CITY PUBLIC SERVICE
OF SAN ANTONIO

FOCUSING ON CHANGE

1995-96
ANNUAL
REPORT

GAS

ELECTRIC

PROFILE OF CITY PUBLIC SERVICE

City Public Service is one of the largest municipal utilities in the country, serving 519,269 electric customers throughout its 1,566 square mile service area. The gas system supplies 299,167 customers in the San Antonio urban area.

CPS generates power for its customers at two coal-fired and five natural gas-fired plants with a combined capacity of 3,815 megawatts in the San Antonio area. The utility also owns 28 percent of the South Texas Project nuclear plant on the Texas coast, which adds another 700 megawatts of capacity. The gas system is comprised of 4,023 miles of gas lines through which natural gas is delivered to CPS customers.

The CPS goal is to produce reliable, low-cost energy to serve the San Antonio area, which has a population of 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.

Purchased by the City of San Antonio in 1942, the utility is governed by a five-member Board of Trustees, which includes the Mayor of San Antonio.

City Public Service had 3,565 employees as of January 31, 1996.

SIGNIFICANT FACTS FOR THE YEAR

Gross revenue increased $21,694,000 to	$914,850,000
Fuel and operating and maintenance expenses increased $6,478,000 to	$454,714,000
City payment increased $3,070,000 to	$122,922,000
Long-term debt service requirements on bonds increased $1,604,000 to	$211,013,000
Maximum electric system load increased 197,000KW to	3,249,000 KW
12,623 electric customers were added to total	519,269
KWH sales increased 5.6% to	14,255,289,817 KWH
Cost to residential customer per KWH decreased 1.8% to	6.43¢
2,967 gas customers were added to total	299,167
MCF sales increased 2.5% to	25,302,948 MCF
Cost to residential customer per MCF of gas decreased 3.6% to	$5.09

SUMMARY OF APPLICATION OF REVENUES ($000s)

Gross revenue for 1995-96		$914,850
Application of revenue:		
Fuel, purchased power, and resale gas		$203,337
Other operating and general expenses		172,745
Maintenance of the systems		78,632
For debt requirements and other interest	$240,338	
Interest charged to construction	2,818	
Net debt requirements and other interest		$237,520
Payments to the City of San Antonio		122,922
Balance from operations available for construction		99,694
Total		$914,850

Gross amount spent for replacement, improvements and expansion of gas and electric systems	$153,326

Funds obtained from:	
Operations	$99,694
Commercial Paper	33,299
Bond Construction Fund	16,109
Improvements and Contingencies Fund	(3,537)
Contributions and advances in aid of construction	7,727
Sale of property	34
Total	$153,326

PERFORMANCE

TECHNOLOGY

SERVICE

TEAMWORK

EFFICIENCY

LETTER FROM THE CHAIRMAN AND GENERAL MANAGER

Fundamental changes rarely happen suddenly to an industry. Rather, change usually occurs as a gradual metamorphosis in response to changing needs and demands.

In the electric utility business, however, change is coming quickly. The Public Utility Commission in Texas, for example, has approved rules which provide for the unrestricted use of transmission lines for wholesale transactions across the state. New PUC rules also call for the separation of generation from transmission functions in each utility in an effort to promote competitive prices. As regulations continue to change, successful utilities will use all their resources to change from a regulated environment in which they are required to provide service in a particular geographic area to a competitive one in which they must vie for customers.

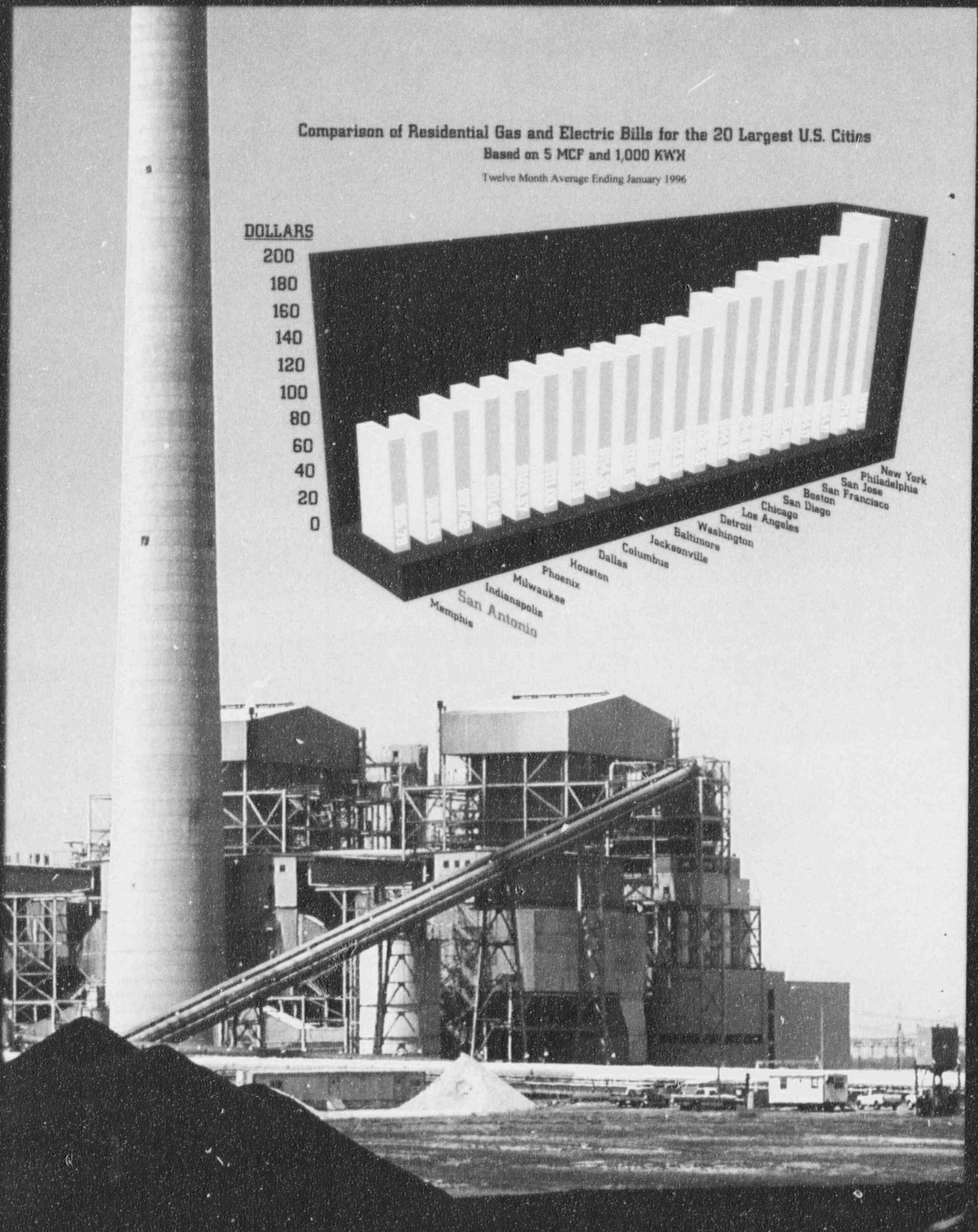
The successful utilities will emphasize reliability, competitive rates and, above all else, service to customers. They will draw on the skills of their employees and advancements in technology to meet the changing needs and demands.

CPS has a long history of reliability, competitive rates and good service but the utility will not rest on its laurels. Recognizing that those who stand still will be left behind as others make changes, CPS has taken steps during the year to continue preparing for a future that includes competition for both wholesale and retail customers.

CPS is ready to meet the challenge. Its operating and financial strengths give the utility the resources it needs to continue being successful and on which it can build in a competitive future.

Arthur R. Emerson
Chairman

Arthur von Rosenberg
General Manager


Comparison of Residential Gas and Electric Bills for the 20 Largest U.S. Cities
Based on 5 MCF and 1,000 KWH
Twelve Month Average Ending January 1996
DOLLARS
200
180
160
140
120
100
80
60
40
20
0
Memphis
San Antonio
Indianapolis
Milwaukee
Phoenix
Houston
Dallas
Columbus
Jacksonville
Baltimore
Washington
Detroit
Los Angeles
Chicago
San Diego
Boston
San Francisco
San Jose
Philadelphia
New York

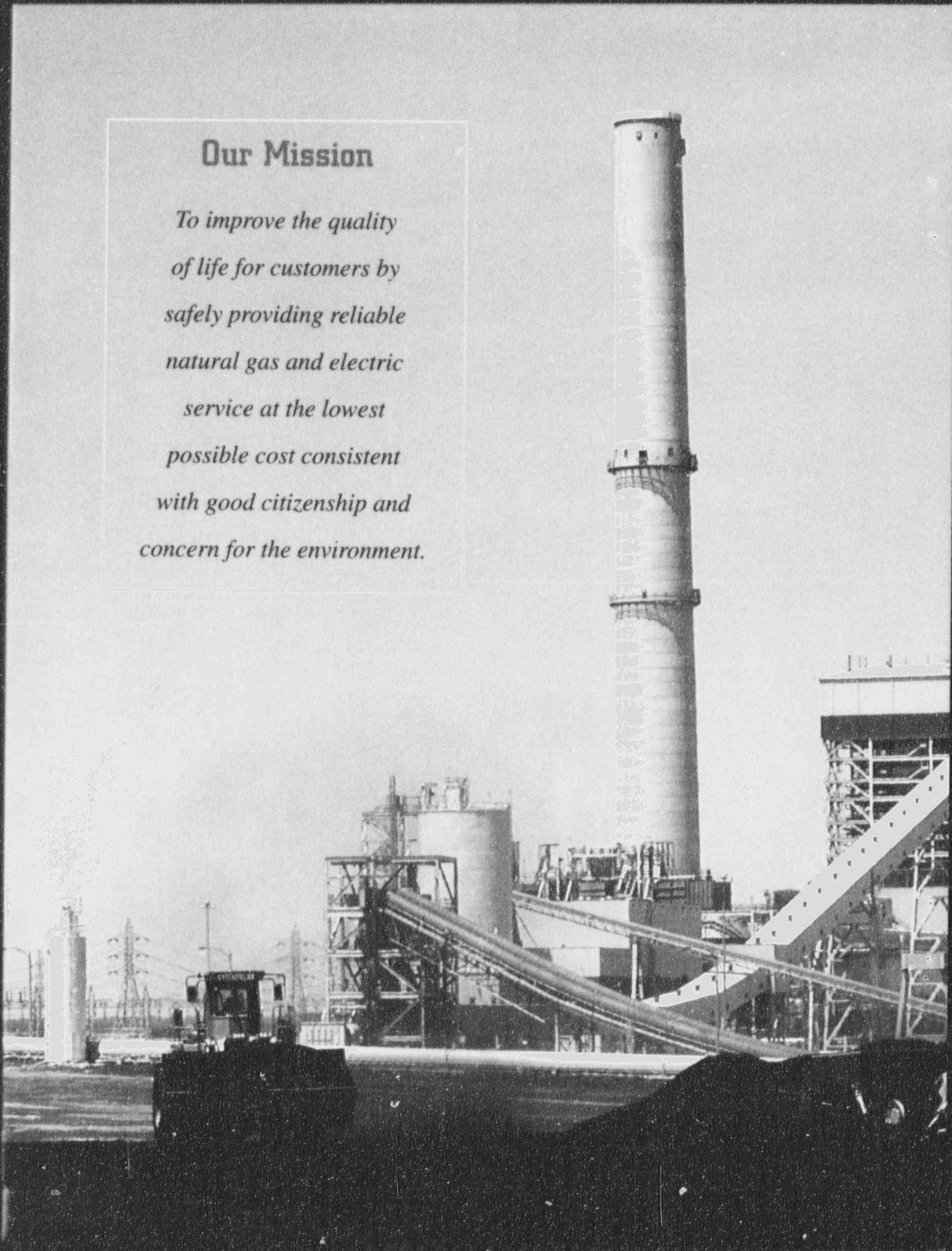
FOCUSING ON CHANGE

As the drama of deregulation in the utility industry unfolds, the reaction of many utilities has been to consolidate in preparation for competition. Others fear change and prefer to sell their assets. City Public Service, San Antonio's natural gas and electric utility, falls into yet another category -- those that accept the challenge.

As CPS navigates in uncharted waters, it anticipates the years ahead as an era of opportunity, especially if the utility's strengths are considered. CPS has always strived for excellence and fares well in performance comparisons with other utilities. Thus, CPS is positioned to embark on the changes that will take it into the competitive era. As one of the premier utilities in the country, CPS is in a good position to focus on change and use the changing utility business environment to the customers' benefit.

Our Mission

To improve the quality of life for customers by safely providing reliable natural gas and electric service at the lowest possible cost consistent with good citizenship and concern for the environment.



OPPORTUNITY: TO CONTINUE PROVIDING LOW-COST SERVICE

CPS is an efficient utility when measured by the most important gauge -- rates. During 1995-96, CPS customer bills compared favorably with those of other cities. CPS residential bills of $86.85 for 1,000 kilowatt hours of electricity and 5,000 cubic feet of natural gas were 33.6 percent lower than the average bill for the 20 largest cities in the country. The utility ranked second lowest among the nation's 20 largest cities. CPS electric bills for 1,000 kilowatt hours also measured favorably within Texas. The average electric bill for Texas customers during the year was $74.52 compared to $62.86 for CPS customers, a savings of 18 percent to CPS customers.

The utility's ability to provide low-cost service is due in part to efficiency at its power plants. The 1994 Utility Data Institute study rated two CPS plants among the most cost efficient in the nation. The coal-fired Deely and Spruce power plants ranked 19th and 38th, respectively, in production costs among 791 plants. The criteria included maintenance, operation and fuel costs.

CPS continues to pursue reduced operating expenses. For example, CPS staff is studying the potential of using longer coal-hauling trains to reduce the cost of shipping coal from Wyoming to coal-fired power plants. Lengthening trains from 115 cars to as many as 128 also would replenish the coal inventory more quickly, an important aspect of reliability. Trains 11 percent larger would deliver the same annual volume of coal but would reduce the number of unit train trips by 40.

CPS is delaying the need to build new power plants by improving existing plant capacity and efficiency and saving more than $1 million per year. An on-line performance monitoring system for the coal-fired J.T. Deely Power Plant saves $160,000 per year by determining the source of energy losses in the two units. A load demand computer is projected to save $428,000 per year by enhancing the load regulating capabilities of the coal-fired Deely units, while a control system retrofit at the Braunig Plant will extend the life of its three units and save $437,000 per year.

Enhanced crew flexibility and multipurpose equipment represent additional ways the utility is reducing costs. Operations troublemen can now restore both overhead and underground service by using specially-equipped aerial basket trucks. Radar equipment in the trucks is used with electrical system maps on personal computers to quickly locate the point of cable failure. Crews then isolate the fault, significantly reducing the amount of time required to restore service.

In its natural gas distribution business, CPS saves up to 5.5 percent on gas facilities construction through the use of coiled gas pipe technology. These 450-foot long polyethylene pipes replace the traditional 40-foot lengths for gas construction projects, reducing the number of joints that require fusing. Fewer fused joints reduce labor costs and enhance gas system reliability.

The utility also is evaluating the distribution of natural gas at higher gas pressures. This new standard would allow the use of less expensive, smaller diameter pipes.

OPPORTUNITY: TO CONTINUE ADDING VALUE TO SERVICE

The 1995-96 fiscal year was a year of preparation for the future, a future that will be marked by increased use of technology to meet customer needs.

CPS completed a major transmission project with the construction of the 345-kilovolt transmission loop joining the high voltage system from western Bexar County to northeast San Antonio. Having the 345 KV transmission loop in place both enhances CPS electric system reliability and strengthens the tie between CPS generation and off-system electric markets. In addition, as CPS adds or rebuilds transmission lines, fiber optic cable is being installed. Currently 60 miles of cable are in place representing the first phase of a 306-mile fiber optic backbone to be completed at the end of 1997. The fiber network will serve as the backbone for a communication system to enhance the transfer of data and automate load transfer functions. The network ultimately will provide a segment of the communication link between CPS and its individual customers, an important step in serving customers.

To test the viability of automating the electric distribution system, CPS is working to automate two distribution circuits in a pilot project jointly sponsored with the Electric Power Research Institute. The project involves communication with two distribution feeder circuits through a fiber optic network to allow CPS to control equipment on the circuits. The project also will provide automated services to 134 single-family residences and 12 businesses so CPS can monitor residential customer appliance use; automatically read gas and electric meters; and decrease energy demand by cycling air conditioners, heat pumps and other high-usage appliances. For commercial customers, the pilot program provides information on energy usage and outages.

CPS not only upgrades infrastructure through technology but also uses technology to simplify functions. During the year, CPS began the purchasing process for the Integrated Mobile Data Communications System which will dispatch gas and electric service personnel electronically to correct problems. The system will monitor the location of crews and will issue electronic work orders to personnel in the vicinity of the problem, significantly reducing response time. To aid them on service calls, CPS employees will have access to digitized information and facilities maps, improving their understanding of both CPS facilities and the customers' needs. Implementation of the system is forecast to save $1.4 million per year on labor, vehicle expenses and system maintenance.

OPPORTUNITY: TO CONTINUE PROVIDING EXCELLENT CUSTOMER SERVICE

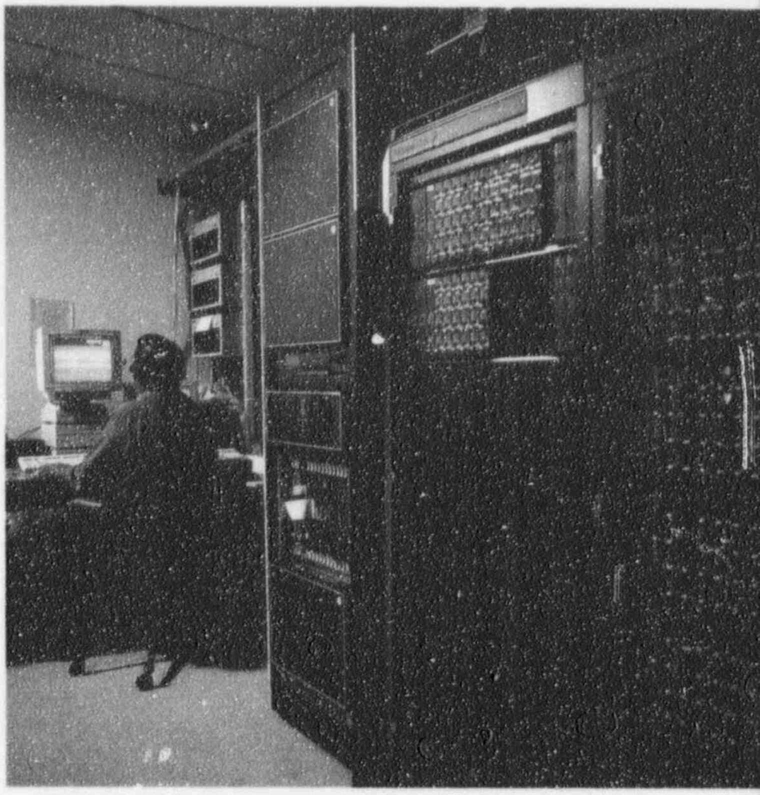
CPS is recognized as a leader in addressing customer needs because it continuously enhances customer service. The Texas Public Power Association presented CPS the 1995 customer service award for utilities with 50,000 customers or more. Award-winning initiatives include a customer call-back program during outages, customer notification to avoid service disconnections for non-payment and high success in collecting delinquent accounts during 1994. The award also cited a summary billing program for customers with multiple locations.

Improved customer service has resulted from installing automated call answering systems. Customers can more efficiently report outages and obtain account information 24 hours a day. The HELP Line allows customers to report outages in Spanish and English through an interactive voice response unit. The computerized system elicits responses from customers and records utility problems, then generates work orders so crews can be dispatched to restore service.

Customer account information also is available electronically. By dialing the EASY Line, customers can obtain basic billing information and make payment arrangements 24 hours a day.

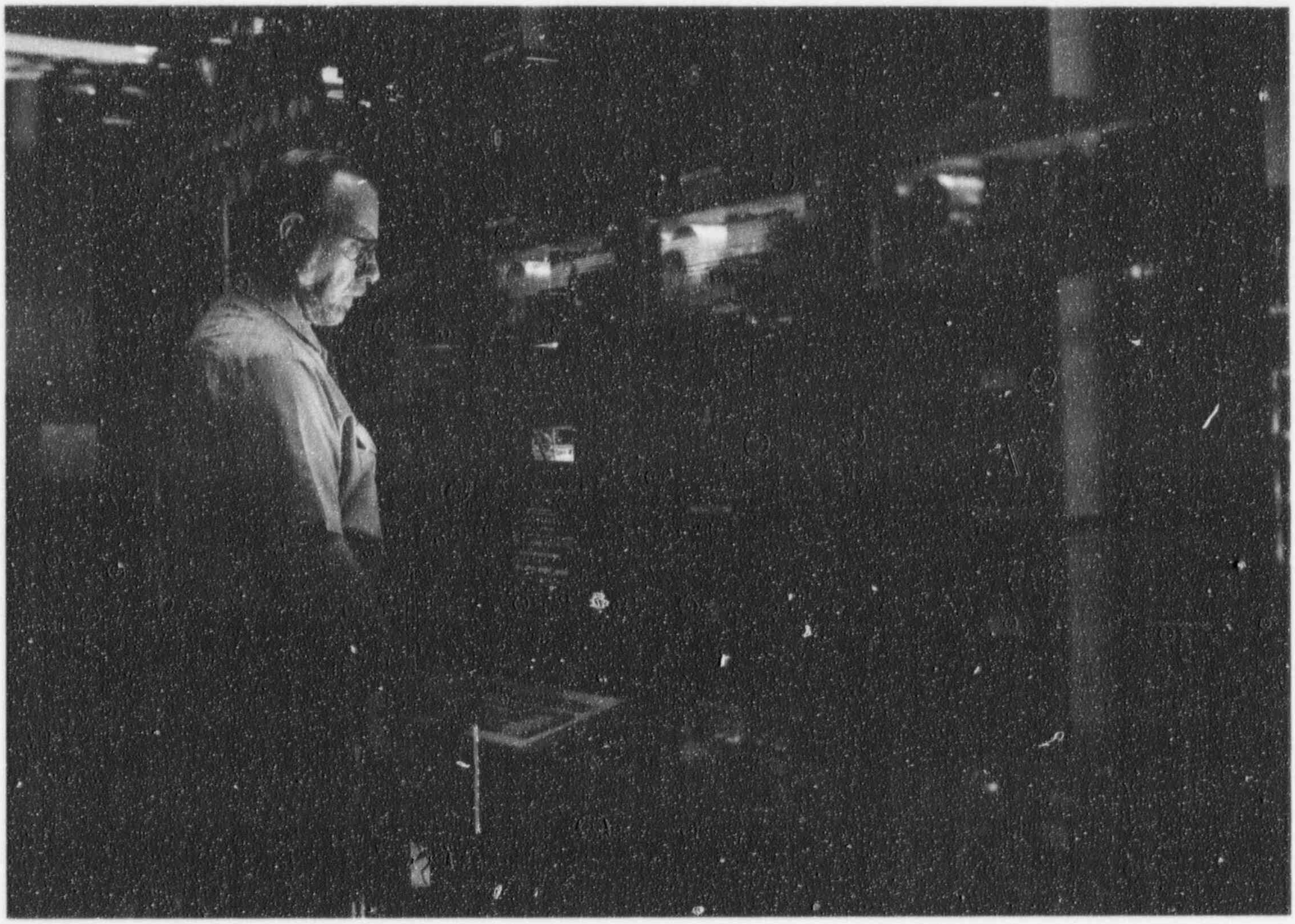
Another service enhancement includes the use of 20 cus-

tomer service representatives to answer calls from their homes during emergencies such as after-hours storms. These representatives use utility-installed data terminals and telephone equipment to take calls immediately when an emergency begins rather than traveling to the office.



The CPS Electronic Payment Plan affords convenience to customers by automatically deducting their utility payments from their bank accounts. The payment program completed its first anniversary during the 1995-96 fiscal year with 11,734 customers enrolled.

The utility is attracting new customers by extending its gas service. CPS began constructing a $12.5 million outer gas loop to improve reliability and make service more widely available in outlying areas. The utility expects to complete the project during the next five years. In the meantime, CPS is directing marketing efforts to developers and businesses by emphasizing the savings and convenience of gas. Expanding gas service will provide customers with the flexibility of future energy choices.



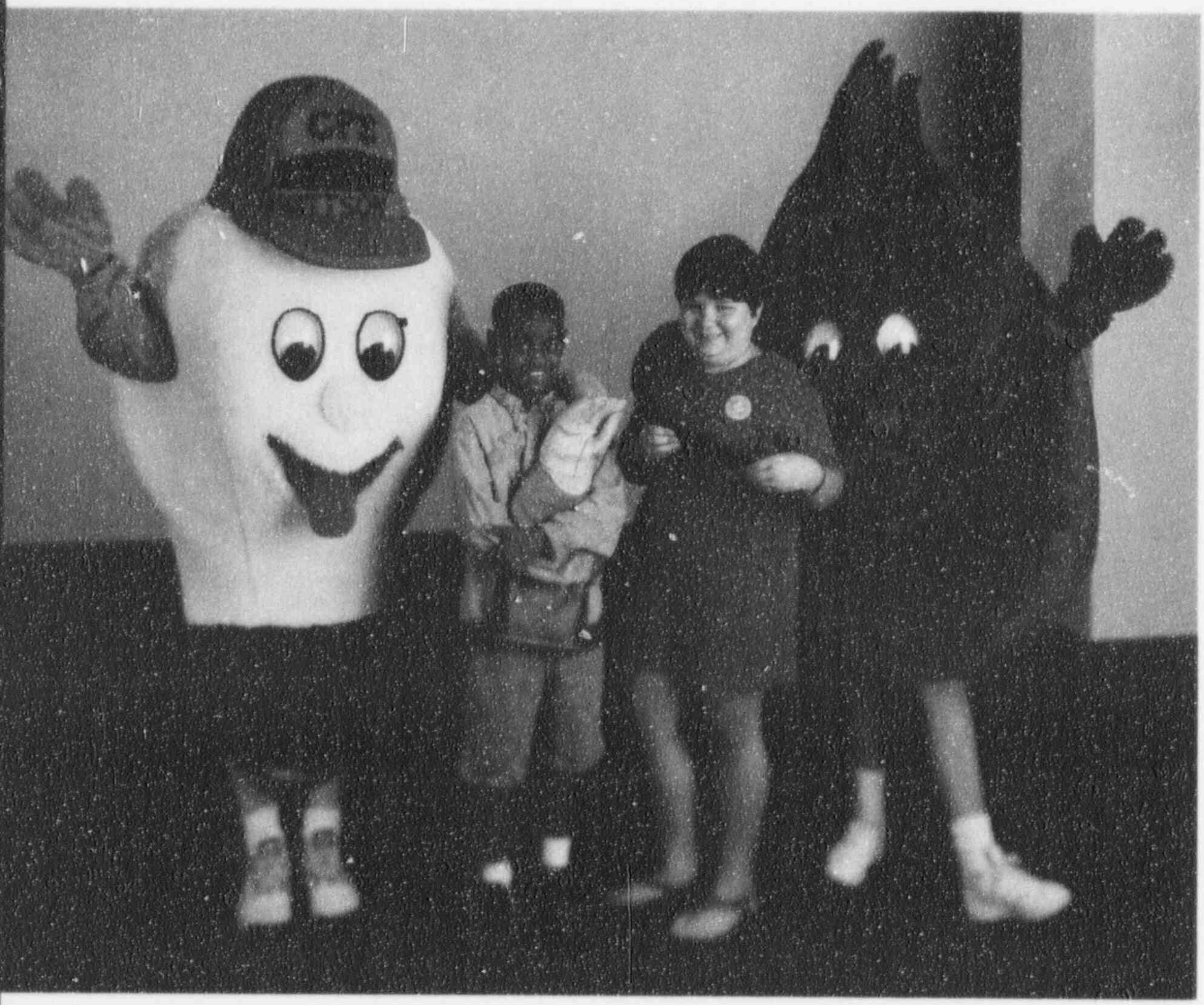
OPPORTUNITY: TO CONTINUE SERVING AS A GOOD CORPORATE CITIZEN

In the face of cost-cutting, many organizations reduce their commitment to the community. CPS, however, continues its role as a good corporate citizen through a variety of programs.

CPS improves the appearance of the community by offering design alternatives for overhead lines and by converting some overhead lines to underground service. The Overhead Conversion Fund appropriates 1 percent of retail electric sales to convert some existing overhead service to underground in projects identified by the City of San Antonio and surrounding governmental jurisdictions.

CPS informs its customers about energy-related topics. For the fourth consecutive year, the utility co-sponsored "Our House," the 13-week television series on energy conservation through home improvement. In addition, the gas and electric utility staff gave 95 energy and conservation-related presentations, reaching 3,382 persons. CPS hosted power plant tours, participated in career days and loaned videos on utility topics to schools.

Active and retired employees assisted the community by contributing more than $486,000 to the local United Way campaign. More than 1,100 employees volunteered 11,650 hours in the community and raised $13,160 for charitable projects.

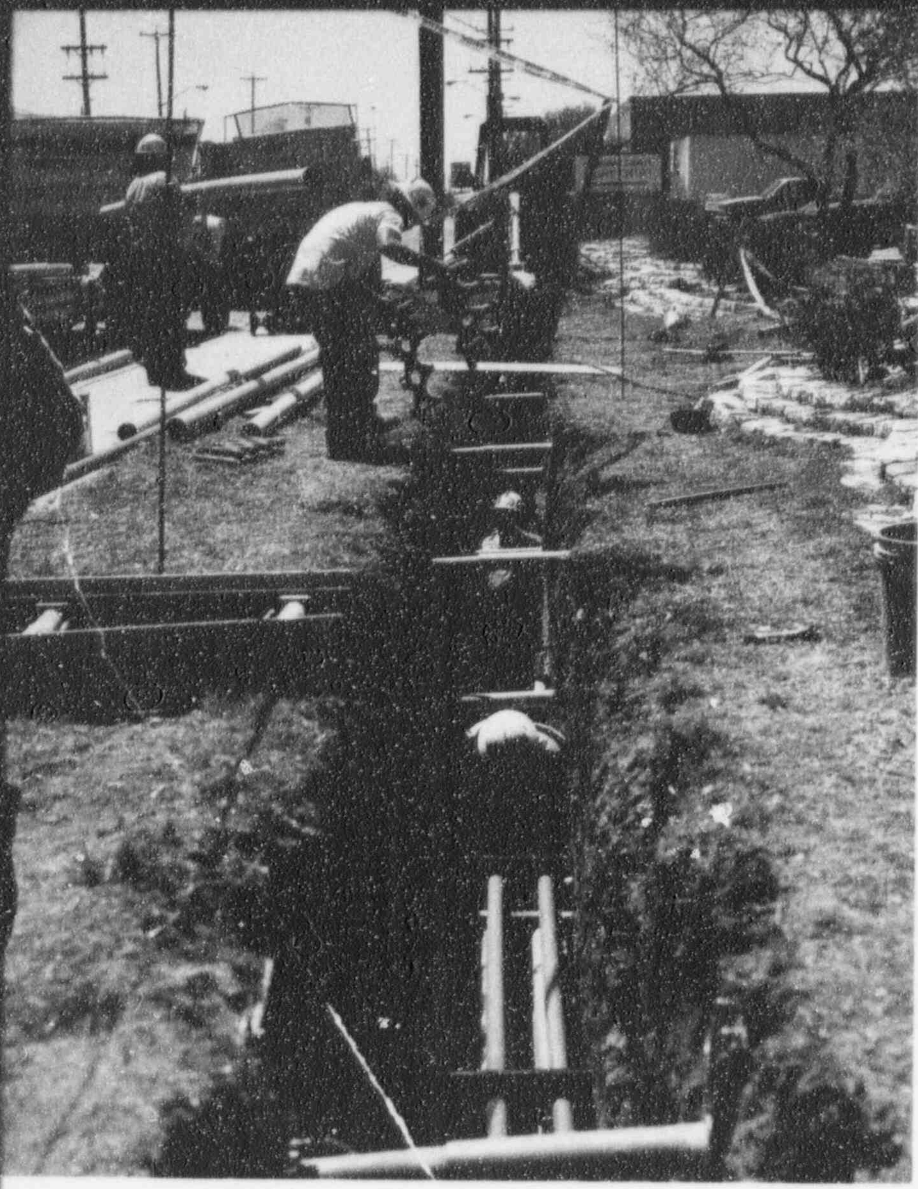


CPS also supports community activities. During the year, the utility used lobby space in one of its customer service centers to exhibit winners of an art contest sponsored by a local school district.

A Citizens Advisory Committee, established during the year, provided the utility valuable feedback on customer needs and utility resource planning. The committee represents business and community leaders, as well as a cross section of ethnically-diverse, socio-economic groups. Identifying ways to improve service places CPS in an advantageous position.

Gas and electric safety remains a priority. The extensive CPS safety education campaign consisted of 447 programs to 54,025 persons at schools and in civic and business groups.

SUMMARY



Efficiency at City Public Service is a core value of the organization. Minimizing costs while adding value to its products has long been the CPS philosophy, a philosophy that has produced an environment conducive to technological innovations. This corporate culture, coupled with the municipal utility's more than 50 years of experience in the industry, gives CPS a competitive edge as the utility looks ahead to a deregulated environment.

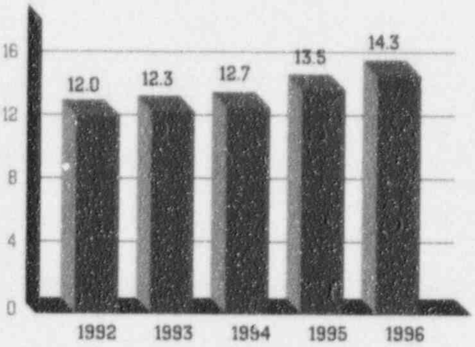
In the dawn of a new era, City Public Service proudly accepts the opportunity to compete. The utility's favorable bond ratings, low rates, competitive production costs and excellent customer service place CPS in an advantageous position.

Competition provides the opportunity for CPS to sharpen its focus as the utility looks for more ways to maximize efficiency. CPS will continue to provide low-cost service through conservative financial strategies, fuel diversification, cost reductions and increased productivity. In addition, the utility will continue to upgrade infrastructure and improve processes through technology. As CPS examines new methods of providing convenience for customers and addressing their needs, excellence in customer service will continue to be the standard.

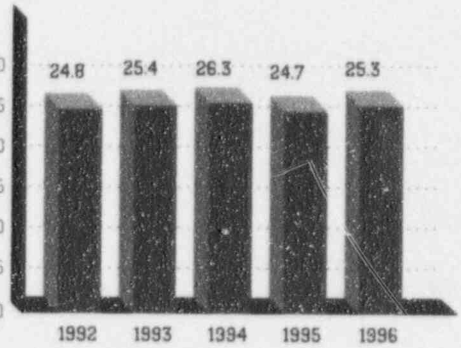
The years ahead will be challenging. CPS embraces the opportunity of meeting the needs of its customers. The municipally-owned utility is poised to provide safe and reliable natural gas and electric service at low rates in a deregulated and competitive marketplace.

OPERATIONAL AND FINANCIAL REVIEW FOR 1995-96

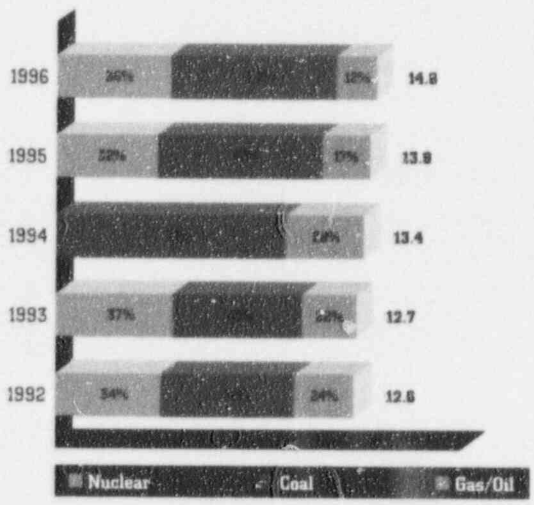
Electric Sales
In Billion KWH



Gas Sales
In Million MCF

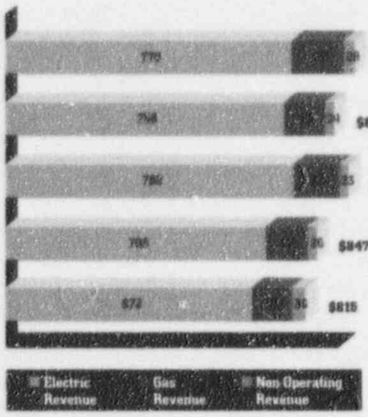


Electric Generation by Fuel Type
In Billion KWH



Fiscal Years Ending January 31

Gross Revenue
In Millions of Dollars



City Public Service concluded a successful year marked by growth, financial strength and continued low rates.

Where there is growth, demand for natural gas and electric service increases. San Antonio experienced growth and brisk business activity during 1995-96.

The San Antonio area added 30,000 jobs in 1995, the largest increase ever. Texas Workforce Commission figures show total wage and salaried employment reached 633,900 at the end of 1995 compared with 603,900 a year earlier. San Antonio's rate of job growth came to a robust 5 percent for the year.

Among the new jobs are 3,125 brought to the city through the efforts of the Economic Development Foundation. The 18 companies relocating to the city during 1995 equaled the number of the previous year but brought nearly 43 percent more employment opportunities. The largest of the new companies, Brylane L. P., employs 900. The most notable expansion during the year was Citicorp which enlarged its facilities and added 400 new jobs.

New home sales in 1995 totaled 5,402, a robust showing in the housing market. Sales are expected to increase between 5 and 10 percent in 1996. At the same time, housing starts numbered 5,306 in 1995, with the third quarter of the year reaching the highest level in any quarter in 10 years.

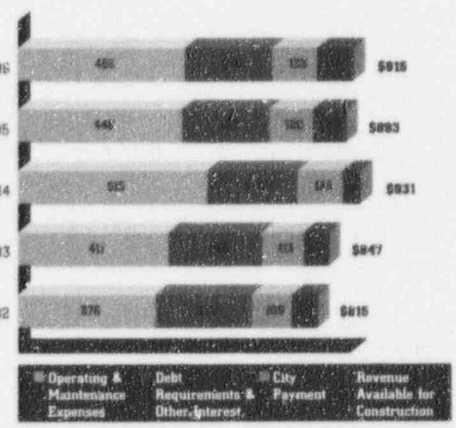
Retail sales provide another measure of economic activity. At a time when many areas of the country experienced a decline, San Antonio retail sales during 1995 are estimated to have increased 5 percent over 1994. The State Comptroller of Public Accounts indicates that the steady growth in San Antonio's retail sales since 1988 is expected to continue.

The phase-out of Kelly Air Force Base represents new challenges and opportunities in the city's economic picture. The San Antonio City Council has begun a privatization effort for the base, in an effort to provide a new economic boost. The City Council appointed seven members to the Local Redevelopment Authority, which is responsible for privatization of the base's workload and attracting additional industries. An "industry day" in the fall drew about 500 representatives from approximately 200 firms nationwide.

Business activity in San Antonio has produced increases in the number of utility customers. Electric customers increased to 519,269 at year end, up 2.5 percent from the previous year. The record number of electric customers and high summer temperatures helped push electric sales to an all-time record of 14.3 billion kilowatt hours, a 5.6 percent increase over last year, and was partially responsible for new peak demand and 24-hour usage records. The hourly peak demand for electricity increased 6.5 percent from the previous year with an all-time record of 3,249 megawatts set on July 27. The 1994-95 record for 24-hour usage was broken on July 26 with the new level reaching 60,821 megawatt hours, a 7.4 percent increase over the previous year's maximum daily use.

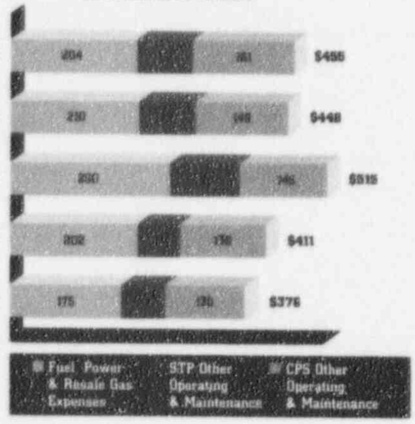
The number of natural gas customers increased by 1.0 percent to a record 299,167. Despite mild winter weather in early 1995, sales increased by 2.5 percent and totaled 25.3 million MCF compared with 24.7 million MCF in 1994-95.

Gross Revenue and Application of Revenue
In Millions of Dollars



Fiscal Years Ending January 31

Operating & Maintenance Expenses
In Millions of Dollars



Operations

The South Texas Project nuclear plant, of which CPS is a 28 percent owner, recorded a successful year of operation. Despite refueling outages for both units, the plant achieved capacity factors of 85.9 percent and 86.3 percent for units 1 and 2 respectively.

The utility's coal-fired units also performed well during the year, producing 52 percent of the total generation. The coal-fired plants continue to rank among the most cost efficient in the nation. In the Utility Data Institute's most recent study of average operating costs for 1994, the Deely and Spruce power plants ranked at numbers 19 and 38 respectively. Among the 791 plants in the study, only one other Texas plant was ranked among the 50 best. During the five-year period from 1990-1994, the Deely Plant ranked number 15. The Spruce plant was not included in that study, since it began operating in 1992.

To help assure continued low prices for coal, CPS signed a favorable contract with its long-term supplier to extend the contract through 2000 and to provide the balance of the coal requirements which have been purchased on the spot market. The utility expects to save $2 million in the contract's first year compared with the other options.

The increased generation from the South Texas Project coupled with the performance of the coal units helped reduce the average unit fuel cost. The cost of fuel for generation declined from $1.05 per million BTU in 1994-95 to $0.98 in 1995-96. Natural gas was used to generate only 12.5 percent of the total electricity.

Revenue and Expenses

CPS recorded a good year financially with gross revenue of $914.9 million. The 2.4 percent increase from last year's revenue was due to strong electric sales during the late summer. Revenue was moderated somewhat by lower fuel cost recoveries.

By contrast, gas revenue was down 1.9 percent from last year, totaling $108.6 million. The decline was due mainly to the lower cost of gas recovered through the rates. Gas sales by volume were up 2.5 percent.

About 85 percent of total CPS revenue was 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 5.4 cents per kilowatt hour and $ 4.26 per MCF were about 3.6 percent and 4.3 percent, respectively, lower than the previous year.

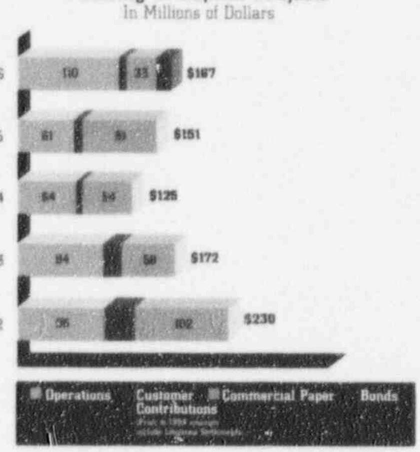
Operating and maintenance expenses for the fiscal year totaled $454.7 million, up only $6.5 million from the previous year. Administrative and general expenses accounted for $6.3 million of the increase.

South Texas Project maintenance and operating costs, excluding fuel, were $90.2 million, an increase of $1.6 million compared with 1994-95. The increase is attributed to $3.7 million more in decommissioning expenses which were offset by decreases totaling $2.1 million in production costs and administrative and general expenses.

Construction

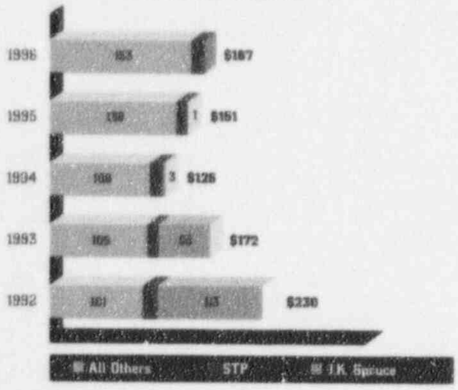
This year CPS capital additions increased $15.9 million for total construction expenditures of $167.3 million. Most of the increase resulted from

Funding of Capital Projects
In Millions of Dollars



Fiscal Years Ending January 31

Capital Expenditures
In Millions of Dollars



Fiscal Years Ending January 31

$14.6 million more in construction activity for electric production and distribution facilities and general property additions.

During 1995-96, CPS sold $125 million in revenue bonds and used $16.1 million to finance construction during the year. The $108.9 million balance in bond proceeds will be used for future capital additions.

Revenue from current and prior years provided 66 percent of this year's construction expenditures. Tax Exempt Commercial Paper financed 20 percent, while bond proceeds funded 9 percent. The remaining 5 percent came from customer contributions.

Financing

With no major power plant projects planned, CPS expects to continue to fund its lower capital needs during the next few years primarily from internally generated funds, revenue bonds and commercial paper

CPS sold $125 million in revenue bonds at an average interest rate of 5.5 percent. The interest rate is the second lowest CPS has received on revenue bonds since 1973.

The utility continues to maintain the highly favorable Aa1 bond rating by Moody's Investor Services, AA+ rating by Fitch Investor Service and AA rating by Standard and Poor's Corporation. 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.

Fitch Investor Service has awarded CPS the second best rating awarded to the 85 municipal and investor-owned utilities which they considered in their competitive indicator rating. Standard and Poor's rated CPS at the top of the second highest category among the 62 electric utilities it assigned to business indicator rankings, which also addresses competitiveness.

CPS 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 the fiscal year, the average monthly bill for residential customers using 1,000 kilowatt hours of electricity and 5,000 cubic feet of gas was lower than in either of the two previous years and was the third lowest average bill during the last ten years.

Future Plans

CPS is making a concerted effort to sign long-term contracts with its largest industrial customers. As the electric utility industry is deregulated, the largest customers will present the most promising targets for competitors, so CPS is evaluating the special needs of those customers.

Marketing efforts also are underway to increase the number of natural gas customers. CPS is targeting subdivisions and potential customers in areas where gas mains have been installed nearby. Another category of potential customers includes those who use propane or other fuels which are more expensive and less convenient than using natural gas.

CPS has not raised rates since January 31, 1991, and does not anticipate any rate increases this decade. Modifications to both the natural gas and electric rate structures for the largest customers are expected to put the utility in an even more favorable position when a more competitive environment comes to Texas.

As CPS is working to maintain its cost competitiveness, the utility also is looking at ways to improve service to customers. Several long-term projects are expected to increase reliability, shorten the duration of outages and provide the basis for communication with customers' homes and businesses. As competition becomes a reality, it is expected that a higher level of service will be required as a standard.

BALANCE SHEETS

	January 31, 1996	January 31, 1995
	(In thousands)	
Assets		
UTILITY PLANT, at cost *(Notes 1, 3, and 9)*:		
Plant in service —		
Electric	**$ 4,427,212**	$ 4,343,247
Gas	**302,619**	289,582
General	**127,682**	121,047
Total plant in service	**4,857,513**	4,753,876
Less-accumulated depreciation	**1,269,710**	1,159,599
Plant in service, net	**3,587,803**	3,594,277
Construction work in progress	**175,164**	148,097
Nuclear fuel, less accumulated amortization of $116,298 in 1996 and $93,763 in 1995	**60,229**	78,312
Held for future use	**30,380**	32,735
Utility plant, net	**3,853,576**	3,853,421
RESTRICTED CASH AND INVESTMENTS *(Notes 1, 2, 3, and 4)*:		
Bond construction fund	**108,891**	0
Bond fund current requirements —		
Old series	**933**	843
New series	**23**	17
Bond reserve —		
Old series	**16,639**	16,725
New series	**199,205**	199,826
Commercial paper redemption fund	**0**	56
Improvements and contingencies fund	**93,305**	110,416
Overhead conversion fund	**20,851**	14,150
Commercial paper construction fund	**0**	3,053
Other	**18,357**	15,637
Total restricted cash and investments	**458,204**	360,723
CURRENT ASSETS:		
Cash and temporary investments *(Notes 1 and 2)*	**30,696**	41,881
Cash restricted for customer service deposits payable	**25,776**	25,569
Customer accounts receivable, less allowance for doubtful accounts of $2,431 in 1996 and $2,638 in 1995	**54,424**	48,929
Other receivables	**12,383**	5,336
Inventories and supplies, at average cost —		
Materials and supplies	**57,611**	56,285
Fuel stock	**32,761**	22,804
Prepayments and other	**5,330**	4,177
Total current assets	**218,981**	204,981
DEFERRED DEBITS AND OTHER *(Notes 1 and 6)*	**46,203**	40,838
TOTAL	**$ 4,576,964**	$ 4,459,963

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

Equity and Liabilities

	January 31, 1996	January 31, 1995
	(In thousands)	
LONG-TERM DEBT:		
Revenue bonds *(Notes 1, 3, and 4)* —		
Old series	**$ 0**	$ 13,500
New series	**2,787,915**	2,738,115
Deductions —		
Unamortized discount on new series bonds	**(72,577)**	(78,026)
Unamortized discount on capital appreciation bonds	**(254,778)**	(271,483)
Unamortized costs of bond reacquisition	**(183,568)**	(201,180)
Revenue bonds, net	**2,276,992**	2,200,926
Commercial paper *(Note 5)*	**277,800**	264,800
Long-term debt, net	**2,554,792**	2,465,726
EQUITY:		
Appropriated retained earnings *(Note 3)* —		
Bond fund current requirements—		
Old series	**933**	843
New series	**23**	17
Bond reserve —		
Old series	**16,639**	16,725
New series	**146,747**	147,368
Commercial paper redemption fund	**0**	56
Improvements and contingencies fund	**93,305**	110,416
Overhead conversion fund	**20,851**	14,150
Total appropriated retained earnings	**278,498**	289,575
Reinvested earnings	**1,482,832**	1,456,509
Total equity	**1,761,330**	1,746,084
CURRENT LIABILITIES:		
Current maturities of revenue bonds *(Note 4)*	**88,700**	81,810
Current portion of commercial paper redemption *(Note 5)*	**17,300**	16,700
Accounts payable and accrued liabilities	**72,103**	74,243
Customer service deposits	**25,776**	25,569
Total current liabilities	**203,879**	198,322
DEFERRED CREDITS AND OTHER *(Note 1)*:		
Customer advances for construction	**11,669**	10,722
Other	**45,294**	39,109
Total deferred credits and other	**56,963**	49,831
COMMITMENTS AND CONTINGENCIES *(Notes 3, 6, 7, 9, and 10)*	**0**	0
TOTAL	**$ 4,576,964**	$ 4,459,963

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

STATEMENTS OF REVENUES AND APPLICATION OF REVENUES

	Years Ended January 31, 1996	1995
	(In thousands)	
REVENUE *(Note 1)*:		
Electric	**$ 777,657**	$ 757,937
Gas	**108,625**	110,694
Interest and other income	**28,568**	24,525
Gross revenue	**914,850**	893,156
EXPENSES *(Note 1)*:		
Fuel, purchased power and resale gas	**203,337**	210,503
Other operating and general	**172,745**	164,885
Maintenance	**78,632**	72,848
Depreciation	**142,102**	138,939
Interest and debt expense	**182,718**	181,788
Allowance for interest used during construction (Deduction)	**(2,818)**	(3,072)
Tax equivalent to City of San Antonio *(Note 8)*	**13,696**	12,736
Total Expenses	**790,412**	778,627
EXCESS OF REVENUES OVER EXPENSES	**124,438**	114,529
ADD:		
Depreciation	**142,102**	138,939
Amortization of discount on capital appreciation bonds	**16,705**	15,579
Amortization of bond reacquisition costs and debt issue expenses	**18,069**	18,437
Amortization of discount on new series bonds	**5,449**	5,474
Interest requirements on new series bonds	**127,269**	129,899
Interest requirements for commercial paper redemption	**7,102**	5,982
AVAILABLE FOR APPLICATION	**$ 441,134**	$ 428,839

	1996	1995
APPLICATION:		
To pay long-term debt requirements *(Note 3)*:		
Old series bonds —		
Principal payments	**$ 12,840**	$ 12,235
Bond reserve (Deduction)	**(87)**	(327)
To improvements and contingencies fund		
Minimum requirements (12 1/2 percent of gross revenue)	**114,356**	111,644
Additional cash payments to and services for the City of San Antonio *(Note 8)*	**109,226**	107,116
To improvements and contingencies fund		
Balance of available net revenue	**204,799**	198,171
TOTAL APPLICATION	**$ 441,134**	$ 428,839

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

STATEMENTS OF CHANGES IN EQUITY

	Years Ended January 31, 1996	1995
	(In thousands)	
BOND CURRENT REQUIREMENTS, old series bonds:		
Balance, beginning of year	$ 843	$ 607
Additions — Transfer to provide for debt service	14,678	14,913
Deductions — Payment of old series principal and interest	(14,588)	(14,677)
Balance, end of year	$ 933	$ 843
BOND RESERVE, old series bonds:		
Balance, beginning of year	$ 16,725	$ 17,052
Additions — Allocate earnings to reserve	948	965
Deductions — For current debt service requirements	(1,034)	(1,292)
Balance, end of year	$ 16,639	$ 16,725
BOND CURRENT REQUIREMENTS, new series bonds:		
Balance, beginning of year	$ 17	$ 0
Additions — From improvements and contingencies fund for debt service	196,335	194,496
Deductions — Payment of new series principal and interest	(196,329)	(194,479)
Balance, end of year	$ 23	$ 17
BOND RESERVE, new series bonds:		
Balance, beginning of year	$ 147,368	$ 146,218
Additions — Allocate earnings to reserve	12,158	11,186
Deductions — For current debt service requirements	(12,779)	(10,036)
Balance, end of year	$ 146,747	$ 147,368
COMMERCIAL PAPER REDEMPTION FUND:		
Balance, beginning of year	$ 56	$ 143
Additions — From improvements and contingencies fund for principal and interest	23,746	22,795
Deductions — Payment of principal and interest	(23,802)	(22,882)
Balance, end of year	$ 0	$ 56
OVERHEAD CONVERSION FUND:		
Balance, beginning of year	$ 14,150	$ 0
Additions — From improvements and contingencies fund	6,701	14,150
Deductions — Payments from overhead conversion fund	0	0
Balance, end of year	$ 20,851	$ 14,150
IMPROVEMENTS AND CONTINGENCIES FUND:		
Balance, beginning of year	$ 110,416	$ 93,918
Additions —		
From application of revenue —		
Minimum requirement (12 1/2 percent of gross revenue)	114,356	111,644
Balance of available net revenue	204,799	198,171
Total	319,155	309,815
Deductions —		
New series bonds —		
Net deductions (additions) to reserve	621	(1,150)
Payment of bond interest	(127,269)	(129,899)
Payment of bond principal	(69,067)	(64,597)
Commercial paper —		
Payment of commercial paper redemption interest	(7,102)	(5,982)
Payment of commercial paper redeemed	(16,700)	(16,900)
Deductions (additions) to commercial paper redemption fund	56	87
Construction expenditures	(110,104)	(60,726)
Transfer to overhead conversion fund	(6,701)	(14,150)
Total	(336,266)	(293,317)
Balance, end of year	$ 93,305	$ 110,416
REINVESTED EARNINGS:		
Balance, beginning of year	$ 1,456,509	$ 1,480,732
Additions —		
From improvements and contingencies fund —		
For construction	110,104	60,726
For new series bonds principal payments	69,060	64,580
For commercial paper principal payments	16,700	16,900
From application of earnings —		
For old series bonds principal payments	12,750	12,000
Proceeds from sale of assets	34	0
Total	208,648	154,206
Deductions —		
Depreciation	(142,102)	(138,939)
Amortization of discount on capital appreciation bonds	(16,705)	(15,579)
Amortization of bond reacquisition costs and debt issue expenses	(18,069)	(18,437)
Amortization of discount on new series bonds	(5,449)	(5,474)
Total	(182,325)	(178,429)
Balance, end of year	$ 1,482,832	$ 1,456,509

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

STATEMENTS OF CASH FLOWS

	1996	1995
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	**$ 124,438**	$ 114,529
Noncash items included —		
Allowance for interest used during construction	**(2,818)**	(3,072)
Depreciation expense	**142,192**	138,939
Amortization expense —		
Bond reacquisition costs and debt issue expenses	**18,069**	18,437
Discount on new series bonds	**5,449**	5,474
Discount on capital appreciation bonds	**16,705**	15,579
Additional cash payments to and services for the City of San Antonio	**(109,226)**	(107,116)
Changes in current assets and current liabilities *(Note 1)*	**(26,911)**	(19,702)
Refund of freight litigation settlement benefits payable to customers	**0**	(8,814)
(Increase) decrease in other assets	**15,940**	12,735
Increase (decrease) in other liabilities	**2,756**	(3,755)
Net cash provided by operating activities	**186,504**	163,234
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to utility plant	**(167,082)**	(149,704)
Allowance for interest used during construction	**2,818**	3,072
Contributions in aid and customer advances for construction	**7,727**	9,402
Sale of revenue/refunding bonds	**125,000**	777,700
Sale of commercial paper	**30,300**	65,000
Defeasance or call of bonds	**0**	(666,745)
Defeasance of commercial paper	**0**	(65,000)
Principal payments on revenue bonds	**(81,810)**	(76,580)
Commercial paper redeemed	**(16,700)**	(16,900)
Excess of reacquisition amounts over principal of bonds refunded in advance	**0**	(46,011)
Debt issue expenses	**(254)**	(898)
Net cash used for capital and related financing activities	**(100,001)**	(166,664)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**$ 86,503**	$ (3,430)
CASH, CURRENT RESTRICTED CASH, AND TEMPORARY INVESTMENTS:		
Beginning of year	**$ 67,450**	$ 84,862
End of year	**56,472**	67,450
Net increase (decrease)	**(10,978)**	(17,412)
RESTRICTED CASH AND INVESTMENTS:		
Beginning of year	**360,723**	346,741
End of year	**458,204**	360,723
Net increase (decrease)	**97,481**	13,982
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**$ 86,503**	$ (3,430)

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

NOTES TO FINANCIAL STATEMENTS JANUARY 31, 1996 AND 1995

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.

FISCAL YEAR — The fiscal year ended January 31, 1996, is referred to herein as 1996; the fiscal years ended January 31, 1995, and January 31, 1994, as 1995 and 1994, 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 1996 and 1995.

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 unspent bond issue proceeds, 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 1996, 1995 and 1994 revenues. Customer assistance program funds, insurance reserves, 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 expenses and noncurrent litigation settlement receivables. Amortization of debt expense is recorded over the period of the outstanding bonds. Also included are assets of an employee deferred compensation plan held by a trustee.

DEFERRED CREDITS AND OTHER — These amounts consist primarily of liabilities relating to employee deferred compensation, nuclear fuel assessment, customer assistance program contributions, 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 1996 and 1995.

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 and current maturities of long-term debt. Changes shown as an (increase) decrease in current assets and as an increase (decrease) in current liabilities are as follows:

	1996	1995
	(In thousands)	
Customer accounts receivable	$ [illegible]	$ 7,769
Other receivables	[illegible]	(3,154)
Inventories and supplies	(11,283)	(2,679)
Prepayments and other	(1,153)	2,191
Accounts payable and accrued liabilities	(2,140)	(3,052)
Construction retainage payable	0	(21,739)
Customer service deposits	207	962
Changes in current assets and current liabilities	$ (26,911)	$(19,702)

Cash interest paid by CPS, net of AIUDC, was $137,954 and $139,695 in 1996 and 1995, respectively.

2. Cash and Temporary Investments

CPS cash deposits at January 31, 1996, and 1995, 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 book values were $7.4 million at January 31, 1996, and CPS' bank balances were $9.4 million also at year end.

At January 31, 1996, and 1995, 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 to U.S. Government or U.S. Government guaranteed obligations by Trust Indenture, Ordinances, and State Law. Investments carried at amortized cost plus accrued interest were $507.3 million with a market value of $514.1 million at January 31, 1996, and were $423.1 million with a market value of $419.9 million at January 31, 1995.

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, 1996, 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 31,1996	January 31 1996	1995
			(In thousands)	
Old Series, 1974	1997	7.000%	$ 13,500	$ 26,250
New Series Serial Bonds, 1977-1995	1997-2018	5.606%*	2,360,550	2,304,610
Unamortized New Series Bonds issue discount			(72,577)	(78,026)
New Series Capital Appreciation Bonds, 1989 & 1991	2002-2012		502,565	502,565
Unamortized Capital Appreciation Bonds discount			(254,778)	(271,483)
		5.607%	2,549,250	2,483,916
Less: Current maturities of bonds			88,700	81,810
Unamortized cost of bond reacquisition			183,568	201,180
Revenue bonds, net of current maturities			$2,276,992	$ 2,200,926

* 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	New Series Bonds	Total
1997	$ 13,500	$ 75,200	$ 88,700
1998		93,145	93,145
1999		94,555	94,555
2000		102,890	102,890
2001		120,545	120,545

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, 1996, portions of the bonds (in thousands) which have been defeased were still outstanding as follows:

Fiscal year 1988 refunding	$ 79,350
Fiscal year 1992 refunding	4,100
Fiscal year 1993 refunding	160,205
Fiscal year 1995 refunding	100,990

In 1996, CPS issued $125.0 million of New Series 1995 Revenue Bonds at an average interest cost of 5.50 percent, with delivery on November 16, 1995. The proceeds from these bonds will be used for CPS' construction program.

In February 1994, CPS issued New Series Bonds which 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 fiscal year 1995, with the remaining $1 million being converted by the bondholders to fixed rate on February 1, 1995. The bondholders' 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.

5. Commercial Paper

In October 1988, the City Council of San Antonio, Texas (City Council) adopted an ordinance authorizing the issuance of up to $300 million in Tax-Exempt Commercial Paper (TECP). 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.

Based upon the revised ordinance authorization, CPS issued $211 million of TECP to call long-term bonds during fiscal year 1994. CPS has self-imposed a schedule to pay off the balance of the principal used for the redemption of long-term debt. Under this payback, $16.7 million of the $211 million was redeemed during 1996; $16.9 million was redeemed during 1995; and $5.6 million was redeemed during 1994. In 1997, the principal payment scheduled is $17.3 million with slightly greater amounts scheduled for the following four fiscal years.

In 1996, $30.3 million of TECP was sold to fund construction costs. As of January 31, 1996, $295.1 million in principal amount was outstanding, with a weighted-average interest rate of approximately 3.67 percent and an average life of approximately 94 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, 1997, and may be renewed for additional periods. There have been no borrowings under the credit agreement as of January 31, 1996. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of the Old Series Bonds, the New Series Bonds and any New Series Bonds to be issued in the future.

6. Benefit Plans

CPS has a self-administered, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. The Plan assets are

held in a separate trust 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:

	1996	1995
	(In thousands)	
Employee contributions	$ 5,738	$ 5,742
CPS contributions	14,078	13,971
Total contributions	$ 19,816	$ 19,713
Covered payroll	$ 115,634	$ 118,178
Total payroll	$ 125,315	$ 125,132

The actuarially determined contribution requirement as of December 31, 1995, was computed using an assumed rate of return of 8.5 percent. For 1996 and 1995 the past-service costs were amortized over 20 years, as compared to a 30-year amortization for prior years. There were no changes in plan provisions, actuarial assumptions or cost methods from 1995 to 1996.

CPS contributions amounted to 12.2 percent of covered payroll in 1996, and 11.8 percent in 1995 and 14 percent in 1994. Of the amounts contributed during years 1996, 1995, and 1994, approximately $13.9 million, $13.4 million, and $12.9 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 Statement No. 5, the following represents CPS' pension benefit obligation (in thousands) as of December 31, 1995, and 1994:

	1995	1994
For retirees, beneficiaries and inactive participants	$ 173,396	$ 154,874
For active participants:		
Employer and employee - financed vested benefits	229,608	214,322
Employer-financed nonvested benefits	52,327	54,084
Total pension benefit obligation	455,331	423,280
Net assets available for plan benefits (at fair market value)	453,985	350,922
Unfunded pension benefit obligation	$ 1,346	$ 72,358

Net assets available for plan benefits were 99.7 percent of total pension benefit obligation in 1995, as compared with 83 percent in 1994 and 91 percent in 1993. Unfunded pension benefit obligation was equal to 1.2 percent of annual covered payroll in 1995, as compared with 61 percent in 1994 and 33 percent in 1993.

Prior to GASB Statement 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 $334.5 million at December 31, 1994. At that time, net assets available for plan benefits were $350.9 million at fair market value. As of December 31, 1995, the actuarial present value of accumulated plan benefits was $363.2 million as compared to net assets of $454.0 million.

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 fiscal 1996 and 1995 were $498 thousand and $542 thousand 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 $2.0 million and 1.8 million for 1996 and 1995, respectively. CPS reimbursed $46.10 per month for Medicare supplement for certain retirees and their spouses enrolled in Medicare Part B in 1995 and $42.50 effective January 1, 1996.

Retired employees and covered dependents contributed $762 thousand and $701 thousand for their health care and life insurance benefits in fiscal 1996, and 1995, respectively. In fiscal 1996, there were approximately 1,638 retirees and covered dependents eligible for health care and life insurance benefits, as compared to approximately 1,578 in 1995.

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, 1996, valuations are $51.4 million for health and $14.0 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 $34.1 million for health, $90 thousand for life insurance and $1.9 million for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $7 million in fiscal year 1996 and $5 million per year in 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 1996 and 1995 (in thousands), based on allowable revenue, were as follows:

	1996	1995
Tax equivalent	$ 13,696	$ 12,736
Refund gas and electric services	16,587	16,163
Additional cash payments	92,639	90,953
Total payments to the City	$122,922	$119,852

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, 1996, CPS' investment in the STP utility plant was approximately $1.8 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 was 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. HL&P has denied liability and counter-claimed for the reasonable value of its services as Project Manager. Trial of Austin's suit began in March 1996. Trial of CPS' suit did not begin because of ongoing setttlement discussions between CPS and HL&P. In the opinion of management of CPS, the resolution 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 $75.5 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 $3.7 million to pay its 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 owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses. 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. The maximum aggregate assessment under current policies is $25.8 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. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1994, the owners conducted a review of decommissioning costs. The results estimated CPS' share of decommissioning costs at approximately $270 million in 1994 dollars, which also exceeded NRC minimum 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, 1996, CPS has accumulated approximately $47.1 million of decommissioning funds in the external trust. Based upon the 1994 decommissioning cost study, the annual levelized funding increased to $8.8 million for 1996. Decommissioning trust funding was $5.1 million for 1995.

10. Commitments and Contingencies

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 $339 million at January 31, 1996. This amount includes approximately $126 million that is expected to be paid for natural gas purchases to be made under the contracts currently in effect through the year 2002; 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 $28 million for coal purchases through 2000, $106 million for coal transportation through 2004, and $16 million for treated cooling water through 2005, based upon the minimum firm commitment under these contracts.

The Public Utility Commission (PUC) of Texas is currently modifying certain rules to comply with current legislative changes affecting the utility industry. All electric utilities which operate in the State of Texas will be affected by these new rules. One such rule, which has recently been approved by the PUC and for which CPS is currently evaluating its options for compliance, is the Transmission Pricing and Access Rule. This rule requires utilities to separate their personnel engaged in selling power in the wholesale market from the personnel who operate the transmission system. The rule also mandates that electric utilities charge customers for open transmission access according to a formula based 70 percent on a single statewide fee and 30 percent on the calculated economic impact of open access on each electric utility in Texas. This rate structure potentially would cost CPS $2 million to $3 million per year in revenues paid to the state to subsidize competing utilities with higher transmission costs. The Commission also adopted a rate-moderation plan that will minimize the rate impact of the new pricing mechanism for the first three years that the rules are in effect. Under this plan, CPS' payment to the State in the first year would be 10 percent of the total cost mentioned above; payments in the second and third years would be 20 percent and 30 percent of the above cost, respectively. CPS has not decided if it will take legal action to oppose this new Transmission Rate Structure.

11. Segment Information:

	1996			1995		
	Electric	Gas	Total	Electric	Gas	Total
	(In thousands)			*(In thousands)*		
REVENUE	$ 777,657	$ 108,625	$ 886,282	$ 757,937	$ 110,694	$ 868,631
EXPENSES:						
Operating and maintenance expenses	374,468	80,246	454,714	367,429	80,807	448,236
Depreciation	132,413	9,689	142,102	129,729	9,210	138,939
Total expenses	506,881	89,935	596,816	497,158	90,017	587,175
OPERATING INCOME	$ 270,776	$ 18,690	289,466	$ 260,779	$ 20,677	281,456
Interest and other income			28,568			24,525
Net interest and debt expense and tax equivalent to the City of San Antonio			(193,596)			(191,452)
EXCESS OF REVENUES OVER EXPENSES			$ 124,438			$ 114,529
CAPITAL EXPENDITURES	$ 126,203	$ 27,123	$ 153,326	$ 124,813	$ 24,706	$ 149,519
Identifiable assets	$ 3,760,528	$ 260,494	$ 4,021,022	$ 3,743,683	$ 243,092	$ 3,986,775
General assets			555,942			473,188
TOTAL ASSETS			$ 4,576,964			$ 4,459,963

Report of Independent Auditors

Board of Trustees
City Public Service

We have audited the accompanying balance sheets of City Public Service as of January 31, 1996 and 1995, 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, 1996 and 1995, and the result 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

San Antonio, Texas
March 15, 1996

FIVE YEAR FINANCIAL REVIEW

Years Ended January 31,
(In thousands)

(Unaudited)	1996	1995	1994	1993	1992
REVENUE AND APPLICATION					
Revenues:					
Electric Sales	$ 777,657	$ 757,937	$ 781,661	$ 708,257	$ 672,434
Gas Sales	108,625	110,694	125,491	112,611	106,927
Interest and other income	28,568	24,525	23,353	26,508	36,023
Total revenues	$ 914,850	$ 893,156	$ 930,505	$ 847,376	$ 815,384
Revenues applied:					
Cost of operating systems:					
Fuel, purchased power and resale gas	$ 203,337	$ 210,503	$ 260,215	$ 201,699	$ 174,758
Other operating and general expenses	172,745	164,885	166,054	143,753	136,975
Maintenance	78,632	72,848	88,528	65,170	63,860
Total	$ 454,714	$ 448,236	$ 514,797	$ 410,622	$ 375,593
Operating fund	$ 0	$ 0	$ 0	$ 0	$ 0
Debt requirements for Old Series Bonds:					
Interest expense	$ 1,838	$ 2,678	$ 3,390	$ 4,067	$ 4,720
Principal requirements	12,840	12,235	13,112	12,306	11,500
Reserve requirements	(87)	(327)	(346)	(239)	83
Debt expense	3	4	6	7	9
Total	$ 14,594	$ 14,590	$ 16,162	$ 16,141	$ 16,312
Payments and services to City:					
Tax equivalent to City of San Antonio	$ 13,696	$ 12,736	$ 11,817	$ 11,244	$ 11,722
Refunds for services	16,587	16,163	16,464	16,387	17,110
Additional payment	92,639	90,953	96,601	85,884	80,185
Total	$ 122,922	$ 119,852	$ 124,882	$ 113,515	$ 109,017
Debt requirements for New Series Bonds/Other:					
Interest expense	$ 127,268	$ 129,899	$ 150,588	$ 159,169	$ 160,959
Principal requirements	69,067	64,597	66,460	69,965	62,520
Reserve requirements	(621)	1,150	1,239	5,568	13,886
Debt expense	17	14	42	69	81
Other interest	6,267	3,721	3,252	5,394	9,158
Commercial paper redemption requirements	23,746	22,795	8,429	0	0
Total	$ 225,744	$ 222,176	$ 230,010	$ 240,165	$ 246,604
Allowance for interest used during construction	$ (2,818)	$ (3,072)	$ (1,977)	$ (29,055)	$ (31,418)
Additions to plant:					
Gross construction for year	$ 153,326	$ 149,519	$ 124,162	$ 171,952	$ 229,831
Less construction funds provided by sources other than revenues	43,222	88,792	59,679	78,089	134,497
Revenues used for additions to plant	$ 110,104	$ 60,727	$ 64,483	$ 93,863	$ 95,334
Additions to Improvements and Contingencies fund	(17,111)	16,497	(17,852)	2,125	3,942
Additions to Overhead Conversion fund (Paid by I&C fund)	6,701	14,150	0	0	0
Total	$ 99,694	$ 91,374	$ 46,631	$ 95,988	$ 99,276
Total revenues applied	$ 914,850	$ 893,156	$ 930,505	$ 847,376	$ 815,384
BALANCE SHEET DATA					
Utility plant at cost *	$ 4,427,212	$ 5,013,020	$ 4,911,599	$ 4,793,976	$ 4,641,841
Gross construction	153,326	149,519	124,162	171,952	229,831
Accumulated depreciation	1,269,710	1,159,599	1,042,183	917,783	806,770
Annual depreciation allowance	142,102	138,939	136,957	120,879	114,332
Bond principal and interest coverage	2.18x	2.12x	1.78x	1.78x	1.83x

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

FIVE YEAR OPERATIONS REVIEW

Years Ended January 31,
(In thousands)

(Unaudited)	1996	1995	1994	1993	1992
OPERATING REVENUES					
Electric:					
Residential	$ 360,484	$ 346,396	$ 350,583	$ 320,067	$ 306,709
Commercial and industrial	304,090	301,319	315,156	284,289	267,241
Street lighting	10,762	10,454	10,468	9,845	9,367
Public Authorities	80,812	78,504	86,370	78,061	75,392
Other utilities	15,546	15,239	13,569	10,805	8,548
Miscellaneous	5,963	6,025	5,516	5,190	5,177
Total electric	$ 777,657	$ 757,937	$ 781,662	$ 708,257	$ 672,434
Gas:					
Residential	$ 65,668	$ 65,965	$ 75,708	$ 68,208	$ 65,768
Commercial and industrial	36,305	37,982	41,944	37,332	34,110
Public Authorities	5,763	5,824	6,905	6,283	6,225
Miscellaneous	889	923	934	788	824
Total gas	$ 108,625	$ 110,694	$ 125,491	$ 112,611	$ 106,927
SALES (000 OMITTED)					
Electric — KWH:					
Residential	5,606,699	5,287,483	5,005,292	4,831,794	4,793,631
Commercial and industrial	6,090,667	5,881,461	5,604,418	5,420,383	5,281,292
Street lighting	95,428	92,392	90,619	87,567	86,661
Public Authorities	1,854,042	1,765,728	1,668,884	1,619,005	1,623,979
Other utilities	608,454	472,864	356,164	328,547	225,942
Total	14,255,290	13,499,928	12,725,377	12,287,296	12,011,505
Gas — MCF:					
Residential	12,902	12,488	13,921	13,397	13,340
Commercial and industrial	10,683	10,566	10,584	10,166	9,658
Public Authorities	1,718	1,639	1,803	1,800	1,812
Total	25,303	24,693	26,308	25,363	24,810
PURCHASE FOR RESALE:					
Electric (1000) KWH *	345,107	327,082	70,977	292,686	67,900
Gas (1000) MCF	25,927	24,975	27,112	25,326	25,078
ELECTRIC GENERATION — (1000) KWH	14,764,596	13,945,516	13,431,946	12,710,278	12,621,547
Electric Gen. Capacity, KW (Gas)	2,430,000	2,400,000	2,400,000	2,400,000	2,400,000
Electric Gen. Capacity, KW (Coal)	1,385,000	1,336,000	1,336,000	1,336,000	836,000
Electric Gen. Capacity, KW (Nuclear)	700,000	700,000	700,000	700,000	700,000
ELECTRIC PEAK DEMAND — KW	3,249,000	3,052,000	2,908,000	2,817,000	2,799,000
NUMBER OF CUSTOMERS:					
Electric	519,269	506,646	494,385	485,345	476,122
Gas	299,167	296,200	292,241	290,497	287,502
RESIDENTIAL AVERAGES:					
Electric:					
Revenue per customer	$ 799.26	$ 786.61	$ 814.44	$ 756.51	$ 734.82
KWH per customer	12,431	12,007	11,628	11,420	11,485
Revenue per KWH	6.43¢	6.55¢	7.00¢	6.62¢	6.40¢
Gas:					
Revenue per customer	$ 237.20	$ 240.75	$ 279.13	$ 253.96	$ 247.32
MCF per customer	46.6	45.6	51.3	49.9	50.2
Revenue per MCF	$ 5.09	$ 5.28	$ 5.44	$ 5.09	$ 4.93

** 1993 includes Test Energy of 226,794*

CPS MANAGEMENT STAFF

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Assistant General Manager for Planning and Development

Kenneth J. Fiedler
Assistant General Manager for Operations

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