in COMPETITION

City Public Service of

San Antonio

1994-95 Annual Report

COMPETITION

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San Antonio

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ELECTRIC

City Public Service, one of the largest municipal utilities in the country, serves the energy needs of San Antonio, the third largest metropolitan area in Texas. 1

CPS generates power for 506,646 electric customers at two coal-fired and five natural gas-fired plants in the San Antonio area. The utility also owns 28 percent of the South Texas Project nuclear plant on the Texas coast, receiving 700 megawatts of capacity from the project. Coal provides 1,336 megawatts, while gas-fired plants can generate 2,400 megawatts.

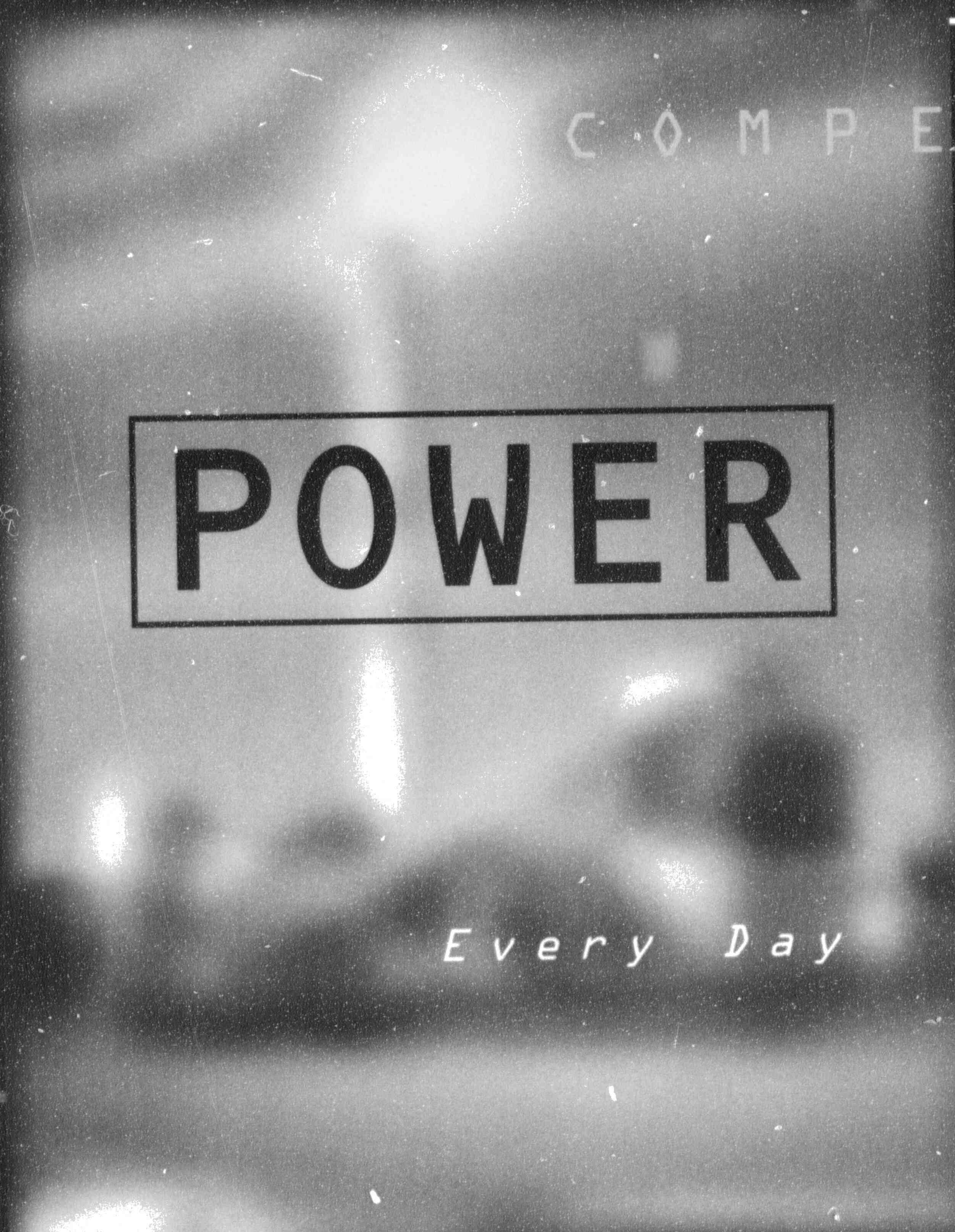
The natural gas system supplies approximately 296,200 customers in the San Antonio urban area. The system is comprised of 3,971 miles of gas lines.

The CPS goal is to produce reliable, low-cost energy to serve the San Antonio area, which has a population of approximately 1.4 million. Tourism, manufacturing, construction, insurance, retailing and medical care have been the traditional economic mainstays, along with one of the largest concentrations of military installations in the U.S. In recent years, San Antonio has broadened its economic base to include numerous firms in the fields of electronics, data processing, biotechnology and telemarketing.

The utility employed 3,567 as of January 31, 1995.

Gross revenue	$893,156,000
Fuel and operating and maintenance expenses decreased $66,561,000 to	$448,236,000
City payment	$119,852,000
Long-term debt service requirements on bonds decreased $24,141,000 to	$209,409,000
Maximum electric system load increased 144,000KW to	3,052,000
12,261 electric customers were added to total	506,646
KWH sales increased 6.1% to	13,499,927,899
Cost to residential customer per KWH decreased 6.4% to	6.55¢
3,959 gas customers were added to total	296,200
MCF sales decreased 6.1% to	24,692,826
Cost to residential customer per MCF of gas decreased 2.9% to	$5.28

Gross revenue for 1994-95		$893,156,000
Application of revenue:		
Fuel, purchased power and resale gas		$210,503,000
Other operating and general expenses		164,885,000
Maintenance of the systems		72,848,000
For debt requirements and other interest	$236,766,000	
Interest charged to construction	3,072,000	
Net debt requirements and other interest		$233,694,000
Payments to the City of San Antonio		119,852,000
Balance from operations available for construction		91,374,000
Total		$893,156,000
Gross amount spent for replacement, improvements and expansion of gas and electric systems		$149,519,000
Funds obtained from:		
Operations		$91,374,000
Commercial Paper		81,278,000
Improvements and Contingencies Fund		(32,535,000)
Contributions and advances in aid of construction		9,402,000
Total		$149,519,000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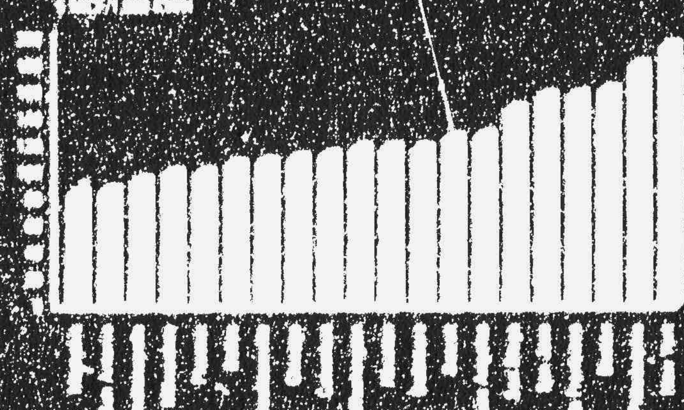
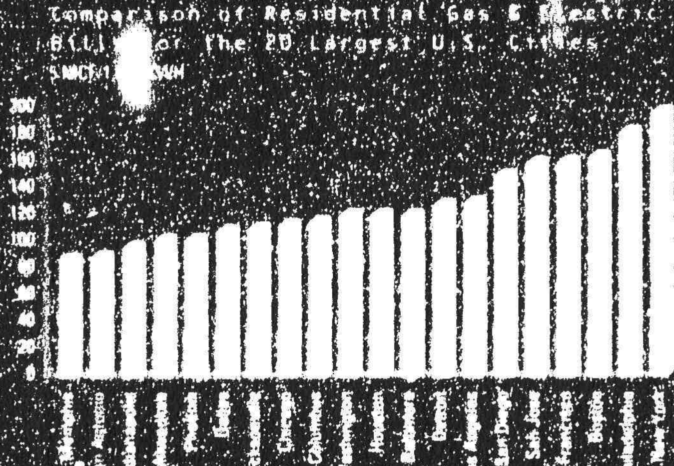

Comparison of Residential Gas & Electric Bills for the 20 Largest U.S. Cities
Dollars
Average for Twelve Months Ending January


Comparison of Residential Gas & Electric
for the 20 Largest U.S. Cities
200
180
160
140
120
100
0

Letter from the Chairman and General Manager

Competition, whether in an athletic endeavor or a business environment, brings out the best in the participants. People give their greatest performances when vying with others who are excellent and they find they can set new records when they are challenged to give their best.

As the topic of competition moves to the forefront for the electric utility industry, CPS is ready to meet the challenge. Its operating and financial strengths give the utility the resources it needs to compete.

The 1994-95 year provides excellent examples of CPS competitive advantages. For example, the year was noteworthy when comparing sales and revenues with last year's figures. Despite setting an all-time record for electric sales, CPS revenue was down from the previous year due to the return to service of the South Texas Project (STP) and competitive fuel prices. This inverse relationship emphasizes the importance of low fuel costs and their effect on customer bills.

Lower fuel costs resulted in low bills for customers, bills that on the average were lower than they were 10 years ago for residential customers using 1,000 kilowatt hours of electricity and 5,000 cubic feet of gas per month. Utility bills for this average usage also compared favorably with those for other cities in the state and nation, a good indication of the CPS competitive position.

Part of the competitive advantage enjoyed by CPS is due to the utility's fuel diversification program which began in the 1970s with the decisions to build two coal-fired generating units and to join with three other utilities in constructing the South Texas Project nuclear plant. The flexibility provided by these plants makes it possible for CPS to take advantage of changes in fuel prices to serve its customers at the lowest costs. During the 1994-95 fiscal year, approximately 32 percent of CPS generation came from nuclear fuel, the lowest cost fuel, while 51 percent came from coal. Only 17 percent of CPS electricity was generated using natural gas, the utility's most expensive fuel, with the result that fuel costs for the year were 27 percent lower than during the previous year.

In addition to lower fuel costs, the utility achieved savings through refunding of $777.7 million in outstanding bonds. This refunding continues the program begun in 1985 and brings the debt service savings to $409 million from 1986 through 2015. The transaction brought the weighted average interest cost on outstanding long-term debt to 5.81 percent.

Based on the utility's strengths, Standard and Poor's Corporation, Fitch Investor Service Inc. and Moody Investor Service re-confirmed their previous ratings of CPS. Both Moody and Fitch continued their higher ratings of Aa1 and AA+ which were established in 1992, while Standard and Poor's maintained an AA rating. At the end of the fiscal year, Fitch Investor Service Inc. awarded CPS the second best rating awarded to the 60 municipally- and investor-owned utilities which they considered in their competitive indicator rating.

It has been a year of achievement for CPS, yet the utility will not rest on its laurels. The new fiscal year will bring continuing scrutiny of the organization and how it operates in an attempt to make it more efficient. The excellent work force at CPS will draw on its talents and experience to become even more productive as the future brings a more competitive environment.

Gloria Leal Hernandez   Arthur von Rosenberg

Gloria Hernandez
Chairman

Arthur von Rosenberg
General manager

Since the beginning of time, COMPETITION has been the essence of greatness. Yet, for years, many people have believed that UTILITIES did not concern themselves with competitive matters, since they were the sole supplier to the area which they served. CPS continues to recognize the importance of the competitive spirit and continues to measure its PERFORMANCE against other utilities as it examines its operations to improve EFFICIENCY and strives to improve SERVICE.

This competitive spirit is the impetus for change at CPS.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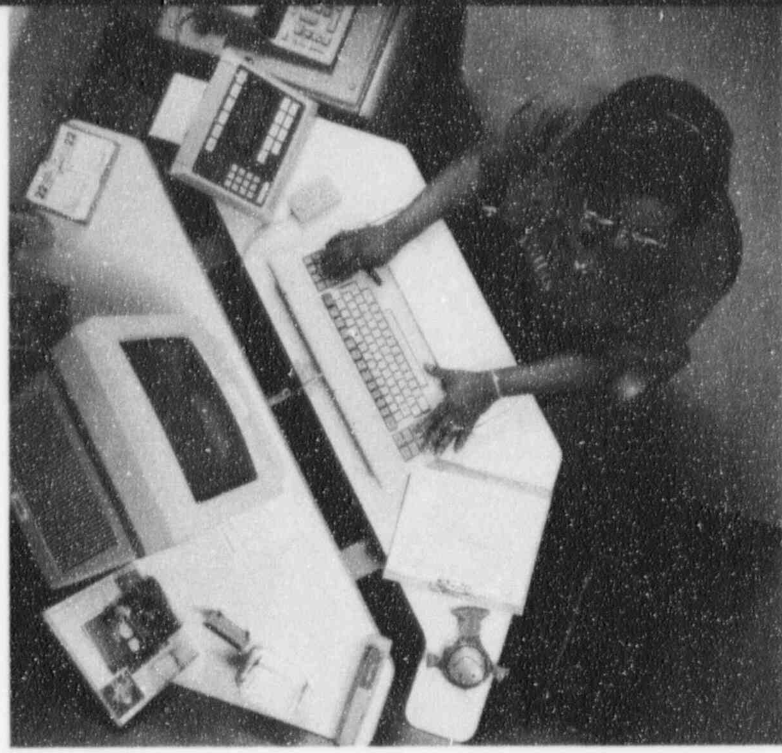
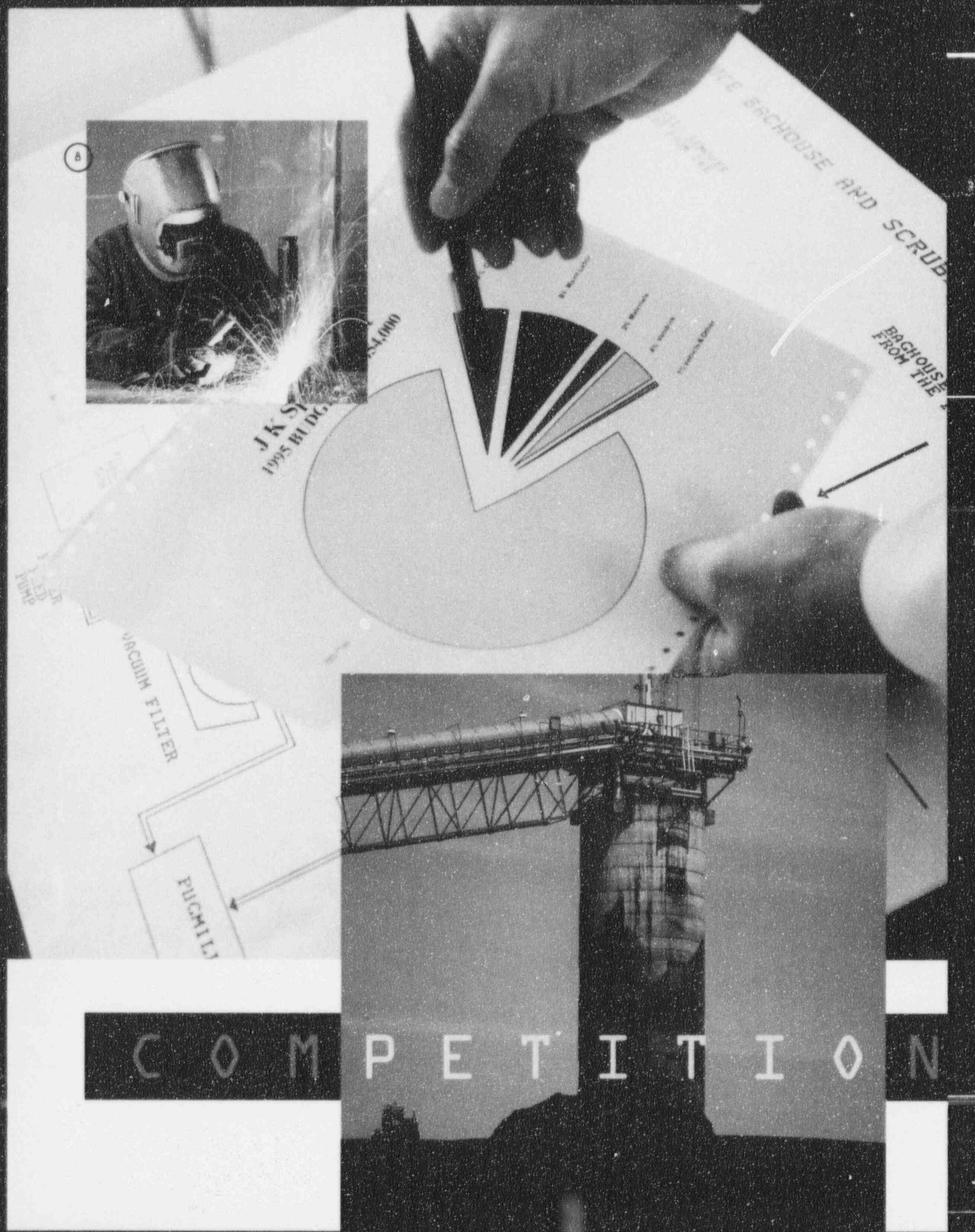


COMPETITION has come to the forefront in the utility industry since the beginning of the 1990s with an emphasis on down-sizing and maximizing efficiency and productivity without sacrificing customer satisfaction. This challenge also is being met by CPS. In this environment of competition, CPS continues its commitment to customers in the San Antonio area to provide safe and reliable natural gas and electric service at competitive prices.

During the 1994–95 fiscal year, CPS continued to meet the challenges of competition through sound financial strategies, enhancement of operating efficiencies, excellent customer service programs, economic development and community involvement.

As CPS continues to add customers and the demand for energy increases, the utility meets these growing needs. During the fiscal year, CPS customers required a record 13.5 million megawatt hours of electricity, up 6.1 percent from the previous year. The hourly peak demand for electricity increased 5 percent from the previous year with a new all-time record of 3,052 megawatts set on August 18. The 1993–94 record for 24-hour usage was broken on August 19 with the new level reaching 56,619 megawatt hours, a 4.2 percent increase over the previous year's record.

In addition to more usage, the number of CPS electric customers increased to 506,646 with the addition of 12,261 new customers. The growth in the number of new customers increased the pace from the previous year when 9,040 new


COMPETITION

customers were added. Natural gas customers also grew but at a slower rate, with 3,959 new customers added during the year.

The growth in CPS customers can be attributed to the growth of the San Antonio area. Nearly 5,700 housing units were built during the fiscal year. In addition, apartment occupancy rose from 94.7 percent the previous year to 95 percent in 1994–95. Growth is projected to continue in San Antonio with the result that the number of CPS customers is expected to increase by 2.1 percent annually during the next 25 years. At the same time, the population of Bexar County is expected to increase approximately 50 percent from almost 1.3 million today to more than 1.9 million in 2020.

CPS Compares Favorably in the Industry

Many of today's competitive successes and the utility's position of respect in the industry can be attributed to the CPS fuel diversification program and comparative efficiency of its generating units which together result in low rates for customers.

The fuel diversification program allows CPS to select from three fuels for generating electricity based on their prices as well as their availability. The South Texas Project, which uses low-cost nuclear fuel, showed a good performance and contributed significantly to a reduction in the yearly cost of fuel for generation after returning from its prolonged outage. The CPS share of the nuclear plant provided 32 percent of the utility's electricity for the year. The substantial use of low-cost nuclear fuel resulted in a 27.4 percent decline in the average unit cost of fuel when compared with the previous year. Unit fuel prices were 8 percent lower than five years ago and were lower than in four of the last five years, with only 1991–92 showing a lower cost because of significant settlement credits for coal hauling which favorably affected coal prices.

The use of coal for generation also aided the CPS competitive position. In the 1993 Utility Data Institute study of the top electric plants in the country based on expenses per megawatt hour, the two CPS coal-fired plants ranked at numbers 12 and 23 in the selected top 100. These two favorable rankings show the competitiveness of the two plants on which CPS relies most heavily for its generation.

The proof of competitiveness, though, comes in the comparison of rates. During 1994–95, CPS customer bills were lower than for the same amount of usage ten years earlier. In fact, residential customers paid 11.4 percent less for 1,000 kilowatt hours of electricity and 5,000 cubic feet of natural gas in 1994–95 than they paid in 1984–85 and paid less than they paid in six of the last ten years in spite of rate increases in 1986, 1988 and 1991 and inflation which averaged 3.6 percent annually during the last 10 years.

CPS customer bills also compared favorably with those of other cities. CPS residential bills of $89.15 for 1,000 kilowatt hours of electricity and 5,000 cubic feet of natural gas were lower than the average bill for the 20 largest cities in the country — 32 percent lower. The utility ranked second lowest among the nation's 20 largest cities.

CPS electric bills for 1,000 kilowatt hours also compared favorably within Texas. The average bill for Texas customers during the year was $74.81 compared with $64.04 for CPS customers, a savings of 14.4 percent. The bills for CPS commercial and industrial customers also compare favorably with other utilities.

These positive comparisons of bills show the competitive challenge is being met in a most important arena, one that contributes to customer satisfaction and business growth.

with the INDUSTRY

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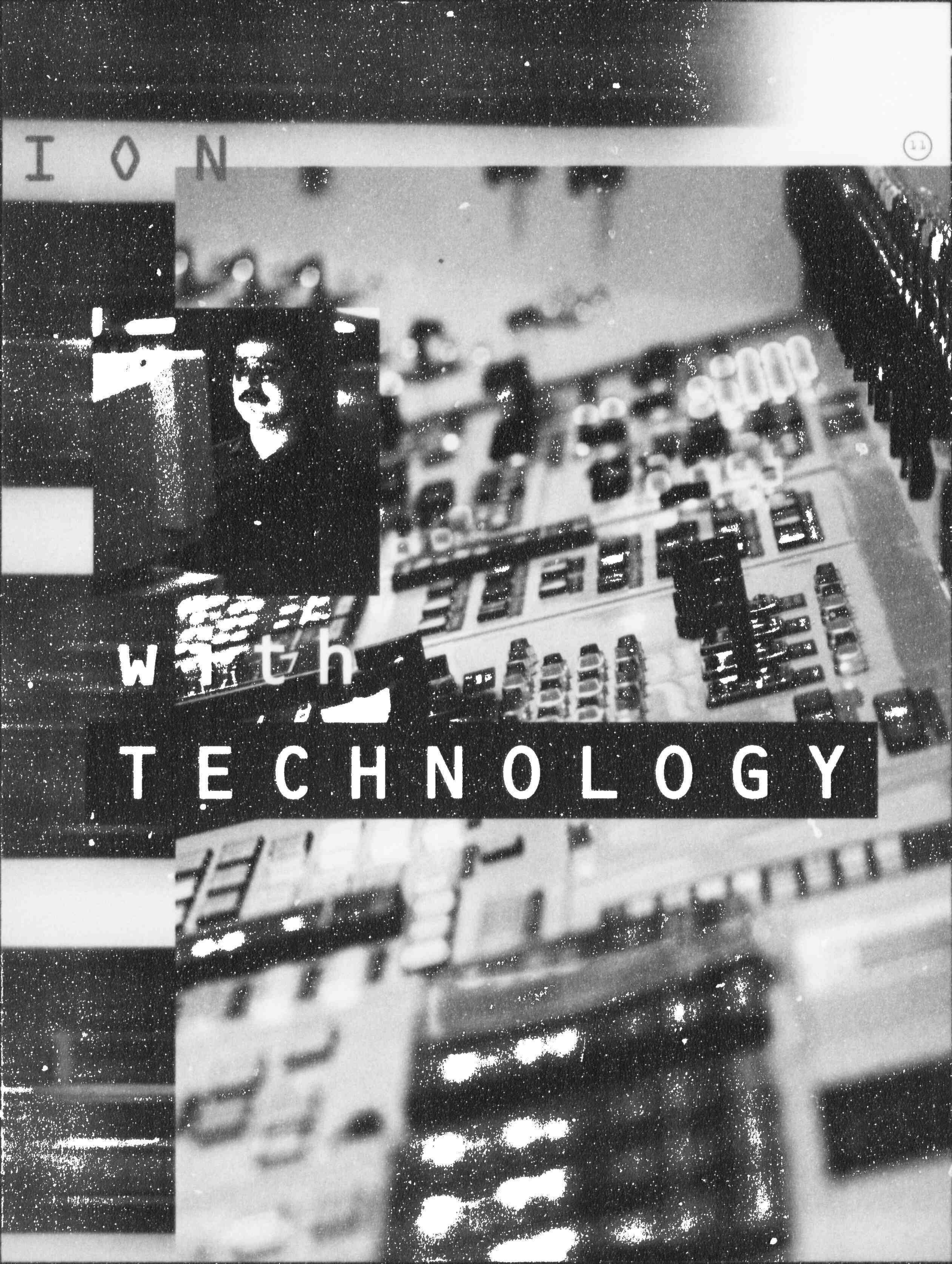
CPS Adds Technological Innovations

CPS is adding to and upgrading its facilities in preparation for the 21st century when computers will be involved in every aspect of the utility's operation. CPS is establishing the framework for increased operating efficiency by expanding use of fiber optics and computer technology. These innovations will not only improve service to CPS customers but will assure the utility's competitiveness in the future.

During the past fiscal year, CPS installed 58 miles of fiber optic cable, the backbone of a new communications network to enhance the transfer of data and automate load transfer functions on the electric system. The new technology will replace microwave radio and leased telephone lines, which are not as efficient in the high speed transfer of data and which are subject to signal interference.

As the utility adds or rebuilds transmission lines, additional fiber optic cable is being installed. During the next two years, CPS expects to place more than 300 miles of fiber optic cable above power lines in the transmission system. The first 48 miles were strung in conjunction with a new segment of the 345 kilovolt transmission loop. The $8.4 million transmission line construction project begins in western Bexar County and circles to northeast San Antonio, closing the loop around the city. Scheduled for completion in the summer of 1995, the transmission loop will serve the fast-growing northwest part of the service area, while increasing system reliability.

CPS began a pilot project, jointly sponsored with the Electric Power Research Institute, to test the viability of automating the electric distribution system. The project involves connecting two distribution feeder circuits along a fiber optic network and installing distribution automation equipment on the feeders and at selected customer



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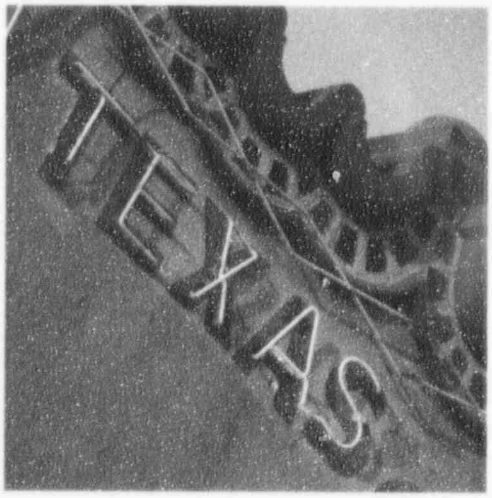
locations. The results will be assessed in 1996–97.

CPS also upgraded its two mainframe computer systems. The new UNISYS 2200/5222, which handles all major business systems and engineering planning support, has five times more memory than the previously used system. The magnetic disk storage systems were upgraded to the latest technology, increasing capacity by twofold. In addition to cost savings, CPS is using only one-tenth the amount of floor space previously used by the older computer system. A new UNISYS 2200/5111E, which supports customer service inquiries, has reduced response time, provided greater reliability and increased the capacity of phone calls processed. These changes are the beginning of improvements that assure CPS will have the equipment and technology to carry it into the future.

CPS Contributes to the Quality of Life

CPS has taken a leadership role in meeting changes in environmental requirements and responding to public interest in policymaking because of its desire to serve the public trust.

During the fiscal year, CPS found innovative ways to protect the environment by voluntarily reducing hazardous wastes and saving money at the same time. Examples of waste reduction include the use of an extractor in the CPS Print Shop to remove 99 percent of the silver from film development waste. Also, a distillation unit recovers 70 percent of thinner contained in waste paint solvent, enabling CPS to reuse the recycled thinner.



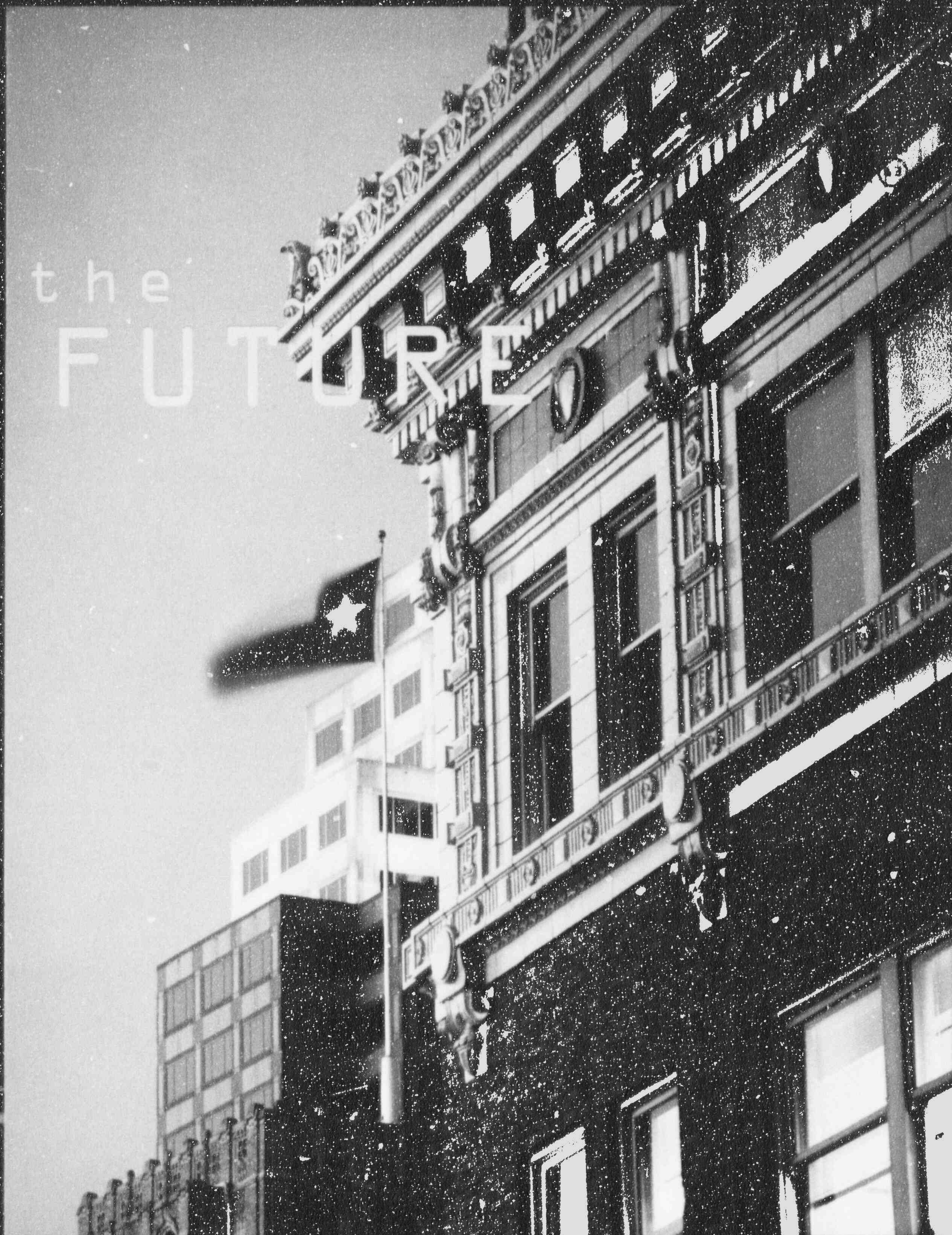
Due to increased public interest in beautifying the environment, CPS is currently working to convert some existing overhead service to underground. In 1993, the utility created the Overhead Conversion Fund which appropriates 1 percent of its retail electric sales to such projects.

CPS also is utilizing new aesthetically-pleasing construction features, such as armless conductor supports, concrete and steel poles, copper naphthenate-treated wooden poles, off-street utility corridors and landscaping around substations. In 1994–95, $528,555 were spent to implement new standards on five construction projects in high traffic areas and to reconstruct some existing facilities.

An important element in a competitive environment is customer satisfaction. CPS tailors its customer service programs to provide useful information to customers and to assure convenience. One example of convenience, the Electronic Payment Plan which allows eligible customers to have their utility payments deducted automatically from their bank account, provides savings of time and money for both customers and the utility. These programs and many more resulted in recognition of the Customer Services Department by the Texas Public Power Association.

A well-trained and dedicated work force helps assure customers will receive quality service. CPS employees receive training in both classroom settings and on the job. During the year, the Training Division offered 32 courses for employee instruction. In addition, 183 employees enrolled in evening and weekend college courses related to their jobs.

For the second consecutive year, CPS sponsored "Our House," a 13-week television series on energy conservation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through home improvements. In addition, CPS took the utility safety and energy conservation messages to more than 90,000 persons through 789 presentations to schools, civic and business groups and the public.

San Antonio enjoyed growth in the area of economic development, with 21 companies locating or expanding in the Alamo City during 1994–95 and providing more than 4,300 new jobs. The record number of new businesses can be attributed to opportunities created by the North American Free Trade Agreement, the availability of a highly trainable and industrious work force and the availability of low-cost and reliable gas and electric service. Growth took place in the service, manufacturing, telemarketing and distribution sectors. To CPS, growth means a larger customer base and to San Antonians, it means more jobs and a stronger local economy.

Summary

As competition becomes a watchword in the utility industry, CPS is well positioned to maintain its place among the leaders. Its financial strategies, innovative leadership and dedicated employees place the utility in a position to continue the record of excellence it has achieved in the past.

Records during the 1994–95 year in electric peak demand, 24-hour usage and sales confirm the growth trend of the last several years. Looking ahead, growth projections for the San Antonio area indicate that utility growth should continue as CPS works to meet the needs of the area it serves into the 21st century.

Even as it grows, CPS continues to focus on excellence in customer service and reliability. The utility expands and replaces its facilities to assure they are modern and well maintained. Service is improved by incorporating new technologies which increase overall efficiency and take CPS into the future. And employees are trained to assure they are able to perform their jobs in the most competent manner.

These practices assure the utility will continue to perform well as it faces the future challenges of increasing competition in the industry. With an excellent record as its tradition, CPS looks forward to a future that will allow it to achieve even greater successes. The years ahead look bright as CPS pledges to continue to meet its responsibilities to customers to provide safe and reliable natural gas and electric service at a reasonable price and to employ a well-trained, efficient work force which will remain a credit to the community.

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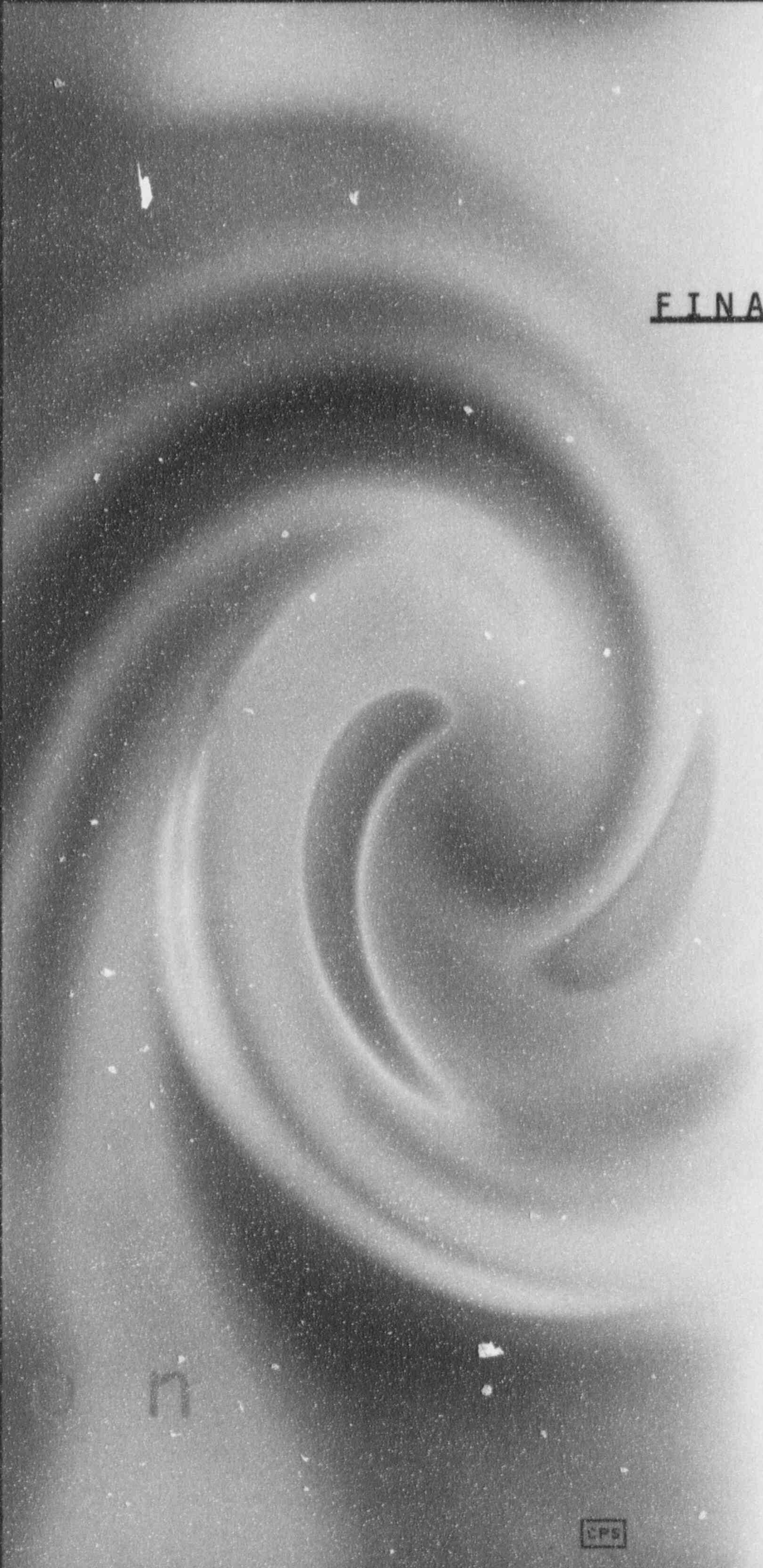
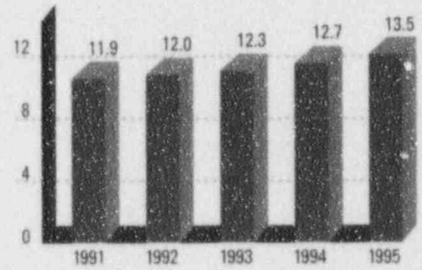


FINANCE

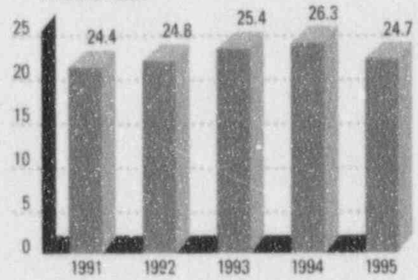
Electric Sales

In Billion KWH*



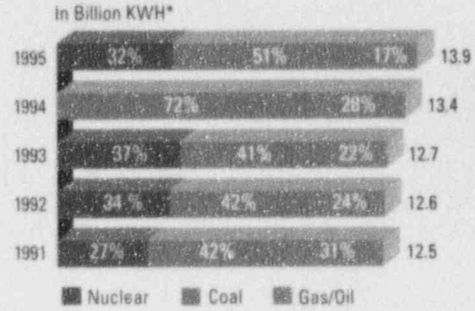
Gas Sales

In Million MCF*



Electric Generation by Fuel Type

In Billion KWH*



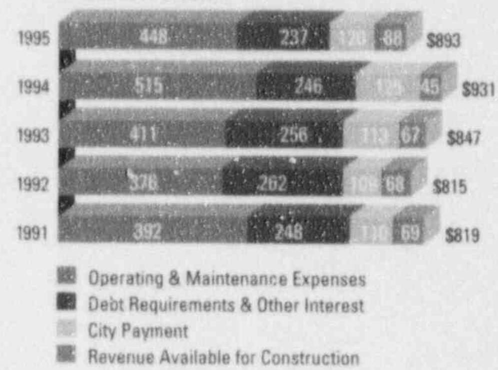
* Fiscal Years Ending January 31

Management's Financial Summary for Fiscal Year 1994-95

Three major developments produced a good fiscal year for City Public Service. Fuel costs decreased because of the return to service of the South Texas Project (STP) nuclear plant; cost containment strategies resulted in a significant reduction in operating and maintenance expenses; and lower financing costs resulted from the debt management program.

Application of Revenue

In Millions of Dollars*

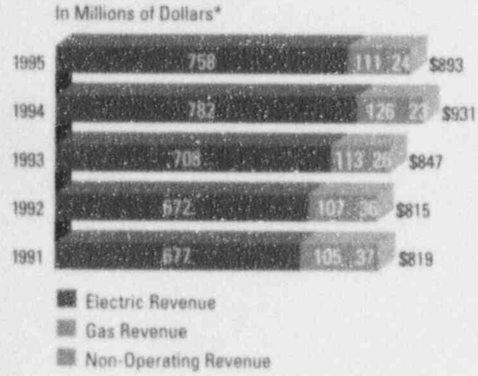


STP returned to service in time to meet the high summer demand when electric sales reached an all-time record. Units 1 and 2 attained full power in April and June, respectively, and showed a significant improvement in performance after a yearlong shutdown which began in early February 1993. Start-up for both units was achieved after rigorous inspections by the Nuclear Regulatory Commission with only minor repairs necessary during the year. The NRC reported later in the year that STP had improved in virtually all functional areas and had been effective in identifying and resolving problems. During the last six months of 1994, the STP units ranked as the top two producing nuclear units in the country.

With the availability of the nuclear units, CPS began adding to its inventory of coal which had declined while STP was out of service. The shortfall in the coal inventory also was exacerbated by decreased shipments of coal caused by heavy rail traffic from the Powder River Basin in Wyoming. Additional unit trains were placed in service during the year in an attempt to build up the inventory in preparation for replacing the coal dumper in April 1995.

Gross Revenue

In Millions of Dollars*



** Fiscal Years Ending January 31*

Sales

Electric sales continued to set records, reaching 13.5 billion kilowatt hours. The 6.1 percent increase in sales over last year was primarily due to the hot summer temperatures of 100 degrees or more for 27 days.

Gas sales totaled 24.7 million MCF, a 6.1 percent decrease compared to the previous year. Mild winter weather during December and January affected the trend in gas sales.

Revenues

Gross revenue of $893.2 million declined by $37.3 million compared to the previous year, due to a significant reduction in the fuel recovery revenue as a result of lower costs for electric generation fuel and resale gas.

Summer 1994 temperatures tied all-time records, caused higher electric sales and increased non-fuel recovery revenues. Revenue from gas operations was $14.8 million less than last year, principally as a result of lower gas cost recoveries, but unlike the electric operation, sales also were down. Non-operating revenue remained essentially the same compared to last year.

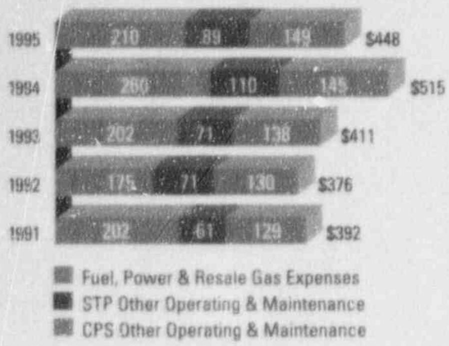
CPS earned about 85 percent of its operating revenue from electric sales and approximately 12 percent from gas sales. Other sources of revenue, including interest on investments and miscellaneous income, made up the remaining 3 percent. As a result of lower fuel and resale gas costs, the average revenue of 5.6 cents per kilowatt hour and $4.45 per MCF were about 8 percent and 6 percent, respectively, lower than the previous year.

Expenses

Operating and maintenance expenses for the fiscal year totaled $448.2 million, down $66.6 million from the previous year. The lower fuel and resale gas expenses of $210.5 million accounted for $49.7 million of the lower costs. Additionally, a decline of $21.3 million in STP operating and maintenance expenses, other than fuel, contributed to the lower costs. The benefit of having STP back on line not only included lower maintenance costs for the plant but also was a major factor in reducing the average unit fuel cost for generating electricity by 27.4 percent,

Operating & Maintenance Expenses

In Millions of Dollars*



from $1.44 per million BTU in 1993–94 to $1.05 per million BTU.

Resale gas costs also declined due to a combination of less demand for gas and a 10.7 percent drop in the average unit price to $2.01 per million BTU. Non-fuel costs excluding STP increased by 3 percent or $4.4 million from last year as management continued cost containment efforts.

The nuclear plant has performed well since returning to service and accounted for 32 percent of CPS generation for the year. Coal-fueled electric generation made up 51 percent, while the remaining 17 percent of total generation requirements was from gas and oil.

Construction

The construction program expenditures increased by 21 percent over last year as a result of additional costs for capital expenditures for the electric distribution and transmission and the gas distribution systems. Higher costs for the distribution system resulted mainly from charges to serve new customers. The construction program relied on revenue from current and prior years for 40 percent of the capital expenditures. Commercial paper financed 54 percent of construction costs, while 6 percent came from customer contributions.

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

Financing Results

During the year, CPS issued $777.7 million of refunding bonds which had been sold at the end of the previous year for an average interest rate of 5.01 percent. These bonds were issued to advance refund $666.7 million of New Series Bonds and to convert $65 million of Tax Exempt Commercial Paper (TECP) to long-term debt. The interest savings on this particular refunding issue will produce an estimated net savings of $129.5 million in interest over the next 20 years. Thus far, the debt refinancing program, established with the 1985 refunding issue, will net CPS ratepayers a total interest savings of $409 million from 1986 through 2015.

CPS continues to maintain the highly favorable Aa1 bond rating by Moody's Investor Services, AA+ rating by Fitch Investor Service and AA bond rating by Standard & Poor's Corporation. The TECP carries the highest ratings issued by all three rating agencies. These ratings continue to place CPS debt among the highest rated for municipal utilities in the country, which results in lower financing cost to CPS and its customers.

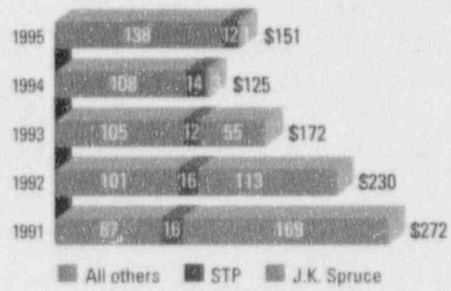
Summary

CPS assets of $4.5 billion as of January 31,1995, showed only a slight change compared with the balances for the prior year. The most noteworthy change affected the ending balances at January 31, 1995, and January 31, 1994, for total Assets and Total Equity and Liabilities which were restated as a result of implementing a required accounting change related to refunding bond reacquisition costs. These costs were previously included in the balance of Total Assets and will now be shown as a reduction of the utility's Liability for Net Revenue Bonds.

The utility expects that its strong financial health will continue as it combines a commitment to service with rates that are among the lowest in the state and nation. During this fiscal year, residential customers using 1,000 KWH of electricity incurred bills which were lower than the average bill during either of the previous two years. Customers have paid less in only four of the previous ten years. Gas rates also remained very competitive.

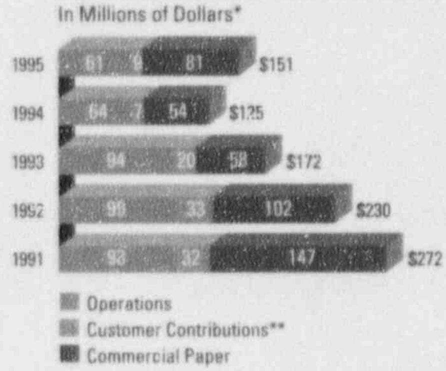
Capital Expenditures

In Millions of Dollars*



Funding of Capital Projects

In Millions of Dollars*



*Fiscal Years Ending January 31

** Before 1994 included litigation settlements

Assets

	January 31, 1995	January 31, 1994
	(In thousands)	
UTILITY PLANT, at cost *(Notes 1, 3, and 9)*:		
Plant in service —		
Electric	**$ 4,343,247**	$ 4,271,014
Gas	**289,582**	267,472
General	**121,047**	116,170
Total plant in service	**4,753,876**	4,654,656
Less-accumulated depreciation	**1,159,599**	1,042,183
Plant in service, net	**3,594,277**	3,612,473
Construction work in progress	**148,097**	125,619
Nuclear fuel, less accumulated amortization of $93,763 in 1995 and $74,345 in 1994	**78,312**	96,931
Held for future use	**32,735**	34,393
Utility plant, net	**3,853,421**	3,869,416
RESTRICTED CASH AND INVESTMENTS *(Notes 1, 2, 3, and 4)*:		
Bond fund current requirements —		
Old series	**843**	607
New series	**17**	12
Bond reserve —		
Old series	**16,725**	17,052
New series	**199,826**	198,676
Commercial paper redemption fund	**56**	143
Improvements and contingencies fund	**110,416**	93,918
Overhead conversion fund	**14,150**	0
Commercial paper construction fund	**3,053**	19,067
Other	**15,637**	17,266
Total restricted cash and investments	**360,723**	346,741
CURRENT ASSETS:		
Cash and temporary investments *(Notes 1 and 2)*	**41,881**	38,515
Cash restricted for customer service deposits payable	**25,569**	24,608
Cash restricted for payment of construction retainage payable	**0**	21,739
Customer accounts receivable, less allowance for doubtful accounts of $2,638 in 1995 and $2,853 in 1994	**48,929**	56,698
Other receivables	**5,336**	2,183
Inventories and supplies, at average cost —		
Materials and supplies	**56,285**	55,243
Fuel stock	**22,804**	21,167
Prepayments and other	**4,177**	6,368
Total current assets	**204,981**	226,521
DEFERRED DEBITS AND OTHER *(Notes 1 and 6)*	**40,838**	32,945
TOTAL	**$ 4,459,963**	$ 4,475,623

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

Equity and Liabilities

	January 31, 1995	January 31, 1994
	(In thousands)	
LONG-TERM DEBT:		
Revenue bonds *(Notes 1, 3, and 4)* —		
Old series	**$ 13,500**	$ 26,250
New series	**2,738,115**	2,696,220
Deductions —		
Unamortized discount on new series bonds	**(78,026)**	(87,454)
Unamortized discount on capital appreciation bonds	**(271,483)**	(287,062)
Unamortized costs of bond reacquisition	**(201,180)**	(168,441)
Revenue bonds, net	**2,200,926**	2,179,513
Commercial paper *(Note 5)*	**264,800**	282,300
Long-term debt, net	**2,465,726**	2,461,813
EQUITY:		
Appropriated retained earnings *(Note 3)* —		
Bond fund current requirements—		
Old series	**843**	607
New series	**17**	0
Bond reserve —		
Old series	**16,725**	17,052
New series	**147,368**	146,218
Commercial paper redemption fund	**56**	143
Improvements and contingencies fund	**110,416**	93,918
Overhead conversion fund	**14,150**	0
Total appropriated retained earnings	**289,575**	257,938
Reinvested earnings	**1,456,509**	1,480,732
Total equity	**1,746,084**	1,738,670
CURRENT LIABILITIES:		
Current maturities of revenue bonds *(Note 4)*	**81,810**	76,580
Current portion of commercial paper redemption *(Note 5)*	**16,700**	16,100
Accounts payable and accrued liabilities	**74,243**	77,294
Litigation settlement benefits payable to customers *(Note 10)*	**0**	8,814
Construction retainage payable	**0**	21,739
Customer service deposits	**25,569**	24,608
Total current liabilities	**198,322**	225,135
DEFERRED CREDITS AND OTHER *(Note 1)*:		
Customer advances for construction	**10,722**	9,463
Other	**39,109**	40,542
Total deferred credits and other	**49,831**	50,005
COMMITMENTS AND CONTINGENCIES *(Notes 3, 6, 7, 9, and 10)*	**0**	0
TOTAL	**$ 4,459,963**	$ 4,475,623

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

	Years Ended January 31, 1995	1994
	(In thousands)	
REVENUE *(Note 1)*:		
Electric	$ 757,937	$ 781,661
Gas	110,694	125,491
Interest and other income	24,525	23,353
Gross revenue	893,156	930,505
EXPENSES *(Note 1)*:		
Fuel, purchased power and resale gas	210,503	260,215
Other operating and general	164,885	166,054
Maintenance	72,848	88,528
Depreciation	138,939	136,957
Interest and debt expense	181,788	196,017
Allowance for interest used during construction (Deduction)	(3,072)	(1,977)
Tax equivalent to City of San Antonio *(Note 8)*	12,736	11,817
Total Expenses	778,627	857,611
EXCESS OF REVENUES OVER EXPENSES	114,529	72,894
ADD:		
Depreciation	138,939	136,957
Amortization of discount on capital appreciation bonds	15,579	14,529
Amortization of bond reacquisition costs and debt issue expenses	18,437	14,870
Amortization of discount on new series bonds	5,474	5,802
Bond call premium costs	0	852
Interest requirements on new series bonds	129,899	150,588
Interest requirements for commercial paper redemption	5,982	2,686
AVAILABLE FOR APPLICATION	$ 428,839	$ 399,178

	1995	1994
APPLICATION:		
To pay long-term debt requirements *(Note 3)*:		
Old series bonds —		
Principal payments	$ 12,235	$ 13,112
Bond reserve (Deduction)	(327)	(346)
To improvements and contingencies fund		
Minimum requirements (12 1/2 percent of gross revenue)	111,644	116,313
Additional cash payments to and services for the City of San Antonio *(Note 8)*	107,116	113,065
To improvements and contingencies fund		
Balance of available net revenue	198,171	157,034
TOTAL APPLICATION	$ 428,839	$ 399,178

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

Statements of Changes in Equity

	Years Ended January 31, 1995	1994
	(In thousands)	
BOND CURRENT REQUIREMENTS, old series bonds:		
Balance, beginning of year	$ 607	$ 216
Additions — Transfer to provide for debt service	14,913	16,717
Deductions — Payment of old series principal and interest	(14,677)	(16,326)
Balance, end of year	$ 843	$ 607
BOND RESERVE, old series bonds:		
Balance, beginning of year	$ 17,052	$ 17,398
Additions — Allocate earnings to reserve	965	1,067
Deductions — For current requirements	(1,292)	(1,413)
Balance, end of year	$ 16,725	$ 17,052
BOND CURRENT REQUIREMENTS, new series bonds:		
Balance, beginning of year	$ 0	$ 0
Additions — From improvements and contingencies fund for debt service	194,496	234,395
Deductions — Payment of new series principal and interest	(194,479)	(234,395)
Balance, end of year	$ 17	$ 0
BOND RESERVE, new series bonds:		
Balance, beginning of year	$ 146,218	$ 159,807
Additions — From improvements and contingencies fund for debt service	1,150	1,239
Deductions — For bonds called	0	(14,828)
Balance, end of year	$ 147,368	$ 146,218
COMMERCIAL PAPER REDEMPTION FUND:		
Balance, beginning of year	$ 143	$ 0
Additions — From improvements and contingencies fund for principal and interest	22,795	8,429
Deductions — Payment of principal and interest	(22,882)	(8,286)
Balance, end of year	$ 56	$ 143
OVERHEAD CONVERSION FUND:		
Balance, beginning of year	$ 0	$ 0
Additions — From improvements and contingencies fund	14,150	0
Deductions — Payment of overhead conversions	0	0
Balance, end of year	$ 14,150	$ 0
IMPROVEMENTS AND CONTINGENCIES FUND:		
Balance, beginning of year	$ 93,918	$ 111,770
Additions —		
From application of revenue —		
Minimum requirement (12 1/2 percent of gross revenue)	111,644	116,313
Balance of available net revenue	198,171	157,034
Total	309,815	273,347
Deductions —		
New series bonds —		
Additions to reserve	(1,150)	(1,239)
Payment of bond interest	(129,899)	(150,588)
Payment of bond principal	(64,597)	(66,460)
Commercial paper —		
Payment of commercial paper redemption interest	(5,982)	(2,686)
Payment of commercial paper redeemed	(16,900)	(5,600)
Deductions (additions) to commercial paper redemption fund	87	(143)
Construction expenditures	(60,726)	(64,483)
Transfer to overhead conversion fund	(14,150)	0
Total	(293,317)	(291,199)
Balance, end of year	$ 110,416	$ 93,918
REINVESTED EARNINGS:		
Balance, beginning of year	$ 1,480,732	$ 1,489,651
Additions —		
From improvements and contingencies fund —		
For construction	60,726	64,483
For new series bonds principal payments	64,580	66,460
For commercial paper principal payments	16,900	5,600
From application of earnings —		
For old series bonds principal payments	12,000	12,720
From new series reserve funds used to call bonds	0	14,828
Total	154,206	164,091
Deductions —		
Depreciation	(138,939)	(136,957)
Amortization of discount on capital appreciation bonds	(15,579)	(14,529)
Amortization of bond reacquisition costs and debt issue expenses	(18,437)	(14,870)
Amortization of discount on new series bonds	(5,474)	(5,802)
Bond call premium costs	0	(852)
Total	(178,429)	(173,010)
Balance, end of year	$ 1,456,509	$ 1,480,732

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

Statements of Cash Flows

	Years Ended January 31, 1995	1994
	(In thousands)	
22 CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ **114,529**	$ 72,894
Nonrevenue related items		
Bond call premium costs	**0**	852
Noncash items included—		
Allowance for interest used during construction	**(3,072)**	(1,977)
Depreciation expense	**138,939**	136,957
Amortization expense—		
Bond reacquisition costs and debt issue expenses	**18,437**	14,870
Discount on new series bonds	**5,474**	5,802
Amortization of discount on capital appreciation bonds	**15,579**	14,529
Additional cash payments to and services for the City of San Antonio	**(107,116)**	(113,065)
Changes in current assets and current liabilities *(Note 1)*	**(19,702)**	44,684
Proceeds from freight litigation settlement	**0**	9,601
Refund of freight litigation settlement benefits payable to customers	**(8,814)**	(9,324)
(Increase) decrease in other assets	**12,735**	(9,012)
Increase (decrease) in other liabilities	**(3,755)**	(20,185)
Net cash provided by operating activities	**163,234**	146,626
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to utility plant	**(149,704)**	(126,568)
Allowance for interest used during construction	**3,072**	1,977
Contributions in aid and customer advances for construction	**9,402**	7,082
Sale of refunding bonds	**777,700**	0
Sale of commercial paper	**65,000**	274,000
Defeasance or call of bonds	**(666,745)**	(232,250)
Defeasance of commercial paper	**(65,000)**	0
Principal payments on revenue bonds	**(76,580)**	(71,905)
Commercial paper redeemed	**(16,900)**	(5,600)
Excess of reacquisition amounts over principal of bonds refunded in advance	**(46,011)**	0
Debt issue expenses	**(898)**	0
Net cash used for capital and related financing activities	**(166,664)**	(153,264)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ **(3,430)**	$ (6,638)
CASH, CURRENT RESTRICTED CASH, AND TEMPORARY INVESTMENTS:		
Beginning of year	$ **84,862**	$ 48,806
End of year	**67,450**	84,862
Net increase (decrease)	**(17,412)**	36,056
RESTRICTED CASH AND INVESTMENTS:		
Beginning of year	**346,741**	389,435
End of year	**360,723**	346,741
Net increase (decrease)	**13,982**	(42,694)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ **(3,430)**	$ (6,638)

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

NOTES TO FINANCIAL STATEMENTS JANUARY 31, 1995 AND 1994

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. Also, CPS has elected not to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, which is an alternative of the Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. This election avoids conflicts created when the FASB issues standards that conflict with GASB pronouncements. Certain prior period amounts have been reclassified for comparative purposes.

FISCAL YEAR – The fiscal year ended January 31, 1995, is referred to herein as 1995; the fiscal years ended January 31, 1994, and January 31, 1993, as 1994 and 1993, respectively.

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 generated 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 2.95 percent in 1995 and 2.97 percent in 1994.

RESTRICTED CASH AND INVESTMENTS – These funds are generally restricted as to use for other than current operations or are designated for expenditures in the acquisition or construction of non-current assets. Funds consist primarily of debt service and reserves required for Old and New Series Bonds and commercial paper, and funds for future construction or contingencies. The Overhead Conversion Fund was established in 1995. This fund includes 1 percent of the prior fiscal year's electric revenue from cities in the CPS service area. The current amount represents the unused balance from the 1995 and 1994 revenues. Customer assistance program funds, insurance reserves, retainage on long-term construction contracts, and short-term investments of tax-exempt commercial paper proceeds are also included in this category.

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 debt issuance expenses, nuclear fuel assessment and STP litigation settlement. Amortization is recorded over the period of the outstanding bonds. Also included are assets of an employee deferred compensation plan held by a trustee. Unamortized cost of bond reacquisition was previously recorded as a deferred debit; however, with early adoption of GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, it is now reported as a deduction from the debt liability (reference footnote No. 4).

DEFERRED CREDITS AND OTHER – These amounts consist primarily of liabilities relating to employee deferred compensation, nuclear fuel assessment, Project Warm, and customer advances for construction. Operating reserves for property insurance and injuries and damages are also included in this category.

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 noncapital financing transactions occurred during 1995 and 1994.

24 To determine net cash provided by operating activities, net earnings have been adjusted by 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. Changes shown as an (increase) decrease in current assets and as an increase (decrease) in current liabilities are as follows:

	1995	1994
	(In thousands)	
Customer accounts receivable	$ 7,769	$ 6,210
Other receivables, net of current maturities of litigation settlements benefits receivable	(3,154)	585
Inventories and supplies	(2,679)	7,089
Prepayments and other	2,191	(403)
Accounts payable and accrued liabilities	(3,052)	8,365
Construction retainage payable	(21,739)	21,739
Customer service deposits	962	1,099
Changes in current assets and current liabilities	$ (19,702)	$ 44,684

Cash interest paid by CPS, net of AIUDC, was $139,695 and $163,913 in 1995 and 1994, respectively.

2. Cash and Temporary Investments

CPS cash deposits at January 31, 1995, and 1994, were entirely insured or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government obligations held in book entry form by a third party in CPS' name. CPS' cash carrying amounts were $5.1 million at January 31, 1995, and CPS' bank balances were $10.2 million also at year end.

At January 31, 1995, and 1994, CPS' investments, both restricted and unrestricted, were all in U.S. Government obligations and were held in book entry form by a third party in CPS' name. CPS' investments are generally limited by Trust Indenture, Ordinances, and State Law to U.S. Government or U.S. Government guaranteed obligations. Investments carried at amortized cost plus accrued interest were $423.1 million with a market value of $419.9 million at January 31, 1995. Investments carried at amortized cost plus accrued interest 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, 1995, 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, 1995	January 31 1995	January 31 1994
			(In thousands)	
Old Series,				
1974	1996 – 1997	7.000%	$ 26,250	$ 38,250
New Series Serial Bonds,				
1977 - 1994	1996 – 2017	5.805 *	2,304,610	2,258,235
Unamortized New Series				
Bonds issue discount			(78,026)	(87,454)
New Series Capital Appreciation Bonds,				
1989 and 1991	2002 – 2012		502,565	502,565
Unamortized Capital Appreciation				
Bond discount			(271,483)	(287,062)
		5.807	2,483,916	2,424,534
Less: Current maturities of bonds			81,810	76,580
Unamortized cost of bond reacquisition			201,180	168,441
Revenue bonds, net				
of current maturities			$ 2,200,926	$ 2,179,513

* All new series bonds, including capital appreciation bonds.

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

Year	Principal Due: Old Series Bonds	Principal Due: New Series Bonds	Total
1996	$ 12,750	$ 69,060	$ 81,810
1997	13,500	73,200	86,700
1998	–	90,645	90,645
1999	–	91,655	91,655
2000	–	100,090	100,090

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, 1995, portions of the bonds (in thousands) which have been defeased were still outstanding as follows:

Fiscal year 1987 refunding	$ 79,350
Fiscal year 1988 refunding	38,125
Fiscal year 1990 refunding	228,700
Fiscal year 1992 refunding	4,100
Fiscal year 1993 refunding	186,405
Fiscal year 1995 refunding	102,340

In 1995, 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 million in certain outstanding New Series Bonds and $65 million in Tax Exempt Commercial Paper (TECP). The New Series Bonds issued were $[illegible] million more than the amount of bonds and TECP refunded and were used to establish the escrow fund for the redeemed bonds and pay the cost of issuance. The result was interest savings, fixed long-term bond rates, and restoration of a portion of CPS' borrowing capacity under the Commercial Paper Program. The refunding transaction resulted in cash flow savings of $129.5 million, which equates to a present value savings of $89 million, or 13.3 percent of the refunded bonds.

The New Series Bonds issued during 1995 included $37 million of London Interbank Offered Rate (LIBOR) Floater Bonds, the rates on which are reset semi-annually. CPS entered into a rate hedge contract with a counterparty which resulted in the LIBOR Floater Bonds being a fixed rate payment obligation for CPS. At the option of the bondholders, $36 million of the LIBOR Floater Bonds were converted to fixed rate obligations during the fiscal year, with the remaining $1 million being converted by the bondholders to fixed rate on February 1, 1995. The stated converted rates are higher than CPS' contract fixed rate. During the fiscal year, CPS was exposed to minimal market risk. This risk is equivalent to the difference between CPS' contract fixed rate and the converted fixed rate on these bonds for one interest period. CPS does not anticipate nonperformance by the contract counterparty, who is rated AAA by Standard & Poor's Corporation.

In 1995, CPS elected early adoption of GASB Statement No. 23 which includes unamortized cost of bond reacquisition as a reduction of long-term debt to be amortized over the life of the refunded bonds. The 1994 statements have been restated to reflect this change.

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. This ordinance as amended provides for funding to assist in the financing of eligible projects, including fuel acquisition and capital improvements to the utility systems (the Systems), and 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 program's scheduled maximum maturities will not extend beyond November 1, 2028.

The amount of outstanding TECP at January 31, 1994, was $298.4 million. During 1994, CPS issued $211 million of TECP to call long-term bonds. CPS has self-imposed a schedule to pay off the balance of the principal used for the redemption of long-term debt. Under this self-imposed payback, $16.9 million of the $211 million was redeemed during 1995, and $5.6 million was redeemed during 1994. In 1996, the principal payment scheduled is $16.7 million with similar amounts scheduled for the following four fiscal years. In 1995, $65 million of TECP was sold to fund construction costs. As of January 31, 1995, $281.5 million in principal amount was outstanding, with a weighted-average interest rate of approximately 4.03 percent and an average life of approximately 74 days.

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, 1996, and may be renewed for additional periods. There have been no borrowings under the credit agreement as of January 31, 1995. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of the Old Series Bonds, the New Series Bonds and any New Series Bonds to be issued in the future.

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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 using the unit credit cost actuarial method, is summarized as follows:

	1995	1994
	(In thousands)	
Employee contributions	$ 5,742	$ 5,497
CPS contributions	13,971	16,160
Total contributions	$ 19,713	$ 21,657
Covered payroll	$ 118,178	$ 113,139
Total payroll	$ 125,132	$ 119,122

The actuarially determined contribution requirement as of December 31, 1994, was computed using an assumed rate of return of 8.5 percent. For 1995 the past-service costs were amortized over 20 years, as compared to a 30-year amortization for prior years. A significant factor in the decrease in employer contributions from 1994 to 1995 is a change in actuarial assumptions. Among the changed assumptions was the use of a different mortality table for active and retired lives, which changed from the 1975 Group Annuity Mortality Table to the 1983 Group Annuity Mortality Table. Additional assumptions were a decrease in the Social Security Taxable Wage Base, CPI and Cost-of-Living assumptions, and modification of retirement, termination, salary scale and overtime rates.

CPS contributions have amounted to 11.8 percent of covered payroll in 1995, and 14 percent in 1994 and 1993. Of the amounts contributed during years 1995, 1994, and 1993, approximately $13.4 million, $12.9 million, and $12.8 million, respectively, was to fund the normal costs of the Plan each year. The remaining contribution in each year was to fund the amortization of the unfunded actuarial accrued liability.

GASB Statement No. 5, Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers, 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.

Under GASB No. 5, the following represents CPS' pension benefit obligation (in thousands) as of December 31, 1994, and 1993:

	1994	1993
For retirees, beneficiaries and inactive participants	$ 154,874	$ 137,598
For active participants:		
Employer and employee-financed vested benefits	214,322	203,542
Employer-financed nonvested benefits	54,084	53,585
Total pension benefit obligation	423,280	394,725
Net assets available for plan benefits (at fair market value)	350,922	357,591
Unfunded pension benefit obligation	$ 72,358	$ 37,134

Net assets available for plan benefits were 83 percent of total pension benefit obligation in 1994, as compared with 91 percent in 1993 and 89 percent in 1992. Unfunded pension benefit obligation was equal to 61 percent of annual covered payroll in 1994, as compared with 33 percent in 1993 and 37 percent in 1992.

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 value of accumulated plan benefits using an assumed rate of return of 8.5 percent was $313,021,000 at December 31, 1993. At that time, net assets available for plan benefits were $357,591,000 at fair market value. As of December 31, 1994, the actuarial present value of accumulated plan benefits was $334,541,000. This value compares to the net asset value of $350,922,000 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 1995 and 1994 were $542,000 and $586,000, 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, or death, or due to an 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 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 $1,755,000 and $1,788,000 for 1995 and 1994, 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, and to $46.10 effective January 1, 1995.

Retired employees and covered dependents contributed $701,000 and $654,000 for their health care and life insurance benefits in 1995, and 1994, respectively. In 1995, there were approximately 1,578 retirees and covered dependents eligible for health care and life insurance benefits, as compared to approximately 1,535 in 1994.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 1995 valuations are $52.4 million for health and $13.1 million for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $33.2 million for health, $87,000 for life insurance and $1.4 million for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $5 million per year 1995, 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 1995 and 1994 (in thousands), based on allowable revenue, were as follows:

	1995	1994
Tax equivalent	$ 12,736	$ 11,817
Refund gas and electric services	16,163	16,464
Additional cash payments	90,953	96,601
Additional cash payments to and services for the City of San Antonio	107,116	113,065
Total payments to the City	$119,852	$124,882

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. At January 31, 1995, 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. Austin and CPS have also filed suit in Houston, Texas, against HL&P alleging that HL&P is liable for the failure of STP to operate from February 1993 until Spring 1994. That case is set for trial in October 1995, subject to appeal of the trial court's rejection of HL&P's call for arbitration of CPS' claim. In the opinion of management of CPS, the outcome of these 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 limitations on nuclear liability and governmental indemnities, is in effect until August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $8.92 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 $3.4 million per reactor or a total of $6.8 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 maintain the maximum amount of property damage insurance currently available through the insurance industry. The $2.75 billion of nuclear property insurance consists of $500 million in primary property damage insurance, along with $2.25 billion of excess property damage insurance that is subject to a retrospective assessment being paid by each electric utility which is a member of Nuclear Electric Insurance Limited (NEIL). 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 fund available to NEIL, a retrospective assessment could occur. Under the excess property damage insurance which became effective on March 1, 1995, and under portions of the excess property insurance in effect prior to March 1, 1995, STP is subject to assessment, with the maximum aggregate assessment under current policies being $26.9 million during any one policy year.

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 power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. At the time, CPS' portion of the estimated costs for decommissioning the STP nuclear power plant was approximately $150 million in 1989 dollars, which exceeds NRC minimum requirements. The STP owners agreed in the financial assurance plan that this cost estimate would be reviewed and updated periodically as it could change by a material amount. In 1994, the owners did conduct a review of decommissioning costs. The results showed that CPS' share of decommissioning costs is now approximately $270 million in 1994 dollars with some of the increase stemming from longer post operation on-site fuel storage assumptions due to governmental requirements.

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, 1995, CPS has accumulated approximately $30.7 million of decommissioning funds in the external trust. Decommissioning trust funding was approximately $5.1 million per year for 1995 and 1994. Based upon the 1994 decommissioning cost study, the annual levelized funding will increase from $5.1 million to $8.8 million starting February 1995.

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 began making rebates/credits in January 1988 to CPS electric customers. CPS received the final settlement payment of $9.6 million in 1994. This amount was returned to customers in 1995.

CPS recorded the net effect of the pending railroad/Cordero contract issues at the end of 1995. The net amount of $1.6 million, when received, will be rebated to customers during 1996 through the fuel adjustment process.

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 $524 million at January 31, 1995. This amount includes approximately $289 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 $21 million for coal purchases, $133 million for coal transportation and $18 million for treated cooling water based upon the minimum firm commitment under these contracts.

11. Segment Information

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	1995			1994		
	Electric	Gas	Total	Electric	Gas	Total
		(In thousands)			(In thousands)	
REVENUE	$ 757,937	$ 110,694	$ 868,631	$ 781,661	$ 125,491	$ 907,152
EXPENSES:						
Operating and maintenance expenses	367,429	80,807	448,236	426,190	88,607	514,797
Depreciation	129,729	9,210	138,939	128,446	8,511	136,957
Total expenses	497,158	90,017	587,175	554,636	97,118	651,754
OPERATING INCOME	$ 260,779	$ 20,677	281,456	$ 227,025	$ 28,373	255,398
Interest and other income			24,525			23,353
Net interest and debt expense and tax equivalent to the City of San Antonio			(191,452)			(205,857)
EXCESS OF REVENUES OVER EXPENSES			$ 114,529			$ 72,894
CAPITAL EXPENDITURES	$ 124,813	$ 24,706	$ 149,519	$ 101,547	$ 22,615	$ 124,162
Identifiable assets	$ 3,743,683	$ 243,092	3,986,775	$ 3,777,[illegible]14	$ 233,250	4,011,164
General assets			473,188			464,459
TOTAL ASSETS			$4,459,963			$4,475,623

Report of Independent Auditors

ERNST & YOUNG LLP
GARZA, PREIS, GARCIA & CO.

Board of Trustees
City Public Service

We have audited the accompanying balance sheets of City Public Service as of January 31, 1995 and 1994, and the related statements of revenues and application of revenues, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the management of City Public Service. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Public Service as of January 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP   Garza, Preis, Garcia & Co.

San Antonio, Texas
March 17, 1995

Five Year Financial Review

Years Ended January 31,
(In thousands)

(Unaudited)	1995	1994	1993	1992	1991
REVENUE AND APPLICATION					
Revenues:					
Electric Sales	**$ 757,937**	$ 781,661	$ 708,257	$ 672,434	$ 677,062
Gas Sales	**110,694**	125,491	112,611	106,927	104,360
Interest and other income	**24,525**	23,353	26,508	36,023	37,088
Total revenues	**$ 893,156**	$ 930,505	$ 847,376	$ 815,384	$ 818,510
Revenues applied:					
Cost of operating systems:					
Fuel, purchased power and resale gas	**$ 210,503**	$ 260,215	$ 201,699	$ 174,758	$ 201,803
Other operating and general expenses	**164,885**	166,054	143,753	136,975	127,081
Maintenance	**72,848**	88,528	65,170	63,860	63,200
Total	**$ 448,236**	$ 514,797	$ 410,622	$ 375,593	$ 392,084
Operating fund	**$ 0**	$ 0	$ 0	$ 0	$ 0
Debt requirements for Old Series Bonds:					
Interest expense	**$ 2,678**	$ 3,390	$ 4,067	$ 4,720	$ 5,337
Principal requirements	**12,235**	13,112	12,306	11,500	10,945
Reserve requirements	**(327)**	(346)	(239)	83	154
Debt expense	**4**	6	7	9	10
Total	**$ 14,590**	$ 16,162	$ 16,141	$ 16,312	$ 16,446
Payments and services to City:					
Tax equivalent to City of San Antonio	**$ 12,736**	$ 11,817	$ 11,244	$ 11,722	$ 11,353
Refunds for services	**16,163**	16,464	16,387	17,110	17,378
Additional payment	**90,953**	96,601	85,884	80,185	80,922
Total	**$ 119,852**	$ 124,882	$ 113,515	$ 109,017	$ 109,653
Debt requirements for New Series Bonds/Other:					
Interest expense	**$ 129,899**	$ 150,588	$ 159,169	$ 160,959	$ 165,787
Principal requirements	**64,597**	66,460	69,965	62,520	53,625
Reserve requirements	**1,150**	1,239	5,568	13,886	1,588
Debt expense	**14**	42	69	81	(95)
Other interest	**3,721**	3,252	5,394	9,158	10,883
Commercial paper redemption requirements	**22,795**	8,429	0	0	0
Total	**$ 222,176**	$ 230,010	$ 240,165	$ 246,604	$ 231,788
Allowance for interest used during construction	**$ (3,072)**	$ (1,977)	$ (29,055)	$ (31,418)	$ (22,093)
Additions to plant:					
Gross construction for year	**$ 149,519**	$ 124,162	$ 171,952	$ 229,831	$ 272,468
Less construction funds provided by sources other than revenues	**88,792**	59,679	78,089	134,497	179,003
Revenues used for additions to plant	**$ 60,727**	$ 64,483	$ 93,863	$ 95,334	$ 93,465
Additions to Improvements and Contingencies fund	**16,497**	(17,852)	2,125	3,942	(2,833)
Additions to Overhead Conversion fund (Paid by I&C fund)	**14,150**	0	0	0	0
Total	**$ 91,374**	$ 46,631	$ 95,988	$ 99,276	$ 90,632
Total revenues applied	**$ 893,156**	$ 930,505	$ 847,376	$ 815,384	$ 818,510
BALANCE SHEET DATA					
Utility plant at cost*	**$ 5,013,020**	$ 4,911,599	$ 4,793,976	$ 4,641,841	$ 4,444,335
Gross construction	**149,519**	124,162	171,952	229,831	272,468
Accumulated depreciation	**1,159,599**	1,042,183	917,783	806,770	704,212
Annual depreciation allowance	**138,939**	136,957	120,879	114,332	111,158
Bond principal and interest coverage**	**2.12x**	1.78x	1.78x	1.83x	1.81x

** Prior fiscal years reclassified to reflect Contributions in Aid of Construction.*
*** 1994 principal and interest coverage was restated to include bonds only.*

Five Year Operations Review

Years Ended January 31,
(In thousands)

(Unaudited)	1995	1994	1993	1992	1991
OPERATING REVENUES					
Electric:					
Residential	$ **346,396**	$ 350,583	$ 320,067	$ 306,709	$ 305,974
Commercial and industrial	**301,319**	315,156	284,289	267,241	268,098
Street lighting	**10,454**	10,468	9,845	9,367	9,207
Public Authorities	**78,504**	86,370	78,061	75,392	78,100
Other utilities	**15,239**	13,569	10,805	8,548	10,426
Miscellaneous	**6,025**	5,516	5,190	5,177	5,257
Total electric	$ **757,937**	$ 781,662	$ 708,257	$ 672,434	$ 677,062
Gas:					
Residential	$ **65,965**	$ 75,708	$ 68,208	$ 65,768	$ 63,779
Commercial and industrial	**37,982**	41,944	37,332	34,110	33,614
Public Authorities	**5,824**	6,905	6,283	6,225	6,230
Miscellaneous	**923**	934	788	824	737
Total gas	$ **110,694**	$ 125,491	$ 112,611	$ 106,927	$ 104,360
SALES (000 OMITTED)					
Electric — KWH:					
Residential	**5,287,483**	5,005,292	4,831,794	4,793,631	4,711,423
Commercial and industrial	**5,881,461**	5,604,418	5,420,383	5,281,292	5,157,802
Street lighting	**92,392**	90,619	87,567	86,661	85,058
Public Authorities	**1,765,728**	1,668,884	1,619,005	1,623,979	1,650,207
Other utilities	**472,864**	356,164	328,547	225,942	296,500
Total	**13,499,928**	12,725,377	12,287,296	12,011,505	11,900,990
Gas — MCF:					
Residential	**12,488**	13,921	13,397	13,340	13,116
Commercial and industrial	**10,566**	10,584	10,166	9,658	9,467
Public Authorities	**1,639**	1,803	1,800	1,812	1,816
Total	**24,693**	26,308	25,363	24,810	24,399
PURCHASE FOR RESALE:					
Electric (1000) KWH*	**327,082**	70,977	292,686	67,900	24,214
Gas (1000) MCF	**24,975**	27,112	25,326	25,078	25,260
ELECTRIC GENERATION — (1000) KWH	**13,945,516**	13,431,946	12,710,278	12,621,547	12,509,782
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	1,336,000	836,000	836,000
Electric Gen. Capacity, KW (Nuclear)	**700,000**	700,000	700,000	700,000	700,000
ELECTRIC PEAK DEMAND — KW	**3,052,000**	2,908,000	2,817,000	2,799,000	2,741,100
NUMBER OF CUSTOMERS:					
Electric	**506,646**	494,385	485,345	476,122	469,962
Gas	**296,200**	292,241	290,497	287,502	285,699
RESIDENTIAL AVERAGES:					
Electric:					
Revenue per customer	$ **786.61**	$ 814.44	$ 756.51	$ 734.82	$ 740.93
KWH per customer	**12,007**	11,628	11,420	11,485	11,409
Revenue per KWH	**6.55¢**	7.00¢	6.62¢	6.40¢	6.49¢
Gas:					
Revenue per customer	$ **240.75**	$ 279.13	$ 253.96	$ 247.32	$ 241.32
MCF per customer	**45.6**	51.3	49.9	50.2	49.6
Revenue per MCF	$ **5.28**	$ 5.44	$ 5.09	$ 4.93	$ 4.86

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

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

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