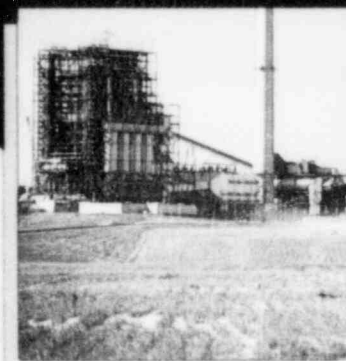
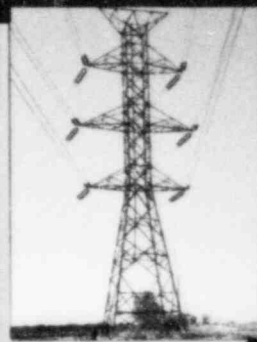
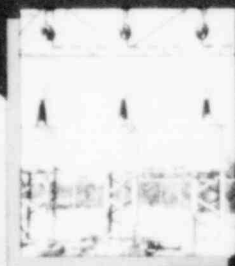


1983 Annual Report Brazos Electric Power Cooperative, Inc.



8502050648 850124
PDR ADOCK 05000445
I PDR

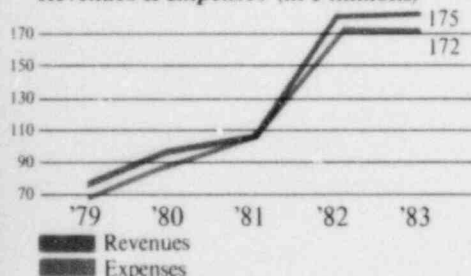
The Brazos System

Brazos Electric Power Cooperative, Inc. is a generation and transmission electric utility organized in 1941 to provide electric distribution cooperatives with reliable electric power at the lowest possible cost. Brazos sells wholesale power to its 19 member cooperatives which serve consumers in 57 counties in Central Texas. The Cooperative also sells power to seven municipal electric systems and Texas A & M University.

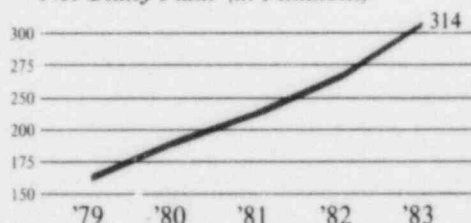
Summary of Consolidated Financial and Operating Statistics

	1983	1982	1981
Total Operating Revenues (000's)	\$174,860	\$173,107	\$108,792
Total Operating Expenses (000's)	\$172,479	\$172,757	\$108,919
Operating Margins (Loss) (000's)	\$ 2,381	\$ 350	\$ (127)
Total Assets (000's)	\$351,987	\$305,640	\$261,999
Total Equity (000's)	\$ 23,497	\$ 20,753	\$ 20,018
Times Interest Earned Ratio (TIER)	1.10	1.03	1.01
Debt Service Coverage (DSC)	1.15	1.09	1.03
Energy Sales (Megawatt hours)			
Member Cooperatives	2,498,886	2,389,141	2,226,904
Municipal Interchange Customers	230,628	226,982	218,956
Economy Sales	534,464	1,049,090	83,595
Total	<u>3,263,978</u>	<u>3,665,213</u>	<u>2,529,455</u>
Peak Demand (Megawatts)	624	531	520

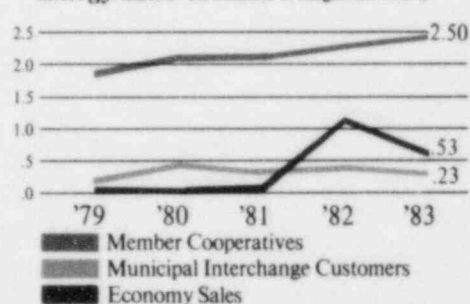
Revenues & Expenses (in \$ millions)



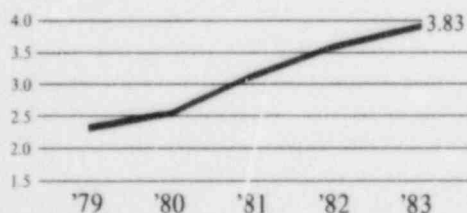
Net Utility Plant (in \$ millions)



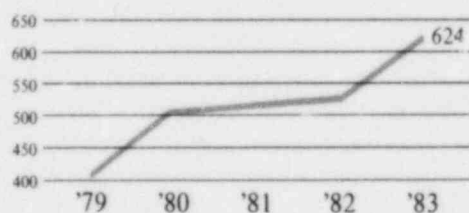
Energy Sales (in millions of megawatt hours)



**Average Fuel Cost (\$ per MCF)
(includes transportation cost)**



Peak Demand (megawatts)



Terminology and Abbreviations Used in This Report

KW..... Kilowatt.....1,000 watts
A measure of demand for power. Typical light bulbs are rated at 60 and 100 watts.

MW..... Megawatt.....1 million watts
A measure of demand for power.

KWH..... Kilowatt hour.....1,000 watts used for 1 hour
A measure of energy. Energy used by a 100-watt light bulb during ten hours.

MWH..... Megawatt hour.....1,000 kilowatt hours
A measure of energy.

KV..... Kilovolt.....1,000 volts
A measure of electrical potential. Household voltage is typically 115 volts.

KVA..... Kilovolt-ampere.....1,000 volt-amperes
A measure of capability of electrical equipment to operate under load without

heat damage. This figure is the mathematical product of voltage times current (ampere).

Lignite..... A low quality coal.

Mill..... One-tenth of a cent

A measure of cost of electricity.

MCF..... 1,000 cubic feet
Volumetric measurement used for natural gas.

Report to Members



William G. Parker

Our activities and accomplishments during 1983 have established our direction for many years to come. Those actions of greatest significance improved our control of power cost. Following the May retirement of the San Miguel Electric Cooperative general manager and pending appointment of a new manager, we took an active management role at that cooperative. San Miguel plant operations improved notably, bringing the wholesale cost of power down by year-end. We will be able to carry the San Miguel 1983 margins forward to reduce power cost during 1984.

There is a well publicized glut of natural gas in the country. Its persistence has provided opportunities previously unavailable. During 1983, we initiated the planning for a natural gas pipeline. Brazos Electric will finance and build the project. Our subsidiary, Brazos Fuel Company, will operate it. This pipeline will remove our dependence on a single source of gas. Moreover, it will enable us to buy gas competitively from pipelines and from the "spot" market. We anticipate its operation by the summer of 1984. Its economic and operational benefits will provide lasting benefits.

Working with the Mid-Tex Generation & Transmission Cooperative members, we determined the optimum date for their membership in Brazos, as viewed by all parties. That date is January 1, 1986. By early 1984, we expect to have requests for membership from five of these cooperatives. The board of directors will then consider these requests.

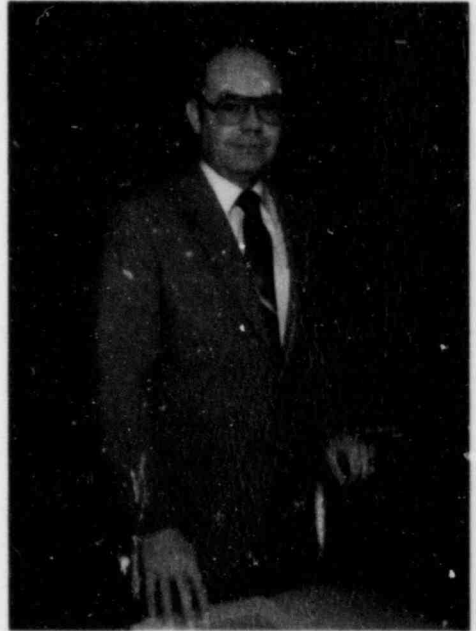
Our membership in the Texas Municipal Power Pool has enabled us to delay the addition of a new lignite plant until the early 1990's. During 1983, we conducted extensive studies to compare a new plant in east Texas to a second unit at San Miguel. We continued to look for opportunities to participate jointly

in generation projects with other utilities. A decision on the most economical course will be made early in 1984.

From December 22 through December 27, 1983, the utilities in the state suffered an acute power supply shortage due to extremely cold weather. The demand for electricity was unusually high. Statewide operation of generation units was impaired by severe, freezing conditions and by the curtailment of natural gas. Brazos has historically seen its peak demand in the summer. This year's record, summer peak of 560 megawatts was surpassed on December 24 by a peak of 624 megawatts. Despite the adverse weather, we were well prepared. In fact, we were able to assist other utilities in the state.

An emergency, this situation was uncommon by definition. Not uncommon was the superb response of our people. Furthermore, our employees' collective care and attention to day-to-day work had us fully prepared to respond. The emergency only highlighted their past performance.

At year-end G.W. Cates retired from the Brazos board after serving as the representative of Hill County Electric Cooperative since 1977. We will miss his counsel and wisdom. We wish him well in his retirement years.



Richard E. McCaskill

William G. Parker

William G. Parker

President

Richard E. McCaskill

Richard E. McCaskill

Executive Vice President
and General Manager

1983 Review

Finance and Administration

C. W. Carpenter, Manager

Sales to our customers — member cooperatives and municipal interchange customers — increased 4% to 2,730,000 megawatt hours in 1983. Because economy sales were significantly lower this year, operating revenues increased only slightly to \$175 million.

Purchased power represented over half the 1983 cost of electric service. The largest single item was the 1,660,000 megawatt hours received from San Miguel Electric Cooperative at a total cost of \$67 million. Natural gas continues to be a significant expense item, representing approximately one-fourth of total cost.

Interest rates finally stabilized, enabling us to plan more effectively in this area. We renewed several of our maturing short-term debt notes at lower, long-term interest rates. Our weighted average cost of money in 1983 was 9.93%.

During the last quarter of 1983, we secured concurrent loans from the Rural Electrification Administration and the National Rural Utilities Cooperative Finance Corporation totalling \$31,818,000. They will finance new transmission lines, substations and modifications to existing facilities to serve our members' needs.

We continued to sponsor the Member Prepayment Plan which resulted in benefits both to our member cooperatives and to Brazos. Short-term cash needs throughout the year were provided, in part, by our members' participation in the plan.

Base rates for wholesale power remained the same as in 1982. However, the September 1 legislative ban of an automatic fuel adjustment clause required us to use a fuel charge based on historic costs. That charge

was set at 4.125¢ per kilowatt hour for power generated internally.

Since 1976, the Project Construction and Engineering Division has been located in rented office space several miles from our headquarters building. After extensive studies, this past September we began construction which will expand and extend one wing of our offices. At that time, all headquarters personnel will be in one building resulting in more efficient communications and operations.

The development of our most valuable asset — our people — took another step forward this year. After a year of planning and development, we presented a management development program in conjunction with Baylor University's Hankamer School of Business. This program aims specifically at management training for generation and transmission cooperative personnel. It satisfies those training needs not met by other activities. The first program was presented in October with participation from several generation and transmission cooperatives.



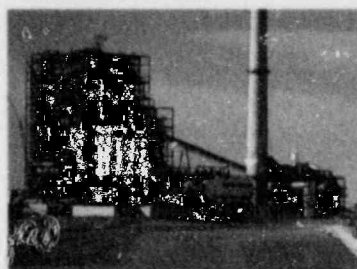
Operations

D. B. Swenke, Jr. Manager

During 1983, we met 65% of our transmission system energy requirements with lignite-fired generation from the San Miguel Plant, dedicated hydroelectric energy and economy-lignite energy purchases. Our economic dispatch operations within the Texas Municipal Power Pool (TMPP) were instrumental in minimizing fuel costs for Brazos and the cities of Bryan, Denton, Garland and Greenville. Economic dispatching is a program of loading generating units in relation to their fuel costs per kilowatt hour of output to minimize the cost of electricity. Through economic dispatch operations we were also able to sell some of our excess gas, in the form of electric energy, to the TMPP cities during the first half of 1983. We made changes to contractual gas volume requirements thereby improving the efficiency of economic dispatch operations during the latter part of 1983.

At our R.W. Miller Plant, we inspected and repaired the Unit #1 turbine generator and rebuilt the Unit #1 air pre-heater. Plant personnel planned for cold weather operations and inspected, repaired, and upgraded freeze protection systems.

Our transmission system experienced a peak demand of 560 MW during August 1983, an increase of 5.5% over the 1982 peak demand. Weather conditions throughout most of 1983 were relatively mild. However, the last two weeks of December provided a severe test for our generation, transmission and substation facilities. The system experienced a peak demand of 624



MW on Saturday, December 24, 1983. This, our first winter peak demand, was 11.4% above the 1983 summer peak and 17.5% above the 1982 peak.

On December 22, 1983, the electric systems of the Electric Reliability Council of Texas experienced a shortage of available generating capacity because of the severe winter storm. Member utilities implemented the Emergency Electric Curtailment Plan. Electric consumers and industrial customers were asked to limit their consumption of electricity. The emergency situation continued through December 27. Our gas-fired generating plants and their operating and maintenance personnel performed exceptionally well during this period. Not only were we able to supply power to our customers reliably, we were also able to provide emergency assistance to other utilities. Because of this severe test of our system, it became more apparent that our gas-fired plants must be maintained in top condition to be available when needed during peak-load periods.

We continued our program of pole inspection begun in 1982. Approximately 20% of the poles on the transmission system were inspected, treated, reinforced or replaced. We also initiated a program of fuse testing which proved

successful in reducing outages.

Our preventative maintenance programs began paying dividends during 1983 as average substation outage time was reduced by 39% from the previous year.

In addition to routine maintenance work, our transmission crews constructed three new distribution substations, accomplished system improvements in 26 substations, installed microwave equipment at eight sites to upgrade the communications system, and installed supervisory control and data acquisition equipment in six substations. We also provided support services for construction and testing of two distribution substations, two 345 KV transmission substations and 20 miles of 345 KV transmission line.

In 1984, we will continue economic dispatch efforts with TMPP to maximize the use of low cost fuels and to market excess lignite-fired energy during periods of low demand.

In addition to pole and fuse maintenance and testing, our 1984 objectives include:

- modifying 345 KV towers to help reduce outages due to contamination
- instituting a program of inspection and modification of reclosers to help reduce equipment outages
- installing a redundant master for the supervisory control and data acquisition system (remote control and monitoring for our transmission system).

We also plan to replace the governor control system and inspect the low pressure turbine and generator on R.W. Miller Unit #2 and to improve the oil-firing capability and efficiency of all our units.

Project Construction and Engineering

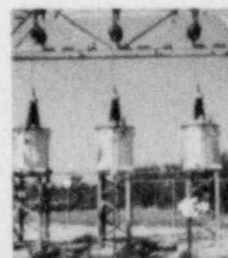
B. W. Dyess, Manager

We completed numerous projects in 1983, increasing our distribution substation capacity by 75,125 KVA and transmission substation capacity by 490,000 KVA. We energized 67 miles of new transmission line and upgraded, converted and rerouted 73 miles of line. The major transmission and distribution projects which we completed in conjunction with our Operations Division crews and outside contractors were:

- **Elm Mott-Whitney** — 20 miles of steel-tower, 345 KV transmission line and the 450,000 KVA Whitney Substation to provide for entry of San Miguel and Comanche Peak power into the Brazos System. It is noteworthy that Whitney is our first 345 KV substation.
- **Hilltop Lakes-Bedias-Watson Chapel** — 27 and 5 miles, respectively, of H-frame 138 KV transmission line and the 40,000 KVA Hilltop Lakes Substation providing 138 KV, loop service with improved voltage and reliability for the southern end of the system.
- **Whitney-Windsor-Windsor Tap** — conversion of 27 miles of H-frame and 7 miles of single-pole transmission line from 69 KV to 138 KV with associated substation improvements at Cayote, Bosque and Windsor. This project is the first phase of our conversion of the Whitney-Belton transmission line from 69 KV to 138 KV.
- **Reno-Cottondale** — 9 miles of H-frame, 138 KV transmission line to provide additional strength on our Bowie-North Texas line during system contingencies.
- **Olney-Seymour** — upgrading of 36 miles of single-pole, 69 KV transmission line to meet new code clearance requirements.
- **Knox Substation and Tap Line** — 4 miles of single-pole, 69 KV transmission line and a 6250 KVA substation with 4 bays serving a high growth area of B-K Electric Cooperative.
- **Scotland Substation and Tap Line** — 1 mile of single-pole, 138 KV transmission line and a 9375 KVA substation with 3 bays to accommodate area growth for J-A-C Electric Cooperative.
- **Highland Substation** — a 20,000 KVA substation and 4 bays constructed for Denton County Electric Cooperative to serve a rapidly developing subdivision.
- **Winkler Substation** — a 6250 KVA substation and 3 bays for Navarro County Electric Cooperative to provide for normal load growth and construction power for the Tarrant County Water District's Richland Reservoir Project.
- **Talbertridg Substation** — a 6250 KVA substation and 4 bays which will help serve a steadily growing area of Bartlett Electric Cooperative.
- **Navasota Substation** — a 6250 KVA substation and 4 bays providing additional service to Mid-South Electric Cooperative.

We continued major expansion of the radio communications and microwave systems. Both should be completed in 1984. These changes will provide substantially improved voice and control communications and system data acquisition. We also initiated activities on our solid state metering program which employs state-of-the-art data acquisition for use in system planning. The program schedules installation of metering packages in approximately 150 Brazos substations from 1984 through 1986. Individual circuit metering packages for individual distribution cooperatives will also be installed during this time frame, as their requirements are identified.

We have continued to investigate and implement progressive techniques, such as computerized scheduling and materials control, to improve our efficiency and responsiveness to the needs of our members.





Corporate Planning

W. B. Townsend, Jr., Manager

Our major planning activities in 1983 focused on generation capacity needed to meet our load in the early 1990's and on future transmission system growth to serve our members reliably.

Projections indicate that we will need new generation capacity in the early 1990's. However, they must be verified by intensive study. During the year, we worked on a new Power Requirements Study for that purpose. For the first time, we departed from historical methods and used econometrics, demography and statistical analyses as tools. We anticipate that the final report will be available early in 1984.

We mentioned last year that we were conducting conceptual design studies of two alternative projects: an east Texas lignite project and San Miguel Unit #2. These studies were completed and we have continued with supporting work related to future generation. Because our

objective is to make our future power cost as low as possible, we have continued to look for and investigate opportunities to participate with other utilities in joint, generation projects.

One of our major activities during the year was conducting studies which developed transmission construction project requirements for 1984 and later. Based on those studies, we have budgeted approximately \$24 million for 1984 transmission system improvements. The studies also justified delaying some previously planned projects.

Several members of the Mid-Tex Generation & Transmission Cooperative have expressed interest in joining Brazos. To determine the benefits to both the interested cooperatives and to Brazos members, we continued to conduct economic studies. We determined the date of membership which would give equal benefits to the Mid-Tex cooperatives and to the existing Brazos members: January 1986. We anticipate receiving applications for membership in January 1984. We will then be able to evaluate and report the specific situations of those cooperatives with a committed interest.

In early 1984, the initial studies on new generation will be completed. In conjunction with the generation studies, a long-range transmission study will be prepared. We will incorporate both studies into a twenty-year plan for Brazos and submit it to the Rural Electrification Administration. We will continue the modeling and projections of future power requirements. The results of these studies will be used in transmission studies to determine the long-term requirements for the Brazos System.

Public Relations

F. M. Bushnell, Jr., Manager

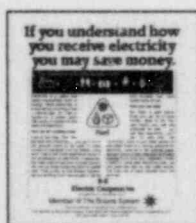
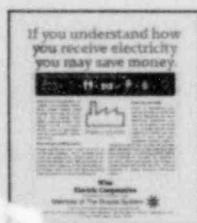
The major issue in the 1982 gubernatorial campaign was electric utility rates. Consumers believed that their utility bills would be reduced and even that they might not have to pay for fuel. In its 1983 session, the state legislature deliberated extensive changes to the Public Utility Regulatory Act at the insistence of the newly elected governor. Consequently, public affairs became our predominate activity in the first half of the year. Our specific assignment was to insure that the amendments relating to fuel cost did not jeopardize our ability to recover our costs. We made an intensive effort to insure that legislators understood our unique position: which power plants are on line affects our system fuel cost much more than changes in cost of any specific fuel. We had an uphill struggle and did not achieve all that we wanted. However, our efforts did bring recognition to our situation and protected us from adverse legislation.

A legislative act which we favored was an amendment to the Electric Cooperative Corporation Act. It "grandfathered" our relationship with our municipal customers by allowing us to serve them through wholesale power contracts. Our contracts have been interchange agreements which require these customers to maintain the ability to generate power.

Last year we developed and published a formal plan for emergency action and communications with our customers, the media and the public during power supply shortages. This plan proved very effective during a thorough test created by the extremely cold weather at year-end. We operated in accordance with the plan for a period of five days when power supplies were strained.

We anticipate several non-recurring activities which will require considerable attention in 1984:

- a rate case in anticipation of commercial operation of the Comanche Peak Nuclear Plant
- initiation of a new lignite-fired generation project, scheduled for operation in the early 1990's.
- the possibility of more cooperatives joining Brazos.



Brazos Fuel Company, Inc.

C. L. Sartin, Manager

From some of our difficulties in 1983, we have developed significant opportunities.

There is currently a natural gas glut that some experts anticipate to last through 1986. At the price we pay our dedicated producers for natural gas, we were not able to find a market for production excesses during our periods of low consumption. It became difficult to avoid "take-or-pay" penalties. In July, we terminated purchasing 25% of our gas requirements from the pipeline which serves us. We also reduced purchases from our producers by nominating our demands and then taking their gas ratably as required by the Railroad Commission's "ratable take" rule. These actions brought some relief.

In the past few years, the daily delivery capacity of our dedicated wells has declined due to their age — now generally eight to ten years. This condition has significantly limited our ability to use the full capability of the R.W. Miller Plant, without burning oil, for periods of peak demand. In short, the maximum delivery capability of our gas supply is too low, and contractual minimums are too high.

We have been working on several plans which will alleviate these problems. The first is to build a 12-inch natural gas pipeline from the R.W. Miller Plant to Huckabay, about 25 miles to the south. It will be able to provide sufficient gas for the Miller Plant to operate at full capacity. We have also been negotiating with natural gas pipeline companies for gas supply contracts.

Through our new pipeline we should be able to obtain three new sources of gas: access to two major supply pipelines and to the "spot" market. Additionally, we may still retain dedication to our producers' wells because they are not subject to the curtailment policies of major pipelines. The persistence of the gas glut has created conditions in which renegotiating our present contracts may now be beneficial to all parties: producers, pipeline, and Brazos. The possibilities are exciting.

Brazos Electric has been studying two alternative lignite power plants for operation in the early 1990's. We are currently negotiating with a major coal company for lignite reserves. Simultaneously, San Miguel Electric Cooperative is conducting a fuel study. Our goal is to determine if the second unit at San Miguel would be more economical to build than a plant sited at an east Texas lignite reserve.

Treasurer's Report



Robert H. Bunting
Secretary-Treasurer

The Consolidated Statement of Revenue and Patronage Capital and Other Equities of the Cooperative and its wholly owned subsidiary, the Brazos Fuel Company, Inc., reflects that operations produced net margins of \$2,744,917 for the calendar year 1983. Margins improved significantly compared to the net margins of \$734,995 reported in 1982. The margins from 1983 resulted in a Times Interest Earned Ratio (TIER) of 1.10 and a Debt Service Coverage (DSC) of 1.15. The TIER and DSC ratios are key financial indicators used by the Rural Electrification Administration in assessing the ability of the cooperative to meet its mortgage requirements.

Operating margins from the Cooperative's operations for 1983 were \$2,346,497. These margins have been allocated to customers on a patronage basis.

This year, total assets exceeded \$351 million. Total revenues were \$175 million. The distribution of revenues indicates that purchased power continues to be the major cost item. We present below the distribution of both the 1982 and the 1983 revenue dollars.

The Cooperative received Rural Electrification Administration and Federal Financing Bank loan fund advances of \$50,355,000 during 1983. Of these funds, \$9,807,000 were REA insured and \$40,548,000 were REA guaranteed. These advances were used to finance the construction of transmission facilities and to finance the cost of our 3.8% interest in the Comanche Peak Nuclear Plant. Long-term debt at year-end was just over \$297 million.

The Cooperative's total margins and equities of \$23.4 million represent 6.6% of the \$351.9 million total assets.

Robert H. Bunting

DISTRIBUTION OF 1982 REVENUE DOLLAR



Purchased Power	49.8%
Optg. Margins	.2%
Interest	5.3%
Depr. & Amort.	3.0%
Transmission	4.7%
Admin. & Gen'l	1.7%
Taxes	.6%
Wages & Other Costs	1.1%
Fuel Cost	33.6%
Generated Power	34.7%
	<u>100.0%</u>

DISTRIBUTION OF 1983 REVENUE DOLLAR



Purchased Power	53.8%
Optg. Margins	1.4%
Other Deductions	.9%
Interest	5.8%
Depr. & Amort.	3.2%
Transmission	4.8%
Admin. & Gen'l	1.9%
Taxes	.6%
Wages & Other Costs	1.1%
Fuel Cost	26.5%
Generated Power	27.6%
	<u>100.0%</u>

Board of Directors



William G. Parker
President
Comanche County
Electric Cooperative
Association



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



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



William Sanders
Erath County
Electric Cooperative
Association



Woodrow Hensarling
Mid-South
Electric Cooperative
Association



Horace R. LeNoir
Limestone County
Electric Cooperative,
Incorporated



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



Lawrence Karl
Bartlett
Electric Cooperative,
Incorporated



Grover F. Furr
Fort Belknap
Electric Cooperative,
Incorporated



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



G. W. Cates*
Hill County
Electric Cooperative,
Incorporated



M. E. Holley
Denton County
Electric Cooperative,
Incorporated



Luther L. Parks
Belfalls
Electric Cooperative,
Incorporated



Joe Forman
Wise
Electric Cooperative,
Incorporated



Jack Elam
Hamilton County
Electric Cooperative
Association



Billy J. Poland
Johnson County
Electric Cooperative
Association



Melvin Jordan
Navarro County
Electric Cooperative,
Incorporated



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



Don Gregg
B-K
Electric Cooperative,
Incorporated

* Resigned upon retirement - January 1, 1984
Sam Houston elected to the vacancy.

Management

Richard E. McCaskill

Executive Vice President and General Manager

Francis M. Bushnell, Jr.

Executive Assistant and Manager-Public Relations

Clarence W. Carpenter

Manager-Finance and Administration

Billy W. Dyess

Manager-Project Construction and Engineering

Dan B. Swenke, Jr.

Manager-Operations

William B. Townsend, Jr.

Manager-Corporate Planning

Subsidiary

Brazos Fuel Company, Inc.

Clifford L. Sartin

Manager—Fuel Operations

1983
Financial Statement
Brazos Electric Power Cooperative, Inc.

Financial Statement

The financial strength and resilience of the Brazos System stem from its member cooperatives and customers, listed below. They serve consumers in rural, suburban, and urban areas totaling nearly 20% of Texas. This vast service area provides diversity for income sources of residential, agricultural and industrial loads. It also provides strong growth in energy sales.

Member Cooperatives

Bartlett Electric Cooperative, Inc.
B-K Electric Cooperative, Inc.
Belfalls Electric Cooperative, Inc.
Comanche County Electric Cooperative Assn.
Cooke County Electric Cooperative Assn.
Denton County Electric Cooperative, Inc.
Erath County Electric Cooperative Assn.
Fort Belknap Electric Cooperative, Inc.
Hamilton County Electric Cooperative, Assn.
Hill County Electric Cooperative, Inc.
J-A-C Electric Cooperative, Inc.
Johnson County Electric Cooperative, Assn.
Limestone County Electric Cooperative, Inc.
McLennan County Electric Cooperative, Inc.
Mid-South Electric Cooperative Assn.
Navarro County Electric Cooperative, Inc.
Robertson Electric Cooperative, Inc.
Tri-County Electric Cooperative, Inc.
Wise Electric Cooperative, Inc.

Municipal Customers

Bartlett
Granbury
Hearne
Sanger
Seymour
Weatherford
Whitesboro

Other

Texas A & M University

Comparative Summary of Electrical Operations 1979-1983*

	1983	1982	1981	1980	1979
(Mills per KWH)					
Total Operating Revenue (1)	53.3	46.8	40.1	34.6	30.9
Operating Costs					
Production expenses (2)	43.4	39.5	34.1	29.1	24.8
Transmission expenses	2.5	2.2	1.6	.8	.8
Adm. and general expenses	.6	.8	1.0	.9	.9
Dep'n., taxes, insurance, interest	6.0	4.1	3.4	3.2	3.7
Total Operating Costs	52.5	46.6	40.1	34.0	30.2
Net Operating Margin (Loss)	.8	.2	(—)	.6	.7
(1) Average sales price by class					
Firm power sales					
Member Cooperatives	55.6	49.9	40.1	34.5	30.7
Cities	57.1	50.9	42.4	36.0	32.9
Utility interchange	—	—	—	—	34.8
Surplus power sales					
Cities	40.3	38.4	33.9	34.5	29.5
(2) Further analyzed by source					
Generated power					
Cost of fuel	40.9	39.1	34.1	27.6	23.3
Wages and other costs	1.7	1.2	1.0	.6	.9
Purchased power					
For system	38.6	36.3	24.9	22.9	19.7
At isolated meter points	43.8	41.6	35.6	29.1	26.0

*Excludes operations of Brazos Fuel Company, Inc.

Comparative Summary of Electrical Operations 1979-1983*

	1983	1982	1981	1980	1979
Electricity Generated and purchased—In Megawatt Hours					
Generated at W.R. "Bob" Poage Plant	—	—	—	—	—
Generated at North Texas Plant	8,814	22,890	71,897	99,986	4,262
Generated at Randle W. Miller Plant	1,118,547	1,499,573	1,494,217	1,782,357	1,513,456
Purchased for system					
a. From San Miguel Electric Cooperative	1,668,411	1,654,877	366,664	—	—
b. From other utilities	229,462	170,161	295,685	286,930	334,217
Purchased at isolated meter points	460,553	458,434	412,529	413,856	363,032
	<u>3,485,787</u>	<u>3,805,935</u>	<u>2,640,992</u>	<u>2,583,129</u>	<u>2,214,967</u>
Electric Sales—In Megawatt Hours					
A. Firm					
Member Cooperatives	2,498,886	2,389,141	2,226,904	2,214,371	1,897,829
C. Sales—regular interchange	230,628	226,982	218,956	224,843	195,822
	<u>2,729,514</u>	<u>2,616,123</u>	<u>2,445,860</u>	<u>2,439,214</u>	<u>2,093,651</u>
B. Economy Sales	534,464	1,049,090	83,595	23,748	33,150
	<u>3,263,978</u>	<u>3,665,213</u>	<u>2,529,455</u>	<u>2,462,962</u>	<u>2,126,801</u>
Electric Sales to Member Cooperatives—In Megawatt Hours					
Bartlett Electric Cooperative, Inc.	47,297	47,221	43,646	44,297	41,767
Belfalls Electric Cooperative, Inc.	39,125	42,317	46,837	42,859	32,874
B-K Electric Cooperative, Inc.	61,230	61,530	62,194	66,430	57,746
Comanche County Electric Cooperative Assn.	141,177	136,675	123,059	113,760	90,078
Cooke County Electric Cooperative Assn.	244,152	234,604	220,337	221,999	209,647
Denton County Electric Cooperative, Inc.	242,089	218,286	195,937	195,123	164,319
Erath County Electric Cooperative Assn.	153,394	146,638	137,763	140,736	118,911
Fort Belknap Electric Cooperative, Inc.	105,013	94,726	84,994	75,466	67,637
Hamilton County Electric Cooperative Assn.	75,894	75,602	69,983	72,741	66,510
Hill County Electric Cooperative, Inc.	115,100	111,916	103,032	108,514	93,516
J-A-C Electric Cooperative, Inc.	87,038	82,017	73,085	66,765	60,554
Johnson County Electric Cooperative Assn.	299,957	286,371	259,155	262,235	228,898
Limestone County Electric Cooperative, Inc.	59,878	61,201	58,552	61,404	56,985
McLennan County Electric Cooperative, Inc.	77,712	77,009	75,815	74,774	63,282
Mid-South Electric Cooperative Assn.	155,889	156,657	141,804	117,957	93,040
Navarro County Electric Cooperative, Inc.	91,528	86,241	95,233	106,045	68,468
Robertson Electric Cooperative, Inc.	48,201	48,626	41,757	41,568	35,283
Tri-County Electric Cooperative, Inc.	323,536	301,061	283,580	290,372	252,767
Wise Electric Cooperative, Inc.	130,676	120,443	110,141	111,326	95,547
	<u>2,498,886</u>	<u>2,389,141</u>	<u>2,226,904</u>	<u>2,214,371</u>	<u>1,897,829</u>

	1983	1982	1981	1980	1979
Maximum Kilowatt Demand At Member Delivery Points	<u>612,297</u>	<u>568,681</u>	<u>556,837</u>	<u>551,656</u>	<u>433,233</u>
Annual Load Factor Percent Member Cooperatives	<u>47</u>	<u>48</u>	<u>46</u>	<u>46</u>	<u>50</u>
Electric Energy Sales					
Member Cooperatives	\$138,873,457	\$119,214,939	\$ 89,373,467	\$ 76,382,941	\$ 58,230,463
Wholesale and other	<u>34,699,138</u>	<u>51,976,783</u>	<u>11,830,747</u>	<u>8,848,000</u>	<u>7,332,682</u>
	<u>\$173,572,595</u>	<u>\$171,191,722</u>	<u>\$101,204,214</u>	<u>\$ 85,230,941</u>	<u>\$ 65,563,145</u>
Other Electric Revenue	<u>233,616</u>	<u>184,241</u>	<u>245,027</u>	<u>102,932</u>	<u>100,574</u>
Total Operating Revenues	<u>\$173,806,211</u>	<u>\$171,375,963</u>	<u>\$101,449,241</u>	<u>\$ 85,333,873</u>	<u>\$ 65,663,719</u>
Operating Expenses					
Production Expense-Generated Power	\$ 48,018,505	\$ 59,530,029	\$ 54,979,207	\$ 53,184,446	\$ 36,697,814
Production Expense-Purchased Power	<u>93,506,213</u>	<u>85,265,221</u>	<u>31,174,730</u>	<u>18,633,493</u>	<u>16,031,402</u>
Transmission Expense	<u>8,264,545</u>	<u>8,121,976</u>	<u>4,092,502</u>	<u>1,962,736</u>	<u>1,719,860</u>
Insurance and Welfare Expense	<u>1,344,556</u>	<u>1,200,410</u>	<u>954,435</u>	<u>841,434</u>	<u>730,333</u>
Other Administrative & General Expenses	<u>1,955,285</u>	<u>1,783,918</u>	<u>1,635,066</u>	<u>1,337,628</u>	<u>1,140,286</u>
Depreciation and Amortization	<u>5,631,674</u>	<u>5,126,312</u>	<u>3,826,420</u>	<u>3,519,135</u>	<u>3,588,702</u>
Taxes	<u>1,046,208</u>	<u>1,082,647</u>	<u>1,014,270</u>	<u>913,757</u>	<u>819,521</u>
Interest on Long-Term Debt	<u>26,620,960</u>	<u>22,403,479</u>	<u>15,530,709</u>	<u>11,343,930</u>	<u>3,928,246</u>
Other Interest	<u>972,492</u>	<u>1,047,359</u>	<u>583,981</u>	<u>576,205</u>	<u>549,603</u>
Less Interest Charged to Construction	<u>(17,466,851)</u>	<u>(14,735,721)</u>	<u>(12,438,836)</u>	<u>(8,462,767)</u>	<u>(940,829)</u>
Other Operating Deductions	<u>1,566,127</u>	<u>144,739</u>	<u>179,555</u>	<u>3,779</u>	<u>—</u>
Total Cost of Electric Service	<u>\$171,459,714</u>	<u>\$170,970,369</u>	<u>\$101,532,039</u>	<u>\$ 83,853,776</u>	<u>\$ 64,264,944</u>
Gain (Loss) in Operating Margins	<u>\$ 2,346,497</u>	<u>\$ 405,594</u>	<u>\$ (82,798)</u>	<u>\$ 1,480,097</u>	<u>\$ 1,398,775</u>
Non-Operating Margins	<u>366,651</u>	<u>337,760</u>	<u>92,624</u>	<u>247,537</u>	<u>346,152</u>
Gain (Loss) in Total Margins	<u>\$ 2,713,148</u>	<u>\$ 743,354</u>	<u>\$ 9,826</u>	<u>\$ 1,727,634</u>	<u>\$ 1,744,927</u>

*Excludes operations of Brazos Fuel Company, Inc.

Consolidated Balance Sheet

<i>Years Ended December 31, 1983 and 1982</i>	1983	1982
ASSETS (Note 2)		
Utility Plant (Notes 1, 3 and 13):		
Electric plant in service, at cost	\$179,060,951	\$164,518,537
Completed construction not classified	13,251,288	5,698,207
Construction work in progress	161,589,306	133,386,486
Nuclear fuel in process of refinement and enrichment	6,906,277	4,751,582
	<u>360,807,822</u>	<u>308,354,812</u>
Less accumulated provision for depreciation and amortization	46,480,898	42,343,477
Utility plant, net	<u>314,326,924</u>	<u>266,011,335</u>
Other property and investments:		
Investments in associated organizations:		
Capital term certificates (Note 13)	5,666,914	4,847,198
Patronage capital (Note 1)	956,632	1,107,712
Other	6,250	11,453
Notes receivable	—	4,409
Restricted assets and other investments:		
Certificates of deposit	13,497	28,106
Other	17,500	22,500
	<u>6,660,793</u>	<u>6,021,378</u>
Current assets:		
Cash—general	1,754,488	831,788
Cash—loan funds	6,624	176,946
Special deposits	127,635	121,600
Temporary cash investments	—	600,000
Accounts receivable	18,222,009	18,996,620
Fuel inventory, at average cost	771,732	1,232,774
Material and supplies, at average cost	6,629,439	7,023,056
Prepayments	84,090	211,654
Total current assets	<u>27,596,017</u>	<u>29,194,438</u>
Deferred debits:		
Unrecovered purchased fuel costs, less allowance for unrecoverable gas of \$336,077 and \$538,580 (Notes 1 and 13)	704,894	775,898
Fixed transmission costs, less amortization of \$849,796 and \$424,898 (Note 8)	1,228,062	1,652,960
Other	1,470,365	1,984,400
	<u>3,403,321</u>	<u>4,413,258</u>
	<u>\$351,987,055</u>	<u>\$305,640,409</u>

	1983	1982
LIABILITIES		
Equity and margins:		
Memberships	\$ 95	\$ 95
Patronage capital and other equities (Note 4)	23,497,355	20,752,438
	<u>23,497,450</u>	<u>20,752,533</u>
Long-term debt:		
REA mortgage notes (Notes 4 and 5)	84,051,471	77,427,713
NRUCFC mortgage notes (Notes 4 and 6)	9,805,443	10,293,139
FFB mortgage notes (Notes 4 and 7)	203,487,000	162,939,000
	<u>297, 1,914</u>	<u>250,659,852</u>
Current liabilities:		
Current maturities of long-term debt	3,698,000	3,655,000
Accounts payable	16,997,734	23,936,313
Notes payable—NRUCFC (Note 9)	4,800,000	5,300,000
Notes payable—banks	17,500	22,500
Other accrued liabilities	<u>5,412,438</u>	<u>1,045,951</u>
Total current liabilities	<u>30,925,672</u>	<u>33,959,764</u>
Deferred credits (Note 1)	<u>220,019</u>	<u>268,260</u>
	<u>\$351,987,055</u>	<u>\$305,640,409</u>

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

Consolidated Statement of Revenue and Patronage Capital and Other Equities

<i>Years Ended December 31, 1983 and 1982</i>	1983	1982
Operating revenues:		
Sales of electric energy (Notes 1 and 11)	\$173,572,595	\$171,191,722
Sales of natural gas	1,094,380	1,776,021
Other	193,449	139,139
	<u>174,860,424</u>	<u>173,106,882</u>
Operating costs and expenses:		
Cost of natural gas sold	1,057,943	1,721,270
Operating expense:		
Operation expense:		
Production—fuel (Note 1)	45,843,552	57,471,918
Production—other	998,341	1,011,801
Purchased power	93,506,213	85,265,221
Transmission	6,268,391	6,140,244
Distribution	268,835	301,953
Administrative and general	3,421,521	3,096,239
Maintenance expense:		
Production	886,402	872,584
Transmission	946,474	884,504
Distribution	780,845	795,275
General plant	139,746	112,756
Depreciation and amortization (Note 1)	5,634,087	5,129,679
Taxes	1,055,956	1,095,051
Interest on long-term debt	26,620,960	22,403,479
Other interest	950,131	1,046,240
Interest charged to construction (Note 1)	(17,466,851)	(14,735,721)
Other deductions	1,566,127	144,739
Total operating costs and expenses	<u>172,478,673</u>	<u>172,757,232</u>
Operating margins	2,381,751	349,650
Patronage capital allocations	105,609	73,384
Nonoperating margins:		
Interest income	263,306	234,172
Other	—	52,028
Margins before Federal income tax	2,750,666	709,234
Federal income tax (benefit) (Note 12)	5,749	(25,761)
Net margins	2,744,917	734,995
Patronage capital and other equities, beginning of year	20,752,438	20,017,443
Patronage capital and other equities, end of year	\$ 23,497,355	\$ 20,752,438

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

Consolidated Statement of Changes in Financial Position

<i>Years Ended December 31, 1983 and 1982</i>	1983	1982
Working capital provided from:		
Net margins	\$ 2,744,917	\$ 734,995
Depreciation and amortization	5,634,087	5,129,679
Patronage capital allocations	(105,609)	(73,384)
Gains on sales of assets	—	(49,851)
Working capital provided from operations	8,273,395	5,741,439
Advances from REA	9,807,000	65,000
Advances from FFB	40,548,000	37,145,000
Decrease in other property and investments	—	99,161
Salvage value of retirements	284,203	970,092
Contributions for line removal and relocation	11,252	159,016
Decrease in unrecovered purchased fuel costs	71,004	273,810
Proceeds from sale of assets	—	56,150
Decrease in deferred debits	514,035	—
Total working capital provided	59,508,889	44,509,668
Working capital used for:		
Additions to utility plant	53,411,986	44,607,928
Payments on long-term debt to REA	3,183,242	3,230,695
Payments on long-term debt to CFC	487,697	704,651
Plant removal costs	408,246	335,847
Decrease in deferred credits	48,241	44,533
Increase in other deferred debits	—	226,819
Increase in other property and investments	533,806	—
Total working capital used	58,073,218	49,150,473
Increase (decrease) in working capital	\$ 1,435,671	(\$ 4,640,805)
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	752,378	595,182
Temporary cash investments	(600,000)	(489,054)
Special Deposits	6,035	82,754
Accounts receivable	(774,611)	3,339,598
Material and supplies	(854,659)	1,548,424
Prepayments	(127,564)	(41,086)
	(1,598,421)	5,035,818
Increase (decrease) in current liabilities:		
Current maturities of long-term debt	43,000	194,000
Accounts payable	(6,938,579)	10,871,540
Notes payable	(505,000)	(1,505,000)
Other accrued liabilities	4,366,487	116,083
	(3,034,092)	9,676,623
Increase (decrease) in working capital	\$ 1,435,671	(\$ 4,640,805)

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

Notes to Consolidated Financial Statements

1 - Summary of Significant Accounting Policies

Principles of Consolidation

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

System of Accounts

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

Electric Revenues and Fuel Costs

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

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

Plant Additions and Retirements

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

Interest Charged to Construction

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

Depreciation

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

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

Patronage Capital Certificates

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

Unrecovered Purchased Fuel Costs

Natural gas purchased under the take-or-pay terms of contracts with various individual producers is recorded at contract cost, which includes production taxes and

royalties. The amount of gas paid for in advance is classified as a deferred debit. Unpaid production taxes and royalties, related to the above contracts, are included in deferred credits until such time that the gas purchased and not taken will actually be recovered by the Cooperative.

An allowance for unrecoverable gas is provided for by charges to income. The allowance is based upon a determination by the Cooperative's consulting engineers as to the volume of gas losses in each well.

2 - Assets Pledged

All assets are pledged as security for the long-term debt to REA, National Rural Utilities Cooperative Finance Corporation (CFC) and Federal Financing Bank (FFB).

Notes to Consolidated Financial Statements (Continued)

3 - Utility Plant

Listed below are the major classes of utility plant as of December 31, 1983 and 1982:

	December 31,	
	1983	1982
Intangible plant	\$ 2,170	\$ 2,170
Production plant	59,936,639	59,914,595
Transmission plant	84,391,302	74,356,782
Distribution plant	30,544,187	26,132,645
General plant	4,186,653	4,112,345
Completed construction not classified	13,251,288	5,698,207
Electric plant in service	192,312,239	170,216,744
Construction work in progress	161,589,306	133,386,486
Nuclear fuel in process of refinement and enrichment	6,906,277	4,751,582
	<u>\$360,807,822</u>	<u>\$308,354,812</u>

Included in construction work in progress at December 31, 1983, are costs of \$144,558,890 for the purchase of 3.8% ownership in the Comanche Peak Nuclear Plant. The Cooperative's cost of its 3.8% share in the Comanche Peak Nuclear Plant is estimated to be \$205,000,000.

4 - Patronage Capital and Other Equities

Detail of patronage capital:

	December 31,	
	1983	1982
Assignable	\$ 2,452,106	\$ 478,866
Assigned	17,577,743	17,098,877
	<u>20,029,849</u>	<u>17,577,743</u>
Detail of other equities:		
Capital gains and losses	9,383	9,383
Nonoperating margins	3,183,707	2,922,665
Retained earnings of subsidiary	274,416	242,647
	<u>3,467,506</u>	<u>3,174,695</u>
Total patronage capital and other equities	<u>\$23,497,355</u>	<u>\$20,752,438</u>

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

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

5 - Long-Term Debt - REA Mortgage Notes

Mortgage notes to REA are 2% and 5%, 35-year notes payable with principal and interest installments of approximately \$1,336,000 due quarterly. The debt includes an estimated \$3,210,000 of principal and deferred interest payable within the next twelve months. The notes are scheduled to be fully repaid at various dates from March 10, 1984 to September 12, 2018. Unadvanced loan funds of \$15,168,000 at 5% are available to the Cooperative on loan commitments from REA.

6 - Long-Term Debt - CFC Mortgage Notes

Long-term debt to CFC consists of 7% to 14% mortgage notes payable with principal and interest installments of \$321,500 due quarterly with \$488,000 principal payable within the next twelve months. The notes are scheduled to be fully repaid at various dates from May 31, 1989 to November 30, 2016.

Unadvanced loan funds of \$8,688,000 at 11% are available to the Cooperative on loan commitments from CFC.

7 - Long-Term Debt - FFB Mortgage Notes

Long-term debt to FFB consists of 9.824% to 14.907%, 2- to 32-year notes payable with interest payments due quarterly. The notes are scheduled to be fully repaid at various dates from January 24, 1984 to December 31, 2017. The Cooperative has an option to extend the due dates of the 2-year notes for a period not less than two years nor greater than seven years after the date of the advance; or to extend the maturity date to thirty-four years after the end of the calendar year in which the advance was made.

Notes to Consolidated Financial Statements *(Continued)*

At December 31, 1983, the Cooperative had \$63,614,353 of advances with short-term maturity dates which they intend to refinance under the above options. These advances have been classified as long-term debt for financial statement purposes. Advanced loan funds of \$99,514,000 are available to the Cooperative on loan commitments from FFB.

8 - Deferred Debits

The Cooperative has constructed a 78-mile, 345 KV transmission line from the San Miguel Electric Cooperative, Inc. generating plant (Plant) to a point of interconnection with another utility. Power is transmitted from the Plant to the point of interconnection and is wheeled by other utilities into the Brazos transmission system. Certain fixed costs associated with the line, and charges from the other utilities for wheeling services, were deferred pending commercial operation of the Plant which occurred in early 1982. The deferred costs are being amortized to expense on a straight-line basis over a period of 5 years.

9 - Line of Credit Agreement

The Cooperative has established a line of credit, for short-term financing, with CFC for \$25,000,000. At December 31, 1983, the amount owed CFC under agreement was \$4,800,000 due March 18, 1984 at an annual interest rate of 10 3/8%.

10 - Retirement Plan

The Cooperative has a contributory retirement plan covering substantially all of its employees. Total retirement costs charged to operations for 1983 and 1982, were \$356,179 and \$332,724, respectively, and include charges for current and prior service costs. The Cooperative's policy is to fund retirement cost annually as it is accrued.

The actuarially computed value of vested benefits at December 31, 1982 (date of latest information available) was \$4,735,845, which was exceeded by the book value of the pension fund assets by \$1,755,148.

11 - Transactions with Member Cooperatives

The Cooperative has contracts with 17 of its 19 member distribution cooperatives, through June 30, 2020, for the sale of wholesale electric energy.

Contracts with the other 2 member cooperatives are through the period June 30, 2010. Sales of electric energy to the 19 members were \$138,873,457 and \$119,214,939 for 1983 and 1982, respectively.

12 - Federal Income Taxes

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

The tax benefit of \$25,761 in the year ended December 31, 1982, represents a refund of \$33,583 due from Internal

Revenue Service resulting from a net operating loss of the subsidiary in 1982, less \$7,822 for additional taxes resulting from an Internal Revenue Service examination of the subsidiary for the years 1977 through 1979.

13 - Commitments and Contingencies

Unrecovered Purchased Fuel Costs

The Cooperative has contracted to purchase gas from various individual producers, in addition to other suppliers. The remaining term of the majority of these contracts is approximately 10 years. Under the terms of the contract agreements, the Cooperative has agreed to purchase and receive, or pay for if available and not taken, an average daily quantity of gas set forth in the contracts. The contracts provide for the recovery of gas paid for, but not taken, over the remaining life of the contracts. It is the opinion of the management, that with proper monitoring of reservoir performance and field surveillance of operating conditions, failure to

Notes to Consolidated Financial Statements (Continued)

recover gas paid for but not taken above the allowance for unrecoverable gas, will be minimal; and that such failures, should they occur, are a proper increment of the cost of actual gas delivered and therefore recoverable, under the Cooperative's rate structure, from its customers.

Construction Commitments

The Cooperative's expenditures for its 1984 construction program are estimated to be approximately \$60,100,000 of which \$58,200,000 will be financed by REA, CFC and FFB loan funds and \$1,900,000 will be financed by general funds. Approximately \$24,725,000 of the estimated 1984 construction program expenditures is for additions of the Comanche Peak Nuclear Plant.

Subscription Agreement

The Cooperative is committed under the terms of a subscription agreement to purchase additional CFC capital term certificates totaling approximately \$820,000 in 1984.

Operating Agreements

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

Main Hurdman

certified public accountants

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

The Board of Directors
Brazos Electric Power Cooperative, Inc.

We have examined the consolidated balance sheet of Brazos Electric Power Cooperative, Inc. and subsidiary as of December 31, 1983, and 1982, and the related consolidated statements of revenue and patronage capital and other equities and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Brazos Electric Power Cooperative, Inc. and subsidiary at December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for the years then ended, in conformity and generally accepted accounting principles applied on a consistent basis.

Main Hurdman

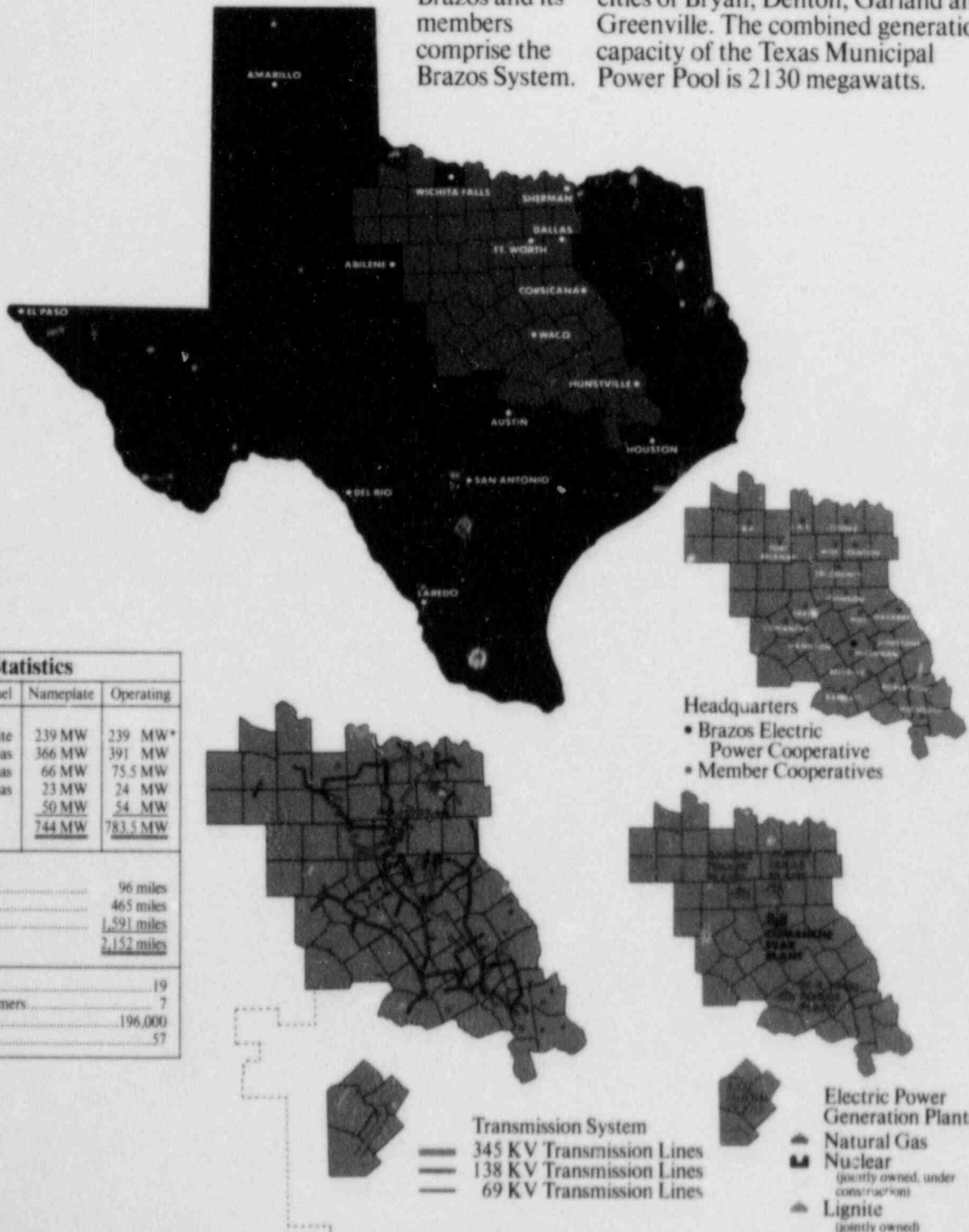
March 1, 1984

The Brazos System

Brazos Electric Power Cooperative, Inc. is a generation and transmission cooperative which provides electric power to its 19 member distribution cooperatives whose service areas cover 49,900 square miles of Texas.

Brazos and its members comprise the Brazos System.

Brazos also provides electric power to the municipal systems of the cities of Bartlett, Granbury, Hearne, Sanger, Seymour, Weatherford and Whitesboro and to Texas A & M University. Brazos is a member of the Texas Municipal Power Pool with the cities of Bryan, Denton, Garland and Greenville. The combined generation capacity of the Texas Municipal Power Pool is 2130 megawatts.



System Statistics

	Fuel	Nameplate	Operating
Generation Capacity:			
San Miguel Plant	Lignite	239 MW	239 MW*
R. W. Miller Plant	N. Gas	366 MW	391 MW
North Texas Plant	N. Gas	66 MW	75.5 MW
W. R. (Bob) Poage Plant	N. Gas	23 MW	24 MW
Hydro (by contract)		50 MW	54 MW
		<u>744 MW</u>	<u>783.5 MW</u>
*Capacity allocation as a joint owner			
Transmission Lines:			
345 KV			96 miles
138 KV			465 miles
69 KV			1,591 miles
			<u>2,152 miles</u>
Member Cooperatives19			
Municipal Interchange Customers7			
Ultimate Consumers196,000			
Counties Served57			



The Brazos System

Brazos Electric Power Cooperative, Inc.

2404 LaSalle, P.O. Box 6296, Waco, Texas 76706 (817) 752-2501