171 employees attended 49 courses offered through the CPS training division. CPS employees also took advantage of the opportunity to att. . institutions of higher education. A total of 183 employees attended college courses in the evening and on weekends at CPS expense to pursue studies related to their jobs. Some college courses were taught at CPS facilities as an added convenience for employees to improve their education.

CPS continued to recruit high school students for the summer work program and college students for the co-op program. Both provide opportunities for students to get on-the-job training while allowing CPS to evaluate those who might be future employees. This emphasis on helping students in their academic years should assure that CPS can continue recruiting high quality personnel.

The utility maintains a strong relationship with its retired personnel through the CPS Retirees Association. During the year, membership grew to 475 members who serve as another strong link with the community.

CPS took advantage of new technology to improve operations and reduce costs through efficiency. The utility upgraded its personal computers, replacing older PCs with Intel 486s and Windows-based software. Employees were trained in use of the new programs and are expected to increase productivity because of the enhancements.

Productivity also is benefiting from a new voice mail system which allows employees to retrieve messages left while they are away or on the telephone. The voice mail system has been particularly helpful in slowing the growth in staff levels.

A new remittance processing system composed of three machines was installed to speed up the processing of customer payments. The new machines are approximately two-and-one-half times faster than the models they replaced.

CPS expects to save about $428,000 per year as a result of installing two load demand computers at the coal-fired J.T. Deely Plant. The computers coordinate boiler and turbine operations to improve the plant's efficiency.

The conversion of the gas distribution system maps to computer form so they can be readily updated was completed and is in use by employees at several locations throughout the city. Computerization of the electrical system facilities was 95.5 percent complete by year-end and likewise is expected to contribute to overall efficiency.

Employees Participate in Community Work

CPS and its employees showed their community spirit through a variety of programs during the year. Activities included not only participation in the employee volunteer program but also contributions to the United Way campaign and presentations to community groups about safety and conservation topics.

Employees spent more than 11,000 hours of their free time during 1993 assisting non-profit organizations and agencies through the Volunteers in Public Service. The program matches employee talents with needs for volunteer work in the community. A 12-member employee steering committee evaluates requests for assistance and then recruits employees to work on projects which are selected.

CPS employees again this year showed their community spirit through participation in the United Way campaign. Contributions of nearly $459,000 exceeded last year's by 4.5 percent and per capita giving increased by 5 percent. More than 1,600 employees are now signed up as Continuous Givers, who automatically donate their Fair Share each year.

CPS employees took the utility's messages about safety and conservation to the community through presentations to school groups, businesses and organizations. During the year, CPS personnel presented 488 safety programs to almost 80,000 persons. Information about the efficient use of gas and electricity was presented to more than 100,000 customers.

The conservation message also was presented to the community through a new 13-week series of television programs sponsored jointly by CPS and two major businesses. The 30-minute programs which aired locally on the CBS affiliate emphasized energy efficiency through low-cost home improvements. A second series is being planned in the next fiscal year to continue the emphasis on energy conservation.

Summary

Despite not having the benefit of generation from low-cost nuclear fuel and experiencing increased costs to return the South Texas Project to service, CPS passed the test with flying colors. The utility retained its favorable bond ratings and maintained low rates compared with other utilities around the nation and state. CPS performed well operationally and continued its strong financial performance.

Continued growth in San Antonio outpaces many other areas in the country and provides a positive environment for the utility's operation. With a fine organization in place and a tradition of excellence spanning more than 50 years, CPS looks ahead to future opportunities to serve the energy needs of a great city. The utility will continue to achieve its goal of providing safe, reliable, low-cost natural gas and electric service for the benefit of its customers.

Board of Trustees

CPS Management Staff

Arthur von Rosenberg
General Manager

Jamie E. Axtell
Assistant General Manager for
Planning and Development

Kenneth J. Fiedler
Assistant General Manager for
Operations

Howard Freeman
Assistant General Manager for
Finance

Joe O. Treviño
Assistant General Manager for
Transmission and
Distribution Engineering
and Construction

CPS Department Managers

Ralph E. Alonzo
Customer Services
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Construction
Steven Braimer
Administrative Services
Martin Clausewitz
Generation and
Environmental Planning
Anthony C. Edwards
Employee Relations
Lou Fleckenstein
Materials and Transportation
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Distribution Engineering
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Barbara K. Stover
Public Relations
Donald S. Thomas
Financial Services

Record gross revenue was recorded in fiscal year 1993-94, primarily due to the recovery of increased fuel costs. More expensive natural gas and coal were used to produce electricity while both units of the South Texas Project nuclear plant were shut down in early February 1993 because of problems with the auxiliary feed water pumps. Subsequently, the Nuclear Regulatory Commission cited various operating and regulatory issues which had to be resolved by the Project Manager, Houston Lighting & Power, prior to the restart of the plant. The NRC authorized the restart of STP Unit 1 in February 1994, with Unit 2 expected to go on-line 60 to 90 days after Unit 1 begins operating.

Sales

Electric sales set a record for the fiscal year, reaching 12.7 billion kilowatt hours. The 3.6 percent 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 26.3 million MCF, a 3.7 percent increase over last year. Gas sales have been affected the last four years by mild winter weather.

Revenue

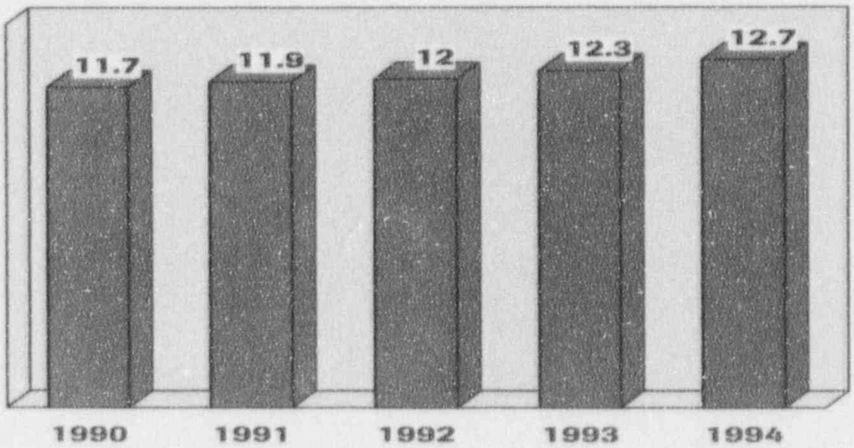
Gross revenue increased $83.1 million from the previous year, reaching $930.5 million. Operating revenue was up $86.3 million as a result of higher fuel cost recoveries of $54.7 million for the production of electricity and $12.2 million for resale gas recoveries. The remaining increase of $19.4 million was a result of increased sales. Non-operating revenue declined by $3.2 million because of lower interest earnings.

CPS earned about 86 percent of its operating revenue from electric sales and approximately 14 percent from gas sales. Non-operating revenue included interest on investments and miscellaneous income. The average revenue of 6.1 cents per KWH and $4.74 per MCF represents a slight increase over last year and is a result of higher fuel and resale gas costs.

Expenses

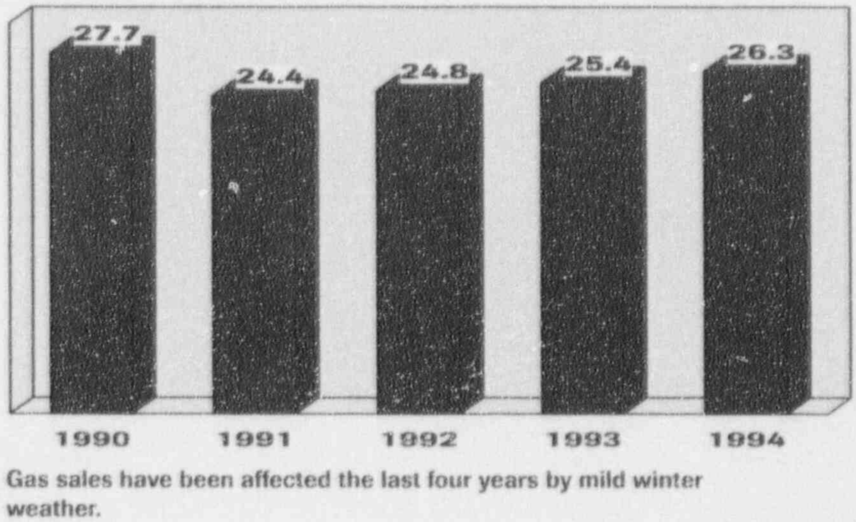
Operating and maintenance expenses for the fiscal year totaled $514.8 million, up $104.2 million

Electric Sales in Billion kWH Fiscal Years Ending January 31



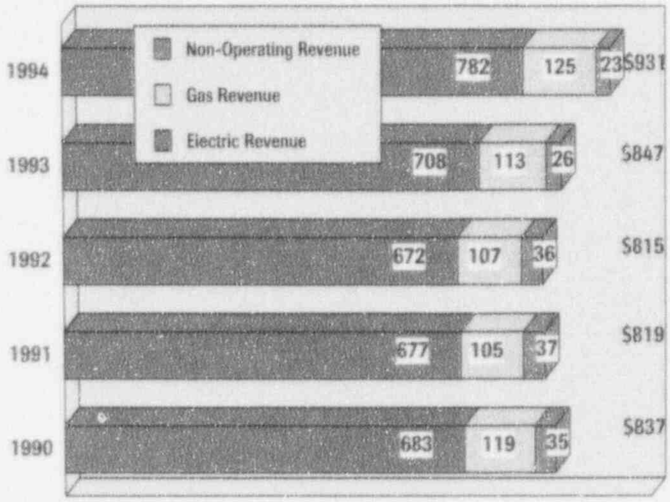
Electric sales set an all-time record at 12.7 billion kilowatt hours.

Gas Sales in Million MCF Fiscal Years Ending January 31



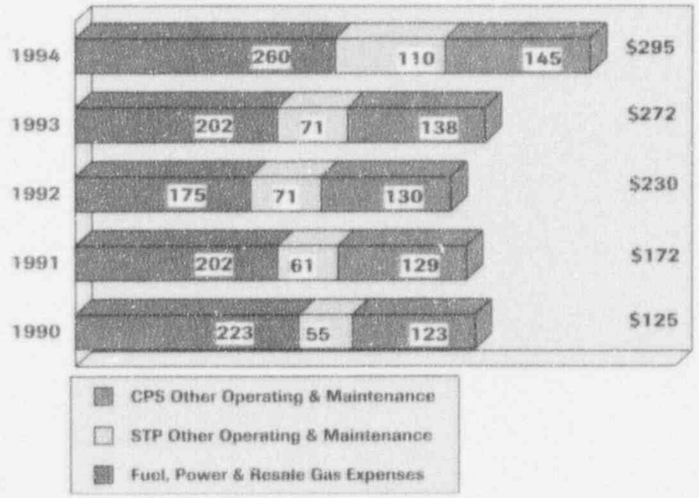
Gas sales have been affected the last four years by mild winter weather.

Gross Revenues
in Millions of Dollars Fiscal Years Ending January 31



Gross revenue increased 9.9 percent over the previous year.

Operating & Maintenance Expenses
In Millions of Dollars Fiscal Years Ending January 31



Fuel, power and resale gas accounted for more than half of the operating and maintenance expenses.

from the previous year. Higher fuel, power and resale gas expenses of $260.2 million increased more than $58.5 million over last year and accounted for more than 50.5 percent of the costs to operate and maintain the electric and gas systems.

Non-fuel operating and maintenance expenses were up $46 million, with STP operating, maintenance, and regulatory-required work accounting for $39 million of the higher costs. Non-fuel costs excluding STP increased by $7 million or 5 percent over last year.

Coal-fueled electric generation accounted for 72 percent of CPS generation for the year, contributing significantly to stable electric prices while STP was out of operation, while 28 percent of generation was from gas and oil.

Construction

The CPS strategy to pay for a major part of its construction program relied on revenue from current and prior years for more than 51 percent of the capital expenditures. Commercial paper financed almost 43 percent of construction costs, while almost 6 percent came from customer contributions.

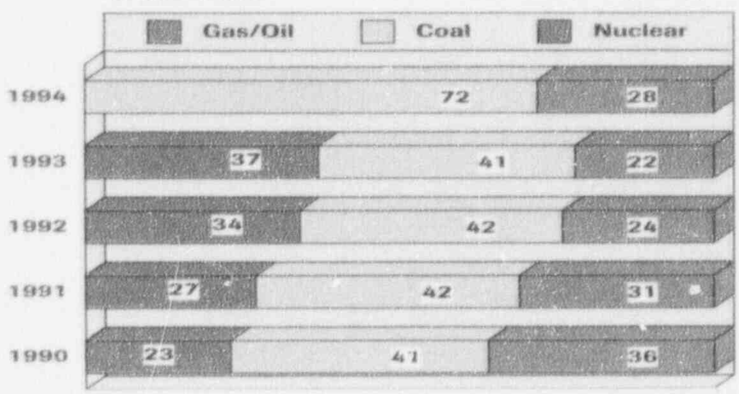
With no major generation projects planned, CPS expects to fund its lower capital needs during the next few years primarily from revenue and commercial paper. Long-term bonds will continue to be used periodically to convert outstanding commercial paper to long-term debt in periods when interest rates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

Financing Results

During the year, CPS sold $211 million in Tax Exempt Commercial Paper (TECP) which was used together with other funds to call $232 million of long-term bonds which had a higher rate of interest. The refunding issue will produce an estimated net savings of $30 million in interest through the year 2003.

In addition, at year-end, $777.7 million of refunding bonds had been sold at an average interest cost of 5.01 percent, but had not yet

Electric Generation by Fuel Type
In Million KWH Fiscal Years Ending January 31



For the first time since 1987, the utility relied entirely on coal and natural gas for electric generation.

been issued, to refund certain higher interest long-term debt and to fix the interest rate on $65 million of TECP. The interest savings on the refunding of the long-term debt will amount to $129.5 million between 1994 and 2014. The two transactions in 1993-94 continue the program which was begun in 1985, bringing the total interest savings to $409 million from 1986 through the year 2015. Annual interest savings of approximately $31 million will be achieved during each of the next three fiscal years.

CPS continues to maintain the highly favorable Aa1 bond rating by Moody's Investor Services and AA+ rating by Fitch Investor Service. This rating keeps CPS among a small group of public utilities that have bond ratings above AA.

The $298 million outstanding balance of commercial paper at year-end had a weighted average interest rate of 2.39 percent. Revenue bonds outstanding, net of current maturities, totaled $2.3 billion at year-end and had a very favorable 6.35 percent weighted average interest rate. After giving effect to the $777.7 transaction which remained to be finalized at year-end, the weighted average interest cost on CPS outstanding long-term debt will drop to 5.76 percent.

Subsequent Events

The South Texas Project Unit 1 began operating February 25, 1994, but was force to shut down March 1, because of a loss of feed water to one of four steam generators. Following repairs, the unit was restarted on March 22, and reached the 100 percent power level on April 8.

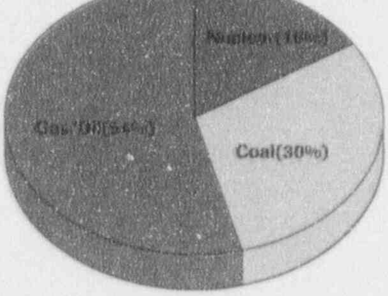
On February 23, 1994, the $777.7 million of New Series 1994 Revenue Refunding Bonds discussed under FINANCING RESULTS were delivered.

Summary

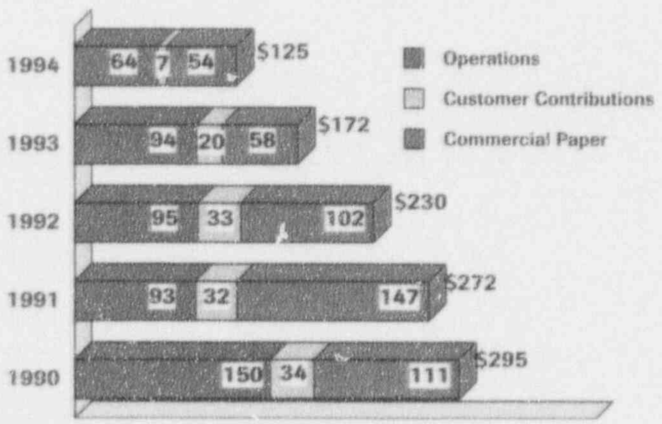
CPS assets total $4.6 billion and the utility is financially strong. Total assets declined slightly during the year primarily as a result of less construction and the increase in of depreciation for the new J. K. Spruce Plant. Last year, the Spruce Plant was depreciated for only three months. Assets could continue to decline, as little construction is projected in the near future.

The utility's operation has been judged by bond rating agencies to be in the top categories among municipal utilities throughout the country. CPS expects that its strong financial health will continue as it provides outstanding service at rates that are among the lowest in the state and nation.

1994 Electric Capacity by Fuel Type - Capacity in Million KW

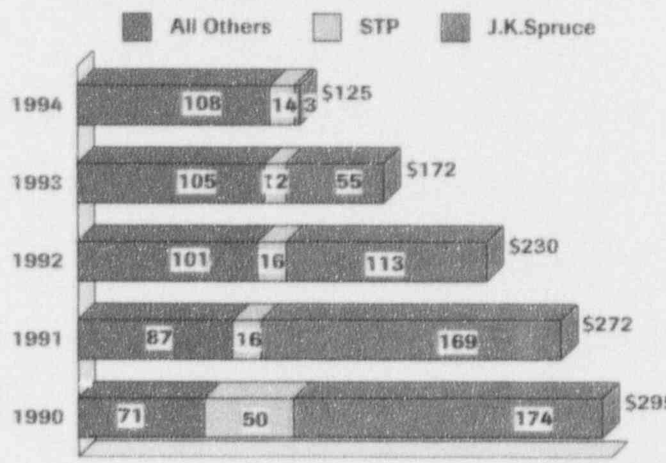


Funding of Capital Projects
In Millions of Dollars Fiscal Years Ending Janaury 31



More than half of the funding for capital projects came from revenue from current and prior years.

Capital Expenditures
In Millions of Dollars Fiscal Years Ending January 31



Capital projects declined 27 percent, primarily because the Spruce Plant was completed.

	Years Ended January 31, 1994	1993
	(In thousands)	
Assets		
UTILITY PLANT, at cost *(Notes 1, 3, and 9)*:		
Plant in service —		
Electric	**$ 4,271,014**	$ 4,197,904
Gas	**267,472**	252,947
General	**116,170**	109,806
Total plant in service	**4,654,656**	4,560,657
Less-accumulated depreciation	**1,042,183**	917,783
Plant in service, net	**3,612,473**	3,642,874
Construction work in progress	**125,619**	110,693
Nuclear fuel, less accumulated amortization of $74,345 in 1994 and $74,131 in 1993	**96,931**	88,497
Held for future use	**34,393**	34,129
Utility plant, net	**3,869,416**	3,876,193
RESTRICTED CASH AND INVESTMENTS *(Notes 1, 2, 3, and 4)*:		
Bond reserve —		
Old series	**17,052**	17,397
New series	**198,676**	212,265
Commercial paper redemption fund	**143**	0
Improvements and contingencies fund	**93,918**	111,770
Cash restricted for payment of construction retainage payable	**0**	21,628
Other	**36,952**	26,375
Total restricted cash and investments	**346,741**	389,435
CURRENT ASSETS:		
Cash and temporary investments *(Notes 1 and 2)*	**63,123**	48,806
Cash restricted for payment of construction retainage payable	**21,739**	0
Customer accounts receivable, less allowance for doubtful accounts of $2,853 in 1994 and $2,593 in 1993	**56,698**	62,908
Litigation settlements benefits receivable *(Note 10)*	**0**	9,601
Other receivables	**2,183**	2,768
Inventories and supplies, at average cost —		
Materials and supplies	**55,243**	54,004
Fuel stock	**21,167**	29,495
Prepayments and other	**6,368**	5,965
Total current assets	**226,521**	213,547
DEFERRED DEBITS AND OTHER *(Notes 1 and 6)*	**201,386**	206,508
TOTAL	**$ 4,644,064**	$ 4,685,683

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

Equity and Liabilities

	Years Ended January 31, 1994	1993
	(In thousands)	
LONG-TERM DEBT:		
Revenue bonds *(Notes 3 and 4)* —		
Old series	**$ 26,250**	$ 38,250
New series	**2,696,220**	2,978,500
Deductions —		
Unamortized discount on new series bonds	**(87,454)**	(93,256)
Unamortized discount on capital appreciation bonds	**(287,062)**	(301,591)
Revenue bonds, net	**2,347,954**	2,621,903
Commercial paper *(Note 5)*	**282,300**	30,000
Long-term debt, net	**2,630,254**	2,651,903
EQUITY:		
Appropriated retained earnings *(Note 3)* —		
Bond current requirements		
Old series	**607**	216
Bond reserve —		
Old series	**17,052**	17,398
New series	**146,218**	159,807
Commercial paper redemption requirements	**143**	0
Improvements and contingencies fund	**93,918**	111,770
Total appropriated retained earnings	**257,938**	289,191
Reinvested earnings	**1,480,732**	1,489,651
Total equity	**1,738,670**	1,778,842
CURRENT LIABILITIES:		
Current maturities of revenue bonds *(Note 4)*	**76,580**	86,455
Current portion of commercial paper redemption *(Note 5)*	**16,100**	0
Accounts payable and accrued liabilities	**77,294**	68,929
Litigation settlement benefits payable to customers *(Note 10)*	**8,814**	9,338
Construction retainage payable	**21,739**	0
Customer service deposits	**24,608**	23,509
Total liabilities	**225,135**	188,231
DEFERRED CREDITS AND OTHER:		
Customer advances for construction	**9,463**	7,203
Construction retainage payable	**0**	21,628
Other	**40,542**	29,076
Total deferred credits and other	**50,005**	57,907
LITIGATION SETTLEMENT BENEFITS PAYABLE *(Note 10)*	**0**	8,800
COMMITMENTS AND CONTINGENCIES *(Notes 3, 6, 7, 9, and 10)*	**0**	0
TOTAL	**$ 4,644,064**	$ 4,685,683

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

Statement of Revenues and Application of Revenues

	Years Ended January 31, 1994	1993
	(In thousands)	
REVENUE *(Note 1)*:		
Electric	**$ 781,661**	$ 708,257
Gas	**125,491**	112,611
Interest and other income	**23,353**	26,508
Gross revenue	**930,505**	847,376
EXPENSES *(Note 1)*:		
Fuel, purchased power and resale gas	**260,215**	201,699
Other operating and general	**166,054**	143,753
Maintenance	**88,528**	65,170
Depreciation	**136,957**	120,879
Interest and debt expense	**196,017**	201,265
Allowance for interest used during construction (Deduction)	**(1,977)**	(29,055)
Tax equivalent to City of San Antonio *(Note 8)*	**11,817**	11,244
Total Expenses	**857,611**	714,955
EXCESS OF REVENUES OVER EXPENSES	**72,894**	132,421
ADD:		
Depreciation	**136,957**	120,879
Amortization of capital appreciation bond discount	**14,529**	13,549
Amortization of bond discount and refunding debt costs	**20,672**	19,010
Bond call premium costs	**852**	0
Interest requirements on new series bonds	**150,588**	159,169
Interest requirements for commercial paper redemption	**2,686**	0
AVAILABLE FOR APPLICATION	**$ 399,178**	$ 445,028
APPLICATION:		
To pay long-term debt requirements *(Note 3)*		
Old series bonds —		
Principal payments	**13,112**	12,306
Bond reserve (Deduction)	**(346)**	(239)
To improvements and contingencies fund		
Minimum requirements (12 1/2 percent of gross revenue)	**116,313**	105,922
Additional cash payments to and services for the City of San Antonio *(Note 8)*	**113,065**	102,271
To improvements and contingencies fund		
Balance of available net revenue	**157,034**	224,768
TOTAL APPLICATION	**$ 399,178**	$ 445,028

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

Statement of Changes in Equity

	Years Ended January 31, 1994	1993
	(In thousands)	
BOND CURRENT REQUIREMENTS, old series bonds:		
Balance, beginning of year	**$ 216**	$ 0
Additions — Old series bond principal payments	**391**	216
Balance, end of year	**$ 607**	$ 216
BOND RESERVE, old series bonds:		
Balance, beginning of year	**$ 17,398**	$ 17,637
Deductions — Transfer of income	**(346)**	(239)
Balance, end of year	**$ 17,052**	$ 17,398
BOND RESERVE, new series bonds:		
Balance, beginning of year	**$ 159,807**	$ 154,239
Additions — Transfer from improvements and contingencies fund for debt service	**1,239**	5,568
Deductions — Transfer for bonds called	**(14,828)**	0
Balance, end of year	**$ 146,218**	$ 159,807
COMMERCIAL PAPER REDEMPTION FUND:		
Balance, beginning of year	**$ 0**	$ 0
Additions — Transfer from improvements and contingencies fund for debt service	**8,429**	0
Deductions — Transfer to improvements and contingencies fund for redemption and interest	**(8,286)**	0
Balance, end of year	**$ 143**	$ 0
IMPROVEMENTS AND CONTINGENCIES FUND:		
Balance, beginning of year	**$ 111,770**	$ 109,645
Additions —		
From application of revenue —		
Minimum requirement (12 1/2 percent of gross revenue)	**116,313**	105,922
Balance of available net revenue	**157,034**	224,768
Total	**$ 273,347**	$ 330,690
Deductions —		
New series bonds —		
Additions to reserve	**(1,239)**	(5,568)
Payment of bond interest	**(150,588)**	(159,169)
Payment of bond principal	**(66,460)**	(69,965)
Commercial Paper —		
Payment of commercial paper redemption interest	**(2,686)**	0
Payment of commercial paper redeemed	**(5,600)**	0
Additions to commercial paper redemption fund	**(143)**	0
Construction expenditures	**(64,483)**	(93,863)
Total	**(291,199)**	(328,565)
Balance, end of year	**$ 93,918**	$ 111,770
REINVESTED EARNINGS:		
Balance, beginning of year	**$ 1,489,651**	$ 1,467,171
Additions —		
From improvements and contingencies fund —		
For construction	**64,483**	93,863
For new series bonds principal payments	**66,460**	69,965
For commercial paper principal payments	**5,600**	0
From application of earnings —		
For old series bonds principal payments	**12,720**	12,090
From new series reserve fund used to call bonds	**14,828**	0
Total	**$ 164,091**	$ 175,918
Deductions —		
Depreciation	**(136,957)**	(120,879)
Amortization of capital appreciation bond discount	**(14,529)**	(13,549)
Amortization of bond discount and refunding debt costs	**(21,524)**	(19,010)
Total	**$ (173,010)**	$ (153,438)
Balance, end of year	**$ 1,480,732**	$ 1,489,651

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

Statement of Cash Flows

	Years Ended January 31, 1994	Years Ended January 31, 1993
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	**$ 72,894**	$ 132,421
Nonrevenue related items		
Bond call premium costs	**852**	0
Noncash items included —		
Allowance for interest used during construction	**(1,977)**	(29,055)
Depreciation expense	**136,957**	120,879
Amortization expense —		
Refunding costs and issue expenses	**14,870**	14,043
Discount on new series bonds	**5,802**	4,967
Amortization of capital appreciation bond discount	**14,529**	13,549
Additional cash payments to and services for the City of San Antonio	**(113,065)**	(102,271)
Changes in current assets and current liabilities *(Note 1)*	**44,684**	(4,821)
Proceeds from freight litigation settlement	**[illegible],601**	9,231
Refund of freight litigation settlement benefits payable to customers	**(9,324)**	(9,779)
(Increase) decrease in other assets	**(9,012)**	5,631
Increase (decrease) in other liabilities	**(20,185)**	312
Net cash provided by operating activities	**146,626**	155,107
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to utility plant	**(124,591)**	(142,783)
Contributions in aid and customer advances for construction	**7,082**	5,608
Proceeds from STP litigation settlement	**0**	15,000
Sale of refunding bonds	**0**	664,600
Sale of commercial paper	**274,000**	68,000
Defeasance or call of bonds	**(232,250)**	(422,215)
Commercial paper redeemed	**(5,600)**	(198,000)
Bond issue expenses	**0**	(723)
Excess of reacquisition amounts over principal of bonds refunded in advance	**0**	(44,434)
Principal payments on revenue bonds	**(71,905)**	(82,055)
Net cash used for capital and related financing activities	**(153,264)**	(137,002)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**$ (6,638)**	$ 18,105
CASH, CURRENT RESTRICTED CASH, AND TEMPORARY INVESTMENTS:		
Beginning of year	**$ 48,806**	$ 49,854
End of year	**84,862**	48,806
Net increase (decrease)	**36,056**	(1,048)
RESTRICTED CASH AND INVESTMENTS:		
Beginning of year	**389,435**	370,282
End of year	**346,741**	389,435
Net increase (decrease)	**(42,694)**	19,153
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**$ (6,638)**	$ 18,105

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

1. Significant Accounting Policies

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

BASIS OF ACCOUNTING – The financial statements of CPS are presented in accordance with generally accepted accounting principles for rate-regulated enterprises. The accounting records of CPS follow the Uniform System of Accounts for Gas and Electric Utilities issued by the National Association of Regulatory Utility Commissioners. Certain prior period amounts have been reclassified for comparative purposes.

FISCAL YEAR – The fiscal year ended January 31, 1994 is referred to herein as 1994; the year ended January 31, 1993, as 1993.

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

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is included in fuel expense, in the amount of $.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 $250,000. Retirements of utility plant, together with removal cost less salvage, are charged to accumulated depreciation. The maintenance of property, as well as replacements and renewals of items determined to be less than a unit of property, are charged to maintenance expense. General utility plant assets consist of land, buildings, and equipment for general and administrative purposes that are used commonly in electric and gas operations.

CPS computes depreciation using the straight-line method over the estimated service lives of the various classes of depreciable property as determined by periodic engineering studies. Depreciation as a percentage of average depreciable plant was 2.97 percent in 1994 and 2.86 percent in 1993.

RESTRICTED CASH AND INVESTMENTS – 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 of tax-exempt commercial paper proceeds.

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. Also included are assets of an employee deferred compensation plan held by a trustee.

STATEMENT OF CASH FLOWS – For purposes of reporting cash flows, CPS considers all highly liquid debt instruments purchased with a maturity of approximately three months or less to be short-term investments. Accordingly, CPS' temporary investments and restricted cash and investments are cash equivalents. No material noncash investing or financing transactions occurred during 1994 and 1993.

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 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:

	1994	1993
	(In thousands)	
Customer accounts receivable	$ 6,210	$ (9,951)
Other receivables, net of current maturities of litigation settlements benefits receivable	585	691
Inventories and supplies	7,089	(7,001)
Prepayments and other	(403)	1,609
Accounts payable and accrued liabilities	8,365	9,467
Construction retainage payable	21,739	–
Customer service deposits	1,099	364
Changes in current assets and current liabilities	$44,684	$ (4,821)

Cash interest paid by CPS, net of AIUDC was $163,913 and $141,565 in 1994 and 1993, respectively.

2. Cash and Temporary Investments

CPS cash deposits at January 31, 199⁴ and 1993 were entirely collateralized by banks for the account of CPS. Deposits are collateralized by securities held by a third party in CPS' name.

At January 31, 1994 and 1993, CPS' investments, both restricted and unrestricted, were all in U.S. Treasury securities and were held by a third party in CPS' name. CPS' investments are generally limited to U.S. government or U.S. government guaranteed obligations. Investments were $416.9 million with a market value of $421.9 million at January 31, 1994.

3. Revenue Bond Indenture Requirements

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

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

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

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

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

As of January 31, 1994, 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, 1994	January 31 1994	1993
			(In thousands)	
Old Series,				
1974	1995 – 1997	7.000%	$ 38,250	$ 50,970
New Series Serial Bonds,				
1977 - 1992	1995 – 2017	6.349 *	2,258,235	2,549,670
Unamortized New Series				
Bonds issue discount			(87,454)	(93,256)
New Series Capital Appreciation Bonds,				
1989 and 1991	2002 – 2012		502,565	502,565
Unamortized Capital Appreciation				
Bond discount			(287,062)	(301,591)
		6.350	2,424,534	2,708,358
Less current maturities of bonds			76,580	86,455
Revenue bonds, net				
of current maturities			$ 2,347,954	$ 2,621,903

* All new series bonds, including capital appreciation bonds.

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

Year	Principal Due: Old Series Bonds	New Series Bonds	Total
1995	$ 12,000	$ 64,580	$ 76,580
1996	12,750	69,060	81,810
1997	13,500	73,535	87,035
1998	–	83,460	83,460
1999	–	84,210	84,210

In prior years, CPS refunded certain previously issued and outstanding New Series Bonds through the issuance of New Series Revenue Refunding Bonds. The refunded bonds and related trust accounts are not included in CPS financial statements. At January 31, 1994, portions of the bonds which have been defeased 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	202,555,000

Subsequent to January 31, 1994, CPS issued $777.7 million of New Series 1994 Revenue Refunding Bonds at an average interest cost of 5.01 percent, with delivery on February 23, 1994. These bonds were issued to redeem $666.7 in certain outstanding New Series Bonds and $65 million in Tax Exempt Commercial Paper (TECP). This will result in interest savings, fixed long-term bond rates, and restoration of a portion of CPS' borrowing capacity under the Commercial Paper Program.

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 TECP to assist in the financing of eligible projects, including fuel acquisition and capital improvements to the utility systems (the Systems). The ordinance was amended effective April 26, 1993 to allow the additional use of TECP to refinance or refund any outstanding obligations which are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The ordinance was also amended to allow CPS to enter into enhancement financing agreements. The program's scheduled maximum maturities will not extend beyond November 1, 2028. As of January 31, 1994, $298.4 million in principal amount was outstanding, with a weighted-average interest rate of approximately 2.39 percent and an average life outstanding of approximately 78 days. The amount of outstanding TECP at January 31, 1993 was $30 million. During 1994, CPS issued $211 million of TECP to call long-term bonds and $63 million to fund construction costs. Under a planned payback, $5.6 million of the $211 million was redeemed during 1994. Planned redemption in 1995 amounts to $16.1 million.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $300 million for the purpose of paying amounts due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 1995, and may be renewed for additional periods. There have been no borrowings under the credit agreement as of January 31, 1994. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinated and inferior to the pledge securing payment of the Old Series Bonds, the New Series Bonds and any New Series Bonds to be issued in the future.

6. Benefit Plans

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

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

	1994	1993
	(In thousands)	
Employee contributions	$ 5,497	$ 5,370
CPS contributions	16,160	15,155
Total contributions	$ 21,657	$ 20,525
Covered payroll	$ 113,139	$ 110,496
Total payroll	$ 119,122	$ 114,947

CPS contributions have amounted to 14 percent of covered payroll in 1994 and 1993, and 13 percent in 1992. Of the amounts contributed during years 1994, 1993, and 1992, approximately $12.9 million, $12.8 million, and $11.7 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 Governmental 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 February 1, 1993, the Plan was amended to change the reduction in early retirement benefits prior to age 55 from 4 percent per year to 6 percent. The effect of this change was a decrease to the total pension benefit obligation of approximately $1.7 million and a decrease in plan contributions of $240,000 for fiscal year 1994. The actuarial valuation and the actuarially determined contribution requirement as of December 31, 1993 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, 1993 and 1992:

	1993	1992
For retirees, beneficiaries and inactive participants	$ 137,598	$ 122,620
For active participants:		
Employer and employee-financed vested benefits	203,542	197,427
Employer-financed nonvested benefits	53,585	43,220
Total pension benefit obligation	394,725	363,267
Net assets available for plan benefits (at fair market value)	357,591	322,031
Unfunded pension benefit obligation	$ 37,134	$ 41,236

Net assets available for plan benefits were 91 percent of total pension benefit obligation in 1993, as compared with 89 percent in 1992, and 84 percent in 1991. Unfunded pension benefit obligation was equal to 33 percent of annual covered payroll in 1993, as compared with 37 percent in 1992 and 49 percent in 1991.

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 $269,203,000 at December 31, 1992. At that time, net assets available for plan benefits were $322,031,000 at fair market value. As of December 31, 1993, the actuarial present value of accumulated plan benefits was $313,021,000. This value compares to the net asset value of $357,591,000 as reported above.

Employees who retired prior to 1983 are receiving annuity payments from an insurance carrier as well as receiving some benefits directly from CPS. CPS costs for 1994 and 1993 were $586,000 and $625,000, respectively, and were recorded when paid.

Deferred Compensation Plan

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

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of CPS (without being restricted to the provisions of benefits under the plan), subject only to the claims of CPS' general creditors. Participants' rights under the of plan are equal to those of general creditors of CPS in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of management that CPS has no liability for losses under the plan and that it is unlikely CPS will use the assets to satisfy the claims of general creditors in the future.

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 $1,788,000 and $1,590,000 for 1994 and 1993, respectively. In addition, beginning February 1, 1993, CPS reimbursed $36.60 per month for Medicare supplement for certain retirees and their spouses enrolled in Medicare Part B. Effective January 1, 1994, this amount increased to $41.10.

Retired employees and covered dependents contributed $654,000 and $573,000 for their health care and life insurance benefits in 1994 and 1993, respectively. In 1994, there were approximately 1,535 retirees and covered dependents eligible for health care and life insurance benefits, as compared to approximately 1,456 in 1993.

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 for current retirees. The amounts are currently estimated to be $61 million for health and $12.5 million for life insurance benefits. The preliminary actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $42 million for health, $66,000 for life insurance and $1 million for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $5 million in both 1994 and 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 1994 and 1993, based on allowable revenue, were as follows:

	1994	1993
	(In thousands)	
Tax equivalent	$ 11,817	$ 11,244
Refund gas and electric services	16,464	16,387
Additional cash payments	96,601	85,884
Additional cash payments to and services for the City of San Antonio	113,065	102,271
Total payments to the City	$124,882	$113,515

For the year ended January 31, 1994, CPS elected to report payments to the City of San Antonio as an application of revenues rather than as expenses, except for the portion of the payments that is for tax equivalents. Related amounts for 1993 have been reclassified to be comparable. This reclassification provides excess of revenues over expenses, which better presents results of operations and applications of revenues required by the bond covenants and follows GASB reporting requirements.

9. South Texas Project (STP)

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are the project manager, Houston Lighting & Power Company (HL&P), Central Power and Light Company (CPL), and the City of Austin (Austin). 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 represents 700 megawatts of plant capacity. The plant was idle for virtually all of fiscal 1994 pending resolution of issues raised by the NRC. At January 31, 1994, CPS' investment in the STP utility plant was approximately $1.9 billion, net of accumulated depreciation.

LITIGATION – The participants in STP have made claims against HL&P regarding the performance of its obligations as Project Manager during construction of STP – Austin by suit filed in 1982, and CPL and CPS by call for arbitration made in 1988 in response to HL&P's suit for contribution for any damages owed Austin. The Austin trial in 1989 resulted in a jury verdict in favor of HL&P which has been upheld on appeal. Pursuant to a 1992 settlement between CPL and HL&P, CPL withdrew its demand for arbitration and HL&P reimbursed CPL for certain costs and expenses incurred in pursuing the arbitration and litigation. Also HL&P and CPL have agreed to support and to seek consent of the other owners of STP to certain amendments of the Participation Agreement, including changes in the management of the Project through which HL&P would be replaced as Project Manager by an independent entity. Although the settlement does not directly affect CPS' pending demand for arbitration of issues similar to those raised by CPL, HL&P and CPL have agreed that the arbitrator named by CPL for that proceeding will be replaced by one mutually acceptable to HL&P and CPL. These and/or additional proceedings are expected to include issues relating to the liability of HL&P for the failure of STP to operate during most of fiscal 1994. 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.

NUCLEAR INSURANCE – The Price-Anderson Act, a comprehensive statutory arrangement providing limita-tions 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 $9.4 billion per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $79.3 million, which may be adjusted for inflation, for each licensed reactor, but not more than $10 million per reactor for each nuclear incident in any one year. CPS and each of the other participants of STP are subject to such assessments. CPS and the other participants have agreed that any such assessments will be borne on the basis of their respective ownership interests in STP. CPS' ownership interest in STP is 28 percent. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

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

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

The participants of STP currently maintain on-site property damage insurance in the amount of $2.7 billion, which was the maximum amount of such insurance available at December 31, 1993. The $2.7 billion of nuclear property insurance is composed of a $1.3 billion primary layer of insurance and a layer of excess insurance that would contribute $1.4 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 $50 million of primary layer insurance coverage became available on January 1, 1994. The participants of STP increased the primary insurance coverage to the $1.35 billion maximum available on the policy renewal date of March 1, 1994. In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated 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, 1993. CPS would be liable for its ownership interest share of 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, 1994, CPS has accumulated approximately $27.0 million of decommissioning funds in the external trust. Decommissioning expenses were approximately $5.1 million for each of the fiscal years 1994 and 1993.

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 received an additional final payment totaling $9.6 million during fiscal 1994 from the railroad settlement that is expected to be returned to customers as payments are received. The final amount due in 1994 was recorded as litigation settlements benefits receivable as of January 31, 1993.

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

Purchase and construction commitments amounted to approximately $690 million at January 31, 1994. This amount includes approximately $419 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 and the price of gas. Also included is $33 million for coal purchases, $175 million for coal transportation and $20 million for treated cooling water based upon the minimum firm commitment under these contracts.

11. Segment Information

	1994			1993		
	Electric	Gas	Total	Electric	Gas	Total
	(In thousands)			*(In thousands)*		
REVENUE	$ 781,661	$ 125,491	$ 907,152	$ 708,257	$ 112,611	$ 820,868
EXPENSES:						
Operating and maintenance expenses	426,190	88,607	514,797	332,608	78,014	410,622
Depreciation	128,446	8,511	136,957	112,689	8,190	120,879
Total expenses	554,636	97,118	651,754	445,297	86,204	531,501
OPERATING INCOME	$ 227,025	$ 28,373	255,398	$ 262,960	$ 26,407	289,367
Interest and other income			23,353			26,508
Net interest and debt expense and tax equivalent to the City of San Antonio			(205,857)			(183,454)
EXCESS OF REVENUES OVER EXPENSES			$ 72,894			$ 132,421
CAPITAL EXPENDITURES	$ 101,547	$ 22,615	$ 124,162	$ 152,537	$ 19,415	$ 171,952
Identifiable assets	$ 3,777,914	$ 233,250	$4,011,164	$ 3,811,277	$ 223,692	$4,034,969
General assets			632,900			650,714
TOTAL ASSETS			$4,644,064			$4,685,683

ERNST & YOUNG

GARZA, PREIS, GARCIA & CO.

Board of Trustees
City Public Service

We have audited the accompanying balance sheet of City Public Service as of January 31, 1994, and the related statements of revenues and application of revenues, changes in equity, and cash flows for the year 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 audit. The financial statements of City Public Service for the year ended January 31, 1993 were audited by other auditors whose report dated March 12, 1993 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst + Young

Garza, Preis, Garcia + Co.

San Antonio, Texas
March 14, 1994

Five Year Financial Review

Years Ended January 31,
(In thousands)

(Unaudited)	1994	1993	1992	1991	1990
REVENUE AND APPLICATION					
Revenues:					
Electric Sales	**$ 781,661**	$ 708,257	$ 672,434	$ 677,062	$ 683,106
Gas Sales	**125,491**	112,611	106,927	104,360	118,607
Interest and other income	**23,353**	26,508	36,023	37,088	34,773
Total revenues	**$ 930,505**	$ 847,376	$ 815,384	$ 818,510	$ 836,486
Revenues applied:					
Cost of operating systems:					
Fuel, purchased power and resale gas	**$ 260,215**	$ 201,699	$ 174,758	$ 201,803	$ 223,008
Other operating and general expenses	**166,054**	143,753	136,975	127,081	117,423
Maintenance	**88,528**	65,170	63,860	63,200	60,508
Total	**$ 514,797**	$ 410,622	$ 375,593	$ 392,084	$ 400,939
Operating fund	**$ 0**	$ 0	$ 0	$ 0	$ 0
Debt requirements for Old Series Bonds:					
Interest expense	**$ 3,390**	$ 4,067	$ 4,720	$ 5,337	$ 5,938
Principal requirements	**13,112**	12,306	11,500	10,945	10,375
Reserve requirements	**(346)**	(239)	83	154	121
Debt expense	**6**	7	9	10	11
Total	**$ 16,162**	$ 16,141	$ 16,312	$ 16,446	$ 16,445
Payments and services to City:					
Tax equivalent to City of San Antonio	**$ 11,817**	$ 11,244	$ 11,722	$ 11,353	$ 11,050
Refunds for services	**16,464**	16,387	17,110	17,378	17,059
Additional payment	**96,601**	85,884	80,185	80,922	84,236
Total	**$ 124,882**	$ 113,515	$ 109,017	$ 109,653	$ 112,345
Debt requirements for New Series Bonds/Other:					
Interest expense	**$ 150,588**	$ 159,169	$ 160,959	$ 165,787	$ 168,675
Principal requirements	**66,460**	69,965	62,520	53,625	42,995
Reserve requirements	**1,239**	5,568	13,886	1,588	10,304
Debt expense	**42**	69	81	(95)	110
Other interest	**3,252**	5,394	9,158	10,883	7,310
Commercial paper redemption requirements	**8,429**	0	0	0	0
Total	**$ 230,010**	$ 240,165	$ 246,604	$ 231,788	$ 229,394
Allowance for interest used during construction	**$ (1,977)**	$ (29,055)	$ (31,418)	$ (22,093)	$ (24,780)
Additions to plant:					
Total expenditures for year	**$ 124,162**	$ 171,952	$ 229,831	$ 272,468	$ 295,139
Less construction funds provided by sources other than revenues	**59,679**	78,089	134,497	179,003	145,365
Revenues used for additions to plant	**$ 64,483**	$ 93,863	$ 95,334	$ 93,465	$ 149,774
Additions to Improvements and Contingencies fund	**(17,852)**	2,125	3,942	(2,833)	(47,631)
Total	**$ 46,631**	$ 95,988	$ 99,276	$ 90,632	$ 102,143
Total revenues applied	**$ 930,505**	$ 847,376	$ 815,384	$ 818,510	$ 836,486
BALANCE SHEET DATA					
Utility plant at cost*	**$ 4,911,599**	$ 4,793,976	$ 4,641,841	$ 4,444,335	$ 4,194,614
Annual construction additions	**124,162**	171,952	229,831	272,468	295,139
Accumulated depreciation	**1,042,183**	917,783	806,770	704,212	608,257
Annual depreciation allowance	**136,957**	120,879	114,332	111,158	102,498
Principal and interest coverage	**1.72x**	1.78x	1.83x	1.81x	1.91x

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

Five Year Operations Review

Years Ended January 31,
(In thousands)

(Unaudited)	1994	1993	1992	1991	1990
OPERATING REVENUES					
Electric:					
Residential	$ **350,583**	$ 320,067	$ 306,709	$ 305,974	$ 311,104
Commercial and industrial	**315,156**	284,289	267,241	268,098	268,738
Street lighting	**10,468**	9,845	9,367	9,207	9,015
Public Authorities	**86,370**	78,061	75,392	78,100	79,538
Other utilities	**13,569**	10,805	8,548	10,426	9,133
Miscellaneous	**5,516**	5,190	5,177	5,257	5,578
Total electric	$ **781,662**	$ 708,257	$ 672,434	$ 677,062	$ 683,106
Gas:					
Residential	$ **75,708**	$ 68,208	$ 65,768	$ 63,779	$ 73,330
Commercial and industrial	**41,944**	37,332	34,110	33,614	37,112
Public Authorities	**6,905**	6,283	6,225	6,230	7,367
Miscellaneous	**934**	788	824	737	798
Total gas	$ **125,491**	$ 112,611	$ 106,927	$ 104,360	$ 118,607
SALES (000 OMITTED)					
Electric — KWH:					
Residential	**5,005,292**	4,831,794	4,793,631	4,711,423	4,732,736
Commercial and industrial	**5,604,418**	5,420,383	5,281,292	5,157,802	5,001,737
Street lighting	**90,619**	87,567	86,661	85,058	82,791
Public Authorities	**1,668,884**	1,619,005	1,623,979	1,650,207	1,646,668
Other utilities	**356,164**	328,547	225,942	296,500	238,741
Total	**12,725,377**	12,287,296	12,011,505	11,900,990	11,702,673
Gas — MCF:					
Residential	**13,921**	13,397	13,340	13,116	15,237
Commercial and industrial	**10,584**	10,166	9,658	9,467	10,291
Public Authorities	**1,803**	1,800	1,812	1,816	2,131
Total	**26,308**	25,363	24,810	24,399	27,659
PURCHASE FOR RESALE:					
Electric (1000) KWH*	**70,977**	292,686	67,900	24,214	3,986
Gas (1000) MCF	**27,112**	25,326	25,078	25,260	28,286
ELECTRIC GENERATION — (1000) KWH**	**13,431,946**	12,710,278	12,621,547	12,509,782	12,425,044
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**	1,336,000	836,000	836,000	836,000
Electric Gen. Capacity, KW (Nuclear)	**700,000**	700,000	700,000	700,000	350,000
ELECTRIC PEAK DEMAND — KW	**2,908,000**	2,817,000	2,799,000	2,741,100	2,697,000
NUMBER OF CUSTOMERS:					
Electric	**494,385**	485,345	476,122	469,962	466,478
Gas	**292,241**	290,497	287,502	285,699	284,324
RESIDENTIAL AVERAGES:					
Electric:					
Revenue per customer	$ **814.44**	$ 756.51	$ 734.82	$ 740.93	$ 758.65
KWH per customer	**11,628**	11,420	11,485	11,409	11,541
Revenue per KWH	**7.00¢**	6.62¢	6.40¢	6.49¢	6.57¢
Gas:					
Revenue per customer	$ **279.13**	$ 253.96	$ 247.32	$ 241.32	$ 277.94
MCF per customer	**51.3**	49.9	50.2	49.6	57.8
Revenue per MCF	$ **5.44**	$ 5.09	$ 4.93	$ 4.86	$ 4.81

* *1993 includes Test Energy of 226,794.*

** *1990 includes Test Energy of 149,972.*

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

City Public Service

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