

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

Before The Atomic Safety And Licensing Board

In the Matter of)	Docket Nos. 50-498A
HOUSTON LIGHTING AND POWER CO., et al)	50-499A
(South Texas Project, Units 1 and 2))	
)	
TEXAS UTILITIES GENERATING COMPANY,)	Docket Nos. 50-445A
(Comanche Peak Steam Electric Station,)	50-446A
Units 1 and 2))	

SECOND SET OF INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS ADDRESSED TO CENTRAL AND SOUTH WEST
CORPORATION BY THE PUBLIC UTILITIES BOARD OF THE
CITY OF BROWNSVILLE, TEXAS

The Public Utilities Board of the City of Brownsville,
Texas ("Brownsville" or "PUB") hereby submits additional
interrogatories and requests for production of documents to
Central and South West Corporation ("C&SW") and its sub-
sidiaries.

1. With respect to each document noted on Attachment A
please respond to the following questions:
 - a. Is the document now in the files of C&SW? If
so, please produce all documents in the file in
which the document is located.
 - b. If the document is not in C&SW's files, has
it ever been in these files? If so, please produce
all documents in the file in which the document is
located.
 - c. (i) If the document is not now in C&SW's files
and once was, please describe what happened to
the document (lost, destroyed, etc.) and the
date when it ceased to be in the files.

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(ii) Describe all C&SW policies relating to maintenance of files and other records, including policies pursuant to which the document is no longer in the files, and provide copies of all such written policies.

(iii) Identify all persons in any way responsible for removing, destroying, etc., the document.

d. Describe all C&SW policies for maintenance of files and other records in effect as of the date of the document, and provide copies of all such written policies.

e. Has the document been produced to any party in this or any related proceeding? Identify each such occasion, including the party, the proceeding, and the date of production.

2. Provide all whole or partial indices of the subject matters or headings or titles of C&SW's files and other documentary records, from 1954 to date.

3. Identify all persons responsible for the maintenance of C&SW's files and other documentary records, from 1954 to date.

4. Please produce all files containing documents referring to the City of Brownsville, or to the Public Utilities Board of the City of Brownsville, including but

not limited to all files referring to Brownsville or the PUB in the name, title, or subject matter.

5. Please produce all files containing documents referring to the City of San Antonio, or the City Public Service Board of the City of San Antonio.

6. Please identify all persons who in any way aided in preparing the previous production of documents to Brownsville, and describe the extent of each person's knowledge.

7. Please identify each person who in any way participated in the preparation of responses to this set of interrogatories and document requests, including a description of the extent of each such person's participation.

INSTRUCTIONS AND DEFINITIONS

1. For purposes of this Second Set of Interrogatories and Requests for Document Production only, Central and South West Corporation ("C&SW") shall be defined to include all past and present parent, affiliated, and subsidiary companies of C&SW, including but not limited to CSR Services Co., but shall not include Central Power and Light Company, West Texas Utilities Company, Public Service Company of Oklahoma, and Southwestern Electric Service Company.

2. The period of time for which responses and documents are requested is from January 1, 1954 to the present.

3. In all other respects, the instructions and definitions set forth in the Schedule for Production of Documents by Central & South West Corporation (attached) should be followed.

Respectfully submitted,



Marc R. Poirier
Attorney for the Public
Utilities Board of the City of
Brownsville, Texas

Law Offices Of:

SPIEGEL & MCDIARMID
2600 Virginia Avenue, N.W.
Suite 312
Washington, D.C. 20037

February 20, 1980

LIST OF DOCUMENTS

1. December 18, 1973 letter from P. H. Robinson (HL&P) to T. L. Austin, Jr. (TU), copy to Mr. Si Phillips (C&SW); subject: admission of the public sector to TIS, in connection with nuclear licensing.
2. September 18, 1967, J. M. Wilson (Central Power & Light) to R. McClanahan (Middle West Service Co.), copy to S. B. Phillips and F. J. Herr (C&SW); subject: takeover by purchase of Brownsville municipal electric system.
3. September 15, 1967, E. S. Joslin (CP&L) to Si Phillips (C&SW); subject: memo by B. M. Davis (CP&L) concerning attempt of American Metals Climax to build a plant in Brownsville.
4. September 13, 1967, R. McClanahan (Consultant to CP&L and C&SW) to J. M. Wilson (CP&L), copies to S. B. Phillips and F. J. Herr (C&SW); subject: takeover by purchase or lease of Brownsville municipal system.
5. September 8, 1967, J. M. Wilson (CP&L) to R. McClanahan (Middle West Service Co.), copy to S. B. Phillips (C&SW); subject: takeover by CP&L of Brownsville municipal electric system.
6. September 7, 1967, Carl Sandeen (Middle West Service Co.) to E. S. Joslin (CP&L), copies to S. B. Phillips and F. J. Herr (C&SW); subject: effect on tax of CP&L takeover of Brownsville municipal electric system.
7. September 5, 1967, R. McClanahan (Middle West Service Co.) to E. S. Joslin (CP&L), copies to S. B. Phillips and F. J. Herr (C&SW); subject: "Purchase Lease Plan" for CP&L takeover of Brownsville municipal electric system; possibility of installing 150 MW plant at Brownsville.
8. July 27, 1967, B. M. Davis (CP&L) to R. L. Johnson (Middle West Service Co.), copy to Mr. S. B. Phillips (C&SW); subject: study for takeover by CP&L of Brownsville municipal electric system.
9. March 2, 1967, R. L. Johnson (Middle West Service Co.) to S. B. Phillips (C&SW); subject: takeover by CP&L of Brownsville municipal electric system.
10. February 9, 1967, R. L. Johnson (Middle West Service Co.) to E. S. Joslin (CP&L), copy to S. B. Phillips, (C&SW); subject: minimum offer for Brownsville property.

11. December 27, 1966 B. M. Davis (CP&L) to R. B. Phillips (C&SW); subject: Brownsville citizens' petition for referendum to abolish Public Utilities Board.
12. December 6, 1966, R. L. Johnson (Middle West Service Co.) to S. B. Phillips, Jr. (C&SW); subject: different methods for CP&L takeover of Brownsville municipal electric system.
13. September 16, 1966, R. B. Phillips (C&SW) to B. M. Davis (CP&L); subject: generally, acquisition of municipal systems, including lease method; ideas from Edison Electric Institute.
14. September 13, 1966, B. M. Davis (CP&L) to R. B. Phillips (C&SW) enclosing materials; subject: CP&L takeover of Brownsville municipal electric system.
15. September 9, 1966 meeting in memo to B. M. Davis (CP&L), S.B. Phillips, Jr. and R. B. Phillips (C&SW) were present; S. B. Phillips is supposed to have material on CP&L takeover of Brownsville municipal electric system.
16. July 22, 1966, H. E. Nissel (Middle West Service Co.) to E. S. Joslin (CP&L), copy to F. Herr (C&SW); subject: PUB proposal for Harvey Aluminum Incorporated.
17. February 7, 1966, E. S. Joslin (CP&L) to R. B. Phillips (C&SW); subject: takeover of Brownsville municipal system.
18. February 3, 1966, R. B. Phillips (C&SW) to E. S. Joslin (CP&L); subject: meeting on "Brownsville situation" with CP&L.
19. January 31, 1966, R. B. Phillips (C&SW) to E. S. Joslin (CP&L), copy to S. B. Phillips (C&SW); subject: purchase price for acquisition by CP&L of Brownsville municipal electric system [NOTE: The conclusion is that takeover may not be economically feasible, but nevertheless it has advantages to CP&L because Brownsville is growing faster than CP&L, is a natural for industrial development, and because purchase would eliminate a large strategically located municipal operation.]
20. January 28, 1966, R. B. Phillips (C&SW) to E. S. Joslin (CP&L); subject: draft of memo on price for purchase by CP&L of Brownsville municipal electric system.
21. July 2, 1965, E. S. Joslin to Ygnacio Garza (BND), copy to John S. Osborne (C&SW); subject: meeting about CP&L expansion in Port area.

22. June 23, 1965 memo to B. M. Davis (CP&L); subject: CP&L/Brownsville Navigation District meeting about service to Port; John S. Osborne (C&SW) attended.

23. August 28, 1963, J. S. Osborne (C&SW) to J. Harris Ward (Commonwealth Edison); subject: CP&L takeover of service to Union Carbide.

24. August 16, 1963, E. S. Joslin (CP&L) to J. S. Osborne (C&SW); subject: CP&L takeover of service to Union Carbide and other industries served by Brownsville.

25. July 31, 1963, E. S. Joslin (CP&L) to W. P. Barnard (PUB), copy to J. S. Osborne (C&SW); subject: Brownsville service to CP&L customers pursuant to expansion of city limit; new power plan by Brownsville; service to industrial customers in Port of Brownsville.

26. July 20, 1963, E. S. Joslin (CP&L) to J. S. Osborne (C&SW); subject: CP&L takeover of service to Port of Brownsville; CP&L service to Union Carbide.

27. July 3, 1963, W. P. Barnard (PUB) to E. S. Joslin (CP&L), copy to J. S. Osborne (C&SW) (letter shows Osborne is President of CP&L, obviously an error); subject: Brownsville takeover of CP&L customers pursuant to expansion; new Brownsville power plant; service to industrial customers contract.

28. October 29, 1962 F. J. Herr (C&SW) to Dwight Carlson (CP&L); subject transfer of Del Rio properties.

29. October 26, 1962 J. L. Bates (CP&L) to Leon W. Hill (Bureau of Reclamation), copy to J. S. Osborne (C&SW); subject: draft contract for CP&L purchase of Falcon power.

30. October 26, 1962, J. L. Bates (CP&L) to J. S. Osborne (C&SW); subject: refers to avoiding FPC jurisdiction in contract for purchase of Falcon hydroelectric power.

31. December 5, 1961, J. L. Bates (CP&L) to John C. Thompson (Bureau of Reclamation), blind copy to J. S. Osborne (C&SW); subject: rate for power purchase from Falcon project.

32. December 1, 1961, J. L. Bates (CP&L) to J. S. Osborne (C&SW); subject: rate proposal from Bureau of Reclamation, probably for Amistad power.

33. November 16, 1961, Lon C. Hill (CP&L) to J. S. Osborne (C&SW); subject: possible takeover by CP&L of San Antonio municipal electric system.

34. November 16, 1961, Lon C. Hill (CP&L) to H. H. Dewar, blind copy to J. S. Osborne (C&SW); subject: relating to takeover of San Antonio municipal electric system.
35. November 9, 1961, H. H. Dewar to Lawrence E. Hill (CP&L); subject: advertising comparing San Antonio municipal rates to private utility rates [says why don't you talk this over with John Osborne; "the possibility of redeeming San Antonio from private ownership is very far from dead."]
36. June 17, 1960, Keith R. Cardey (CP&L?) to J. S. Osborne (C&SW); subject: rate to Brownsville.
37. June 1, 1960, J. L. Bates (CP&L) to J. S. Osborne (C&SW); subject: rates for sale of power to Brownsville.
38. May 9, 1960, J. L. Bates (CP&L) to Reynaldo Garza, copy to J. S. Osborne (C&SW); subject; creation of PUB by amendment to City Charter.
39. February 16, 1960, J. M. Wilson (CP&L) to R. D. Stevenson, copy to J. S. Osborne (C&SW); subject: preventing creation of Brownsville Public Utilities Board.
40. February 8, 1960, J. L. Bates (CP&L) to J. S. Osborne (C&SW); subject: effect of creation of Brownsville Public Utilities Board on CP&L service area.
41. January 9, 1960, J. L. Bates (CP&L) to J. S. Osborne (C&SW); subject: creation of Public Utilities Board in Brownsville.
42. June 9, 1959, William C. Cunningham (CP&L) to R. M. Winsborough (Middle West Service Co.), copy to J. S. Osborne (C&SW); subject: dissatisfaction of Brownsville citizens with municipal electric system.
43. January 29, 1958 from Mr. Carlton (CP&L) to Mr. Osborne (C&SW); subject: CP&L purchase of power from Falcon Dam and from Mexican share of Falcon.
44. November 8, 1957, J. M. Wilson (CP&L) to George E. Bailey, copy to J. S. Osborne (C&SW); subject; acquisition of Brownsville municipal electric system.
45. January 23, 1957, J. L. Bates (CP&L) to William M. Longman (Central Surveys), blind copy to J. S. Osborne (C&SW); subject: survey of citizens of Brownsville on municipal v. private ownership of electric system.

46. January 23, 1957, J. L. Bates (CP&L) to John S. Osborne (C&SW); subject: lease purchase by CP&L of Brownsville municipal electric system; survey of citizens of Brownsville.
47. June 22, 1956, J. L. Bates (CP&L) to J. S. Osborne (C&SW); subject: takeover by purchase by CP&L of Brownsville municipal electric system.
48. October 1, 1954 contract between United States of America and CP&L (Falcon), copy marked return to John Osborne (C&SW).
49. September 28, 1954, J. L. Bates (CP&L) to Leonardo de Lozanne (CFE), blind copy to J. S. Osborne (C&SW); subject; CP&L purchase of Mexican share of Falcon power.

INSTRUCTIONS

Unless otherwise specified the period of time for which documents are requested includes the entire period from January 1, 1965 to the date on which documents are made available to Brownsville's representatives for inspection and copying.

(a) In the Matter of Houston Lighting & Power Co. et al. (South Texas Project, Units 1 and 2), NRC Docket Nos. 50-498A and 50-499A;

(b) In the Matter of Texas Utilities Generating Company (Comanche Peak Steam Electric Station, Units 1 and 2), NRC Docket Nos. 50-445A and 50-446A;

(c) In the Matter of Central and South West Corporation, et al., SEC Administrative Proceeding File No. e-4951;

(d) West Texas Utilities Company, et al. v. Texas Electric Service Company, et al., No. CA3-76-0633F, United States District Court (N. D. Texas, Dallas Div.);

(e) In the Matter of the Emergency Hearing on Intrastate and Interstate Service of Texas Interconnected System, Docket No. 14, Public Utilities Commission of Texas.

(f) Central Power & Light, et al., FERC Docket No. EL79-8.

INSTRUCTIONS

Unless otherwise specified the period of time for which documents are requested includes the entire period from January 1, 1965 to the date on which documents are made available to Brownsville's representatives for inspection and copying.

Brownsville requests that the Keeper of the Records identify the specific request or requests to which each document is responsive. Where possible, the Keeper of the Records is requested to maintain the integrity of CSW's filing and recordkeeping systems by producing together documents responsive to this Subpoena, which are found together in the Keeper of the Records' files.

If you claim that any document requested hereunder is privileged, with respect to each such document, please provide the following:

- (a) date;
- (b) type of document;
- (c) identity of author and addressee;
- (d) present location and custodian;
- (e) any other description necessary to enable the custodian to locate the particular document;
- (f) the basis for the claimed privilege; and
- (g) a detailed description of the nature of any judicial protection alleged to be necessary to protect the privilege or confidential nature of any such document.

DEFINITIONS

A. "Documents" mean all writings and records of every type in the actual or constructive possession, control, or custody of CSW, its directors, officers, employees, consultants, or agents, including but not limited to contracts, memoranda, correspondence, reports, surveys, tabulations, charts, books, pamphlets, photographs, maps, bulletins, minu-

tes, notes, diaries, log sheets, ledgers, transcripts, micro-film, computer printouts, vouchers, accounting statements, telegrams and telegraphic communications, engineering diagrams (including "one-line diagrams"), mechanical and electrical recordings, records of telephone communications, speeches and all other records, written, electrical, mechanical, or otherwise.

"Documents" shall also mean copies of documents, even though the originals thereof are not in the possession, custody, or control of CSW, and every copy of a document which contains handwritten or other notations, or which in any other manner does not duplicate the original, or any other copy furnished pursuant to this request.

B. "Communications" shall include, without limiting the generality of its meaning, all conversations between two or more persons either in person or by telephone, all statements, speeches, declarations and comments, and shall include documents as defined in Definition A. above.

C. "Person" shall mean any natural person, company, association, firm, corporation, cooperative, rural electric cooperative, municipality, joint stock association, or any political subdivision, agency or instrumentality of the federal, state, or municipal governments, or a lawful association of any of the foregoing, or any entity that produces, generates, transmits, distributes, purchases, sells, or furnishes electricity.

D. "Identify," when used with respect to documents, means that the type, author, recipient(s) of the original, recipient(s) of copies, date, and subject of the document should be specified.

"Identify," when used with respect to communications means that the type of communication, maker of the communication, persons communicated to, persons for whom the communication was intended, date and subject of the communication should be specified.

"Identify," when used with reference to any corporation, association, cooperative, or other legal entity, means to state the name and current address of said organization or entity; if the current address is unknown, provide the last known address.

"Identify," when used with respect to any person, means that the person's name, current business address (or current mailing address for persons now retired), current job title, and employer, should be specified. If the current address is unknown, please provide the last known address.

Where more than one request in this series asks for identification of a document, communication, legal entity, or person, in response to the second and subsequent requests, please provide the name of a corporation, legal entity or person, or the date and author or maker of a document or communication, along with a reference to the response in which a full identification was provided.

E. "Representative" shall be understood to include, without limiting the generality of its meaning, any director, officer, employee, contractor, or consultant, of any person as defined in Definition C. above, who at a particular formal or informal meeting, or in a particular document or communication, appear to participate in the meeting, or in the making of or the receipt of the document or communication, on behalf of or as agent for, said person. Whether or not a representative has actual authority as an agent of the person is irrelevant to his or her status as a representative.

F. "Relating to" or "relate" means consisting of, referring to, reflecting, or being in any way legally, logically or factually connected with. Requests "relating to" a subject or item should be understood to include possible or contemplated actions as to such subject or item. For example, a request for documents relating to interconnection plans would include documents relating to interconnection arrangements that have been considered but rejected.

G. "Electric utility" means a private corporation, cooperative, rural electric cooperative, municipality, joint stock association, or any political subdivision, agency or instrumentality of federal, state, or municipal governments, or a lawful association of any of the foregoing that owns, controls, or operates, or proposes or is studying the possibility of owning, controlling, or operating, facilities for the generation, transmission and/or distribution of electricity.

H. "Transmission services" shall mean the undertaking by a utility to transmit power and/or energy for any other electric utility, whether the power and/or energy is generated by the first utility or by any other electric utility. "Transmission services" shall also include the sale by a utility of transmission capacity without energy.

"Transmission services" include wheeling.

I. "Interconnection" shall mean the physical junction of the electric transmission systems of two or more electric utilities so that electricity may flow over the junction according to location of points of power generation and power usage, in the same manner as electricity flows over the lines of an individual electric system. A junction normally maintained in an open position is considered an interconnection. A junction by which a lower voltage system is joined to a transmission line through a transformer is considered an interconnection.

"Interconnected operation" between two or more electric utilities shall mean a method of operation in which electricity flows over interconnections between the electric transmission and/or subtransmission systems of the electric utilities in the same manner as electricity flows along the lines of an individual electric system, whether or not such flow of electricity occurs pursuant to the terms of an interconnection agreement. "Interconnected operation" includes all forms of interchange, including sales, purchases or

exchange of energy or capacity, reserves sharing, firm power, emergency, maintenance, seasonal, economy exchange, spinning reserves and any similar transactions.

"Interconnection agreement" shall mean an agreement governing the rates, metering, and other terms and conditions under which interconnected operation occurs.

J. "Central & South West Corporation" or "CSW" shall be understood to include its direct or indirect subsidiary, affiliated, or predecessor companies and any entities providing electric service at wholesale or retail, the properties or assets of which have been acquired by CSW.

K. "Central Power & Light Company" or "CP&L" shall be understood to include its parent, direct or indirect subsidiary or predecessor companies and any entities providing electric service at wholesale or retail, the properties or assets of which have been acquired by CP&L.

L. "Houston Lighting & Power Company" or "HL&P" shall be understood to include its parent, direct or indirect subsidiary, affiliated, or predecessor companies and any entities providing electric service at wholesale or retail, the properties or assets of which have been acquired by HL&P.

M. "Texas Power & Light Company" or "TP&L" shall be understood to include its parent, direct or indirect subsidiary, affiliated, or predecessor companies and any entities providing electric service at wholesale or retail, the

properties or assets of which have been acquired by TP&L.

N. "Dallas Power & Light Company" or "DP&L" shall be understood to include its parent, direct or indirect subsidiary affiliated, or predecessor companies and any entities providing electric service at wholesale or retail, the properties or assets of which have been acquired by DP&L.

O. "Texas Electric Service Company" or "TESCO" shall be understood to include its parent, direct or indirect subsidiary, affiliated, or predecessor companies and any entities providing electric service at wholesale or retail, the properties or assets of which have been acquired by TESCO.

P. "West Texas Utilities" or "WTU" shall be understood to include its parent, direct or indirect subsidiary, affiliated, or predecessor companies and any entities providing electric service at wholesale or retail, the properties or assets of which have been acquired by WTU.

Q. "Southwestern Electric Power Company" or "SWEPCO" shall be understood to include its parent, direct or indirect subsidiary, affiliated, or predecessor companies and any entities providing electric service at wholesale or retail, the properties or assets of which have been acquired by SWEPCO.

R. "Public Service Company of Oklahoma" or "PSO" shall be understood to include its parent, direct or indirect subsidiary, affiliated, or predecessor companies and any entities providing electric service at wholesale or retail, the

properties or assets of which have been acquired by Public Service Company of Oklahoma.

S. "Texas Utilities" or "TU" shall mean Texas Utilities Generating Company, its parent, affiliated, direct or indirect subsidiary and all predecessor companies, including, but not limited to, Texas Utilities Company, Dallas Power & Light Company, Texas Electric Service Company and Texas Power & Light Company.

T. "South Texas Units" shall be understood to refer to the nuclear generating units for which applicants in the above-captioned proceeding have obtained a construction permit from the Nuclear Regulatory Commission.

TIS
HOUSTON LIGHTING & POWER COMPANY

HOUSTON, TEXAS 77001

P. H. ROBINSON
CHAIRMAN OF THE BOARD

2, 12
K-426
December 18, 1973

Mr. T. L. Austin, Jr., President
Texas Utilities Company
1506 Commerce Street
Dallas, Texas 75201

RECEIVED

DEC 18 1973

J. L. AUSTIN, JR.

Dear Louis:

This letter is a follow up of our discussion on November 28 relating to anti-trust issues involving licensing nuclear plants planned by TIS utilities. I was asked to undertake the preparation of a proposed revision to the 1967 TIS Agreement to provide for admission of other public and private entities to membership. I am sending you, Si Phillips and Barney Davis our suggested draft which closely parallels the existing agreement. I suggest that you go to work on this draft to see if we can come up with a final draft that will be acceptable to TU, Central and HL&P. If this can be accomplished we can then approach the public entities seeking their approval or revision. It is certainly not my intention to exclude the public sector from participating in the initial stages in formulating a new agreement, but rather that our preparation of a draft will expedite reaching agreement among all members of TIS. Further, investor-owned companies are carrying the burden of licensing, design, construction and operation of the nuclear plants and will be more directly affected by conditions contained in a revised TIS Agreement than is the case of the public entities.

I have asked George Oprea and D. E. Simmons to review the proposed duties of the Administrative Committee, Planning Sub-Committee and Operating Sub-Committee and let me have their comment. I suggest that you have your operating people collaborate with my people to the end that any addition or revision to committee functions be consolidated.

Sincerely yours,

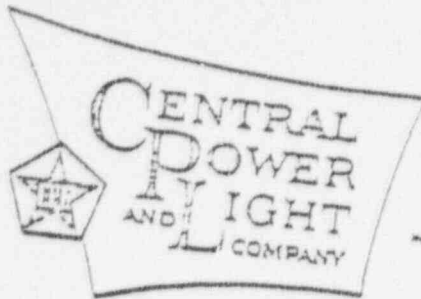
Perk

PHR:mcc
Attach.

cc: Mr. Si Phillips (Attach.)
Mr. Barney Davis (Attach.)

TP

*Deann...
25870*



September 13, 1967

326596

Mr. R. McClanahan, President
Middle West Service Company
Chicago, Illinois 60602

Dear Mac:

Thanks for your letter of September 13, 1967, commenting on my draft of a proposed letter to the City Officials of Brownsville.

Prior to receiving your letter, I had made another draft, copy of which is enclosed. In an attempt to meet views expressed by Mr. Joslin, in this last draft I substituted the general statement about expenditures for additions to the System after acquisition for the definite statement of \$2,400,000 in five years, and used 25 years instead of 20 years for the term of the lease of the power plant if it is retained by the City. Further, in an attempt to follow suggestions of Mr. David Duncan to Mr. Davis, I included a rather general and vague commitment with regard to a plant in the Brownsville area, and also changed the tendered Area Development Department assistance to tie it in with programs of local persons and organizations and possibly forestall the accusation that we would be working for the location of industries in the entire service area and not specifically to help Brownsville.

You will notice also that I have attempted to rationalize and sell the idea that the City's accumulations for payment of revenue bonds should be and would have to be applied to the retirement of said bonds (Paragraph 1(c), Page 3).

As in previous drafts, I have included for consideration various items and provisions solely for consideration.

My views on the points raised in your letter are as follows:

(1) As you state, the immediate problem is to get the right of inspection, which, incidentally, will indicate a willingness to negotiate. I have understood that we will not be able to get local support before the City Commission and will not be able to get approval by the City Commission for the inspection without outlining a basis of acquisition that might be acceptable. It seems to me that if we outline a basis of acquisition and they allow us to proceed with the inspection, it will be tentatively acceptable.

HP

September 18, 1967

(2) I have understood that in order to interest them in negotiating we will need to hold out to them a debt-free city. In my draft I mentioned that the City would be debt-free only in connection with acquiring the entire System and did not mention it in connection with acquiring the System without the power plant. Also, the undertaking to make an additional cash payment to cover other indebtedness is limited to the extent that purchase price remains to be paid over and above the payment for or retirement of revenue bonds.

Obviously, there would be a real problem if they retain the power plant and it is valued at, say, \$12,000,000 and the money required to pay off the revenue bonds, after using their accumulations, would amount to \$16,500,000 and, with the power plant value, make a total value of about \$28,500,000 for the entire System, which might be a total valuation figure very difficult to reach.

Undoubtedly, any purchase, with or without the power plant, will have to be for enough to retire the revenue bond indebtedness because:

(a) The plant and income from it will have to be made debt-free or deposit be made to do so in order to comply with our mortgage.

(b) Some revenue bondholder might stop the sale unless such bonds are paid or the money deposited for that purpose.

(c) We can't reasonably expect that the City will sell the System with some of the debt against it still to be paid through taxation or other revenue sources.

If they decide to retain the power plant, and the fair value of the remainder of the System is not adequate to cover the \$4,400,000 of other bonds in addition to covering the revenue bonds, then we should be able to persuade them, in the negotiation, that they are getting the rent, etc. on the retained plant instead of having the other city bonds paid off.

(3) I feel that if the Brownsville franchise ordinance does not provide for payment therefor and the contract of sale does not specifically allocate a portion of the purchase price to the franchise, then we would not have any trouble with "favored nations" provisions in other towns. The contract of sale, I presume, need not allocate any portion of the purchase

HP

September 13, 1967

price to the franchise, and it would be a matter of working out with IRS agents a reasonable allocation. Normally what is done would not be a matter of public information but I could not give any real assurance that some other town would not find out about it, or at least find out that we dealt generously with Brownsville for the acquisition of the System, and insist on similar treatment as a prerequisite to granting a new franchise. As a matter of fact, the Brownsville purchase, if made, probably will be used anyway in future franchise negotiations, particularly with the larger cities.

In addition to the obvious income tax advantage of allocating part of the purchase price to the franchise, I believe it might be beneficial in rate matters if we ever have companywide regulation.

(4) In connection with drafting the formula for paying rent on the power plant, if it is retained, I thought I had seen a study by you in which you reached a total figure of 12%. Obviously, some other approach might be better from our standpoint and might even be preferred by the City.

(5) Although Mr. Duncan seems to have a good insight into the thinking of the Brownsville people, I believe that we should not give up on the idea of having them apply their accumulated funds to payment of revenue bonds. Hence, as mentioned above, I tried to sell the idea and am hopeful that we would be able to sustain this position in any negotiations.

(6) I believe we need to encourage them to believe that they will have a debt-free city if they will sell us the entire System, which is all that is said in my draft. I doubt that we could be any less lucid on this point and still gain the desired result.

(7) I have understood that they would require assurance of annual income equivalent to the payments made by the Public Utilities Board and some basis for increases thereof in the future. Obviously, this is an unusual requirement - but presumably we need to do something along this line if we are to succeed in acquiring the property. As previously mentioned, the revenues to the City from ad valorem taxes and gross receipts taxes will not nearly cover these annual payments from the PUB. I tried to come up with something additional to be credited against the PUB payments. Since they are not selling their cash equity in the System and will still have it and the earnings from it, the sub-paragraph (3) seemed to be a logical means of building up the receipts in replacement of the PUB payments. It would be better, of course, not to include this provision but I have understood that something like it will be necessary to get them to enter into negotiations. If a provision of the kind is included, it will of course have to

HP

September 18, 1967

(8) Item 3(a) on Page 4 was changed in the new draft as mentioned above.

(9) I am not sure that I understand the memorandum prepared by Mr. Carl Sandeen but am inclined to believe that he is under a misconception as to taxes discussed. For instance, the State of Texas ad valorem taxes are based on a statewide rate, taking into account tax valuations all over the entire State, and it is inconceivable that the addition of \$10,000,000 or \$15,000,000 to the tax rolls at Brownsville would have any noticeable effect on the tax bill of anybody. The same would be true, to a much lesser degree, with respect to Cameron County and the other taxing agencies. Probably this is one reason why we have been told that any ad valorem tax payments other than to the City itself will not be credited as being received by the City as a result of the sale of the System. This does not mean, of course, that voters who are particularly interested in the School District or some other local taxing agency would not be influenced to some extent to vote for the sale of the System in order for their favorite local agency to have more funds.

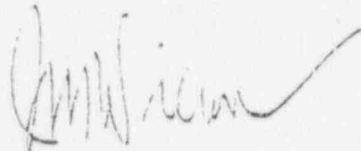
I believe that you made an excellent further point to indicate that it will not be feasible to take title to the System subject to the revenue bond indebtedness.

I hope that my draft, which to some extent reflects information developed here and which has not been made available to you, and my comments will be of some value in your further considerations.

Sincerely,

JMWilson:AH
Enc.

CC: Messrs. S. B. Phillips, Jr.
✓ F. J. Herr, Jr.
E. S. Joslin
Barney Davis



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3.1 (1)
2.1 (1)
3.6 orig
3.3 (1)
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September 15, 1967

St:

Attached is copy of memo which constitutes
a rough draft of conversation held between
Mr. Wale and Mr. Whitmer.

As you know, this is a matter we discussed
a little while ago concerning the attempt of
American Metals Climax to build a plant
to be financed by International Utilities, Inc.
We will keep you advised.

Also enclosed is memo regarding the timing
of our proposed contract with Brownsville VPs.

E.S. Joslin

CC: Mr. R. McClanahan

A 03446

CP 3437

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3-3
MEMO - Brownsville

September 15, 1967

Jack Ware called W.W. (Bill) Witmer and we both talked to him after Jack introduced who I was, etc.

First off I explained to Mr. Witmer the importance of keeping all of this quiet until after October 8th, since that was the date all City candidates must be filed for the November 7th election. He was not aware of the City election so I asked him who in Brownsville knows about this. He has talked to no one. The only contacts made in Brownsville have been by Westinghouse, and they have talked to the airport Authority relative to installation of a desalination plant. (This bears out the names of Westinghouse Gene McNair showed me the day I talked to him)

Mr. Witmer says he has been employed by both or has a working arrangement with both American Metals Climax, which he refers to as Amex, and International Utilities Corporation of which Mr. Howard Butcher III is Chairman. International Utilities Corporation has agreed to finance the generation for the American Metals Climax at a reduction plant to be built on deep water on the South Texas coast. Coastal States has been contacted as the gas source. This reduction plant will use alumina, make aluminum pigs to be shipped out. The alumina will be brought in by large ocean-going ships from Australia and North Africa where they have mines. These two plants, in Africa and Australia, are already stockpiling the alumina. North Africa Plant has been operating several years, the one in Australia only a year and that was to fulfill lease agreement.

International Utilities Corporation used to be a holding company but now has its Home Office in Toronto, Canada, and in 1945 it became exempt from the provisions of the Holding Company Act. It has a wide diversified field of operations and has an investment company called International Utilities, Inc. in New York. Both Ware and Witmer refer to this company as I.U.

Witmer says I.U. is interested only in financing this plant and would prefer leasing it to us. They have quoted 3.6 mill power to Amex and are going to charge 11% on their equity in the plant, which amounts to 10% of the total - with 90% debt. Of course their own bonding house will carry the bonds. They figure on a 30-year lease but will go as low as 20 years. Their return is figured on the depreciated balance.

They have several such plants now, some in other countries - one in Bellingham, Washington.

Witmer figures the plant will cost \$87.00 per KW.

A 32441

CP

2441

September 15, 1967

The Amex load will be approximately 360 MW, three pot lines at 120 MW each, but they plan on a twin turbine 550 MW plant (2 units of 275 each). Witmer mentioned Brown-Bovari units due to the time element. Says boilers are the things he cannot get.

He says the plant will be somewhat subsidized by the steam operation. This is where Westinghouse comes in and he says they will completely operate the steam part. This is to make distilled water with an outlet to certain drug companies. Seems they have outlets already planned - no problem here. Westinghouse had a Mr. Spencer of Houston work with them on the desalination process. He in turn had a chemical company (whom Witmer says he cannot mention) to make a study of the use of the water. This study is now complete.

They also have a commitment from Dow Chemical for the magnesium resulting from the process.

I.U. is interested in getting an agreement with us to operate the plant on an operator's agreement for 20 - 25 - 30 years, or better yet, lease us the plant. At the end of the contract CPL could purchase the plant.

Actually, Witmer needs a standby - he calls it back-up. Says he needs 360 MW.

I asked him if he was tied to Brownsville. He said he'd go anywhere he could get the back-up. I mentioned Corpus Christi. He thought the channel too shallow over near Ingleside.

He says other places being considered by Amex and I.U. are: New Orleans, Vicksburg (United Gas), Mississippi (REA-TVA)

Witmer is going to talk to Amex and I.U. by next week and will call Ware when he gets back. He's meeting them in New York.

Barney M. Davis

A 02493

2442

Middle West Service Company

Management and Engineering Consultants



69 West Washington Street / 33rd Floor
Chicago, Illinois 60602

Cable Address: MIWESCO
Phone: 312 • 726-4730

RODMAN MEDLANAMAN
President

September 13, 1967

326580

Mr. J. M. Wilson
Central Power and Light Company
120 North Chaparral Street
Corpus Christi, Texas

Dear Jim:

This letter is in answer to your letter of September 3, 1967 and enclosures therewith. This will hit some of the high spots but is not intended to be a complete coverage of your draft. I think a number of things must be crystalized before we are at that point.

I have the feeling that your draft goes too deeply into the intention of Central Power and Light Company at this time. We are presently concerned with the problem of obtaining the right to inspect the books, records, and property of the Public Utility Board. I appreciate that it is necessary to make a good case in order to do that but I think it is a great disadvantage to disclose too much of our intention as it will only weaken our bid. In other words, the bid becomes anti-climactic.

It appears to us that we should not discuss the retirement of the \$4.4 million of other debt of the City at this time. We have considerable question as to whether you can afford to pay \$4.4 million or up to \$5 million in addition to the amount to retire the bonds. If you are only purchasing the transmission and distribution facilities.

Our tax people are of the opinion that if an amount were assigned in the purchase price as the cost of a franchise then it could be amortized over the life of the franchise and deducted for tax purposes, inasmuch as there would be no assurance that the franchise would be renewed. There are several

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HP

R. McCLANAHAN
PRESIDENT

- 2 -

326501

Mr. J. M. Wilson

cases along this line one of which is the Cleveland Railway Company 36 BTA 203 in which the Internal Revenue Service has acquiesced. However, as you increase the charges for deductions for tax purposes it becomes necessary to book these charges. Since we already have a paucity of income it becomes more difficult to show any income if we are to continue piling up deferred charges as contrasted with charging amounts off to surplus. The attraction of tax deductions entices us as much as anybody, but we believe that you must not bite into the income of Central Power and Light Company as now constituted. The question as to whether the purchase of a franchise would endanger your position in other towns when their franchises come up is a business question in your area which you folks are much better able to answer than we are here in the Service Company.

We have not attempted, as yet, to see whether the formula on page 2 (b) would work out satisfactorily from a cost standpoint. We had stayed away from this approach as if the power plant would be leased and the transmission and distribution would be purchased, it seemed to us the amount over what could be classified as fair value for the transmission and distribution would best be classified as advanced lease rental payments to be charged off over the future and be deductible for tax purposes. This approach made it a necessity to have a round amount for the additional lease rental to be paid annually over the term of the lease as any formula covering the various items included in carrying charges would be difficult to justify.

Under (c) on page 2, you have (as we did) included the amounts set aside by the City in the revenue bond fund as a reduction from the principal amount of debt to be retired thereby committing Central Power and Light Company only to the net amount. We notice that during Barney Davis's discussion with Mr. Duncan, he (Mr. Duncan) said that the City would look

R. MCDONNAN
PRESIDENT

- 3 -

326502

Mr. J. M. Wilson

upon these funds as being theirs. These funds have been committed to the retirement of debt irrevocably by the City. These are the amounts required under the Ordinance or what we call the Indenture. Now it would be quite interesting to the City to increase the purchase of this amount thereby freeing up these amounts to the City Treasurer after the bonds had been retired. This is another reason for not being too definite about the amount over and above the principal amount of bonds and call premium to be paid as it results in piling amounts upon amounts. For example, if we talk about paying 4.4 million dollars at least above the principal of the bonds and call premium we are then talking about adding the amount that is in the redemption fund put up by the City. We think we should be less insistent on this point.

Reference is made to your 2 item on page 3. I had something like this in the initial draft and Ennis Joslin did not think that it would be compatible with future policy for other towns. I am quite willing to give it more thought.

Reference is made to Item 3 (a) on page 4. We had this amount (or approximately the same) in our draft, but it was the feeling of Ennis Joslin that the amount was so insignificant that it should not be used.

I am enclosing the memorandum which Carl Sandeen prepared in regard to the effect on a taxpayer by the purchase of the property by Central Power and Light Company. I have also suggested that earnest consideration be given to transferring the 150 MW from San Benito to Brownsville. It seems to me that these two points have much more sex appeal, that is; first, the sale of the property puts more tax value on the tax rolls and thereby reduces other taxpayer's taxes; second, that by 1970 or so \$13 - \$20 million of new tax values would further insure the taxpayer of reduction rather than

R. McCLAMAHAN
PRESIDENT

- 4 -

326503

Mr. J. M. Wilson

Increase in his taxes. This should go a long ways towards reducing the amount of cash that would have to be paid beyond the \$19.3 million of principal and call premium.

It would appear to us that, if possible, it would be highly desirable to get our exploration over, make an offer, and try to get on the November ballot. It is much better to have these votes at a regular election than it is to have a special election. The reasons are, of course, obvious. Central Power and Light Company would not be a single target, and could tie itself to the City Council, the City Council could point how they were going to reduce taxes by the sale and for other reasons such as pointed out in Barney Davis's memorandum - a new City Council starts the problem all over again.

We feel that the question of whether the City bonds could or could not be assumed by Central Power and Light Company may be academic. Barney Davis's memorandum of the conversation with Mr. Duncan emphasizes this point. We think what is not being recognized is that a transaction between two enterprises engaged in profit where the equity is purchased and the debt assumed is an entirely different transaction than the one under discussion. Here there is no equity to be purchased only debt assumed and regardless of the credit of Central Power and Light Company and Central and South West Corporation the City of Brownsville still has the liability in full for the debt so long as it is outstanding. Any politician that is against the purchase or lease (and there may be one) would certainly be able to make a lot of capital out of this point.

We stand ready to work here or in Corpus Christi on further considerations or studies.

Sincerely,

HP

RMCC:JO
cc:ESJ, BMD, SEP, FJH

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CENTRAL POWER AND LIGHT COMPANY

September 8, 1967

326576

Mr. R. McClanahan, President
Middle West Service Company
Chicago, Illinois

Dear Mac:

I have been reviewing my file in connection with the attempt to buy the Brownsville system in 1958 and have been trying to arrive at something that might be helpful in the present instance.

Although Article 1118a, Revised Civil Statutes of Texas, authorizes a city to encumber both the utility system and the income thereof, apparently the Brownsville revenue bonds are secured only by the income. This may not be of any importance, however, in determining the amount of lien against the properties at the time of acquisition because the City, as in the case of the similar purchase from Marlingen in 1923, will undoubtedly insist on retaining a lien against the properties until all deferred payments are made.

If the property is purchased in the name of the Company, I believe that we will have to consider Section 10 of Article III, Page 146, of the Company's Indenture dated November 1, 1943. This may mean that the money for redemption of the outstanding revenue bonds will have to be put up in trust for such redemption at the time of taking title. If this is the case, it may be difficult, if not impossible, for the Company to get any benefit from the fact that such bonds carry a lower interest rate than any bonds that the Company would issue at this time.

In the belief that it might have some usefulness, I have prepared a rough draft of a presentation to the City in an attempt to open negotiations, together with an alternate Paragraph 1(c). Copies thereof are enclosed. In view of the Indenture provision mentioned, the alternate Paragraph 1(c) might be more appropriate. Mr. Joslin and Mr. Davis have not reviewed this draft.

HP

COPY

Mr. R. McClanahan

-2-
CENTRAL POWER AND LIGHT COMPANY

September 8, 1967

Without having or displaying any pride of authorship, I will attempt to explain what I have undertaken to bring up for consideration in this draft.

Specific provisions with respect to details, such as the selection of the escrow agent or trustee, the dates and places for payments, etc., have been omitted in the interest of simplification and because this obviously is a preliminary presentation, and it goes without saying that any contract of sale would cover these matters.

For the most part the draft is self-explanatory. If they retain the power plant, the purchase price probably will not be adequate to cover the \$4,400,000 of other bonds in addition to the revenue bonds. Also, if they retain the power plant, they will still be realizing something from it and therefore will not be entitled to have the full contribution from the Public Utilities Board guaranteed to them.

Incidentally, this guarantee of the continuation of the contribution of the Public Utilities Board to the City, together with some provision for it to grow, as they will probably insist upon, presents a real problem. The 2% gross receipts tax per year on \$4,000,000 will be only \$80,000, and it is not reasonable to expect that ad valorem taxes to the City will be much more than \$150,000, making a total of only \$230,000, while they may contend and may be able to show annual contributions by the Public Utilities Board in the neighborhood of \$400,000.

It seems to me that we can logically claim also, as replacing a part of the annual contribution of the Public Utilities Board, the interest on bonded debt not being paid by the utility system, which might amount to \$100,000 to \$125,000 per annum.

There is danger from freezing for the life of the franchise the payment to supplement the gross receipts and ad valorem tax payments during the first year, because they will have funds from the sale and will be able to reduce ad valorem taxes for that first year below normal, which of course would build up the size of the necessary supplement.

I think that this draft would leave some problems unsolved, such as how the City would pay interest on the outstanding bonds, including both any that may have accrued prior to the conveyance of the properties and any that accrues after the conveyance and until the interest is stopped by redemption of the bonds. I hope, however, that these unsolved problems will not keep this draft from being of some value in the consideration of the matter.

Yours very truly,

JMWulson:AH

Encs.

CC: Messrs. S. B. Phillips, E. S. Joslin, B. M. Davis

LIVE BETTER...ELECTRICALLY

HP

3.6

Middle West Service Company
Management and Engineering Consultants



69 West Washington Street / 13rd Floor
Chicago, Illinois 60602

Cable Address: MIWESCO
Phone: 312 - 726-4730

September 7, 1967

326571

Mr. E. S. Joslin, President
Central Power and Light Company
120 North Chaparral Street
Corpus Christi, Texas 78401

Dear Mr. Joslin:

Subject - Proposed Brownsville Acquisition

We have made some further study of the estimated effect on property tax rates in the Brownsville Area as a result of C.P.&L. Co. acquiring the electric utility properties. This study is based upon historical tax and assessment data contained on pages 70 and 74 of the audit report of the City of Brownsville for the period ended June 30, 1966, prepared by Roy L. Pope & Spillers Co., Certified Public Accountants. This report was supplied to us by Mr. Barney Davis.

The addition of the Brownsville electric properties to the assessment rolls of the City is of such magnitude that it would represent about 10% of the total pro forma aggregate assessed valuations. This substantial addition would have the effect of reducing the present city tax rate from \$1.60 per \$100 of assessed valuation to about \$1.43.

In event C.P.&L. Co. were to build a \$15,000,000 plant in Brownsville, the then total assessed values of the city for the electric properties

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Mr. E. S. Joslin, President

- 2 -

September 7, 1967

would be about 19% of the pro forma aggregate assessed valuations. This would have the effect of further reducing the tax rate to about \$1.30 per \$100 of assessed valuations.

326572

The tax rates levied by the other taxing bodies in the Brownsville Area, such as School District, County, Navigation District and State of Texas, would be similarly reduced.

This reduction in tax rates in Brownsville would represent a very important benefit to the taxpayers.

The accompanying Schedule A represents a work out of the estimated effect on the tax rates levied by the respective taxing bodies.

In Schedule B there is shown the theoretical estimated change in taxes on a \$15,000 home in Brownsville due to C.P.&L. Co. acquiring the electric properties. It shows that if the present electric properties are acquired the total taxes on the homes would be reduced about 8.7%. In event C.P.&L. Co. built a new generating plant in the area the total taxes would be reduced about 14.8%.

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Mr. E. S. Joslin, President

- 3 -

September 7, 1967

The calculations in the accompanying Schedules A and B, are subject to obtaining more information on how "estimated full value" and "assessed values" are determined, and on the accuracy of the equalization factors used.

Yours truly,

Carl E. Sandeen

CES:cbt

cc: Barney M. Davis
S. B. Phillips, Jr.
F. J. Herr, Jr.
R. McClanahan

326573

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HP



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CITY OF BROWNSVILLE

Schedule A

Estimate of Effect (Decrease) on Tax Rates in Brownsville Area Due to Adding
Electric Utility Properties to Taxable Assessment Base
(in thousands of dollars)

	City of Brownsville	School	County	Navigation District	State	State Junior College	Total Taxes
Year 1965 Assessed Valuations	(a) \$65,200	\$80,200	\$120,000	\$42,700	\$91,700	\$50,700	
Total Taxes Levied Year 1965	(a) \$ 1,046	\$ 1,203	\$ 1,578	\$ 213	\$ 385	\$ 101	\$4,626
Tax Rates per \$100	(a) \$ 1.60	\$ 1.50	\$ 1.40	\$ 0.50	\$ 0.42	\$ 0.20	
<u>Effect of C.P. & L. Co. Acquiring</u>							
<u>Present Electric Property</u>							
Assessed Values as above	\$65,200	\$80,200	\$120,000	\$42,700	\$91,700	\$50,700	
Add present electric property (\$15,500)	7,800	7,200	3,875	2,000	3,875	3,875	
Equalization Factor (b)	50%	46.25%	25%	17%	25%	25%	
Adjusted Assessed Values	\$73,000	\$87,400	\$123,875	\$44,700	\$95,575	\$54,575	
% of Total Assessed Values							
Represented by Electric Property	10.7%	8.2%	3.1%	4.5%	4.1%	7.1%	
Total Taxes Required (as above)	\$ 1,046	\$ 1,203	\$ 1,578	\$ 213	\$ 385	\$ 101	\$4,626
Adjusted Tax Rate per \$100	\$ 1.432	\$ 1.375	\$ 1.355	\$ 0.477	\$ 0.403	\$ 0.185	
% Reduction in Tax Rates	10.5%	8.3%	3.2%	4.6%	4.0%	7.5%	
Tax Payable by C.P. & L. Co. -							
Adjusted Basis	\$ 112	\$ 99	\$ 53	\$ 10	\$ 15	\$ 7	\$ 297
<u>Effect of C.P. & L. Co. Acquiring</u>							
<u>Present Property and Constructing</u>							
<u>New 150,000 KW - 13,000,000 Plant</u>							
<u>at Brownsville</u>							
Assessed Values as above	\$65,200	\$80,200	\$120,000	\$42,700	\$91,700	\$50,700	
Add -							
Present Electric Property - \$15,500	7,800	7,200	3,875	2,000	3,875	3,875	
New Plant - \$13,000,000	7,500	5,950	3,750	1,950	3,750	3,750	
Equalization Factor (b)	50%	46.25%	25%	17%	25%	25%	
Adjusted Assessed Values	\$80,500	\$94,350	\$127,625	\$46,650	\$99,325	\$58,325	
% of Total Assessed Values Represented							
by properties owned by C.P. & L. Co.	19.0%	15.0%	6.0%	8.5%	7.7%	13.1%	
Total Taxes Required (as above)	\$ 1,046	\$ 1,203	\$ 1,578	\$ 213	\$ 385	\$ 101	\$4,626
Adjusted Tax Rate per \$100	\$ 1.299	\$ 1.275	\$ 1.315	\$ 0.457	\$ 0.388	\$ 0.173	
% reduction in Tax Rates	18.8%	15.0%	6.1%	8.6%	7.6%	13.5%	
Tax Payable by C.P. & L. Co. -							
Adjusted Basis	\$ 199	\$ 180	\$ 102	\$ 18	\$ 30	\$ 13	\$ 542

Notes:

- (a) Data from audit reports of City of Brownsville for period ending June 30, 1966.
(b) Equalization factor per Central Power and Light Company

HP

Estimate of Change in Taxes on a \$15,000 Home
in Brownsville Due to C.P.&L. Co. Acquiring
Electric Properties

Taxing Body	Equalization Factor	Assessed Value	At Present Rates		C.P. & L. Buys Electric Property		C.P. & L. Buys Electric Property and Builds New Plant	
			Tax Rate	Tax	Tax Rate	Tax	Tax Rate	Tax
City of Brownsville	50%	\$7,500	\$1.60	\$120	1.432	\$107	\$1.03	\$ 98
School	46-1/4%	6,938	1.50	104	1.376	95	1.275	88
County	25%	3,750	1.40	53	1.355	51	1.315	49
Navigation District	13%	1,950	0.50	10	0.477	9	0.457	9
State	25%	3,750	0.42	16	0.403	15	0.388	15
State-Junior College	25%	3,750	0.20	8	0.185	7	0.173	6
Total Tax				<u>\$311</u>		<u>\$284</u>		<u>\$265</u>
Reduction in Tax from Present -								
Amount						\$ 27		\$ 46
Percent						8.7%		14.8%

City of Brownsville

Schedule B



Middle West Service Company
 Insurance and Engineering Company

326573



7

Middle West Service Company

Management and Engineering Consultants



69 West Washington Street / 33rd Floor
Chicago, Illinois 60602

Cable Address: MIWESCO
Phone: 312 • 726-6730

RODMAN McCLANAHAN
President

September 5, 1967

Mr. E. S. Joslin, President
Central Power and Light Company
120 North Chaparral Street
Corpus Christi, Texas

Dear Ennis:

As I expressed to you over the telephone this morning, I have considerable doubt as to whether the Purchase-Lease Plan, as it is now set up, has sufficient appeal to accomplish the acquisition. It seems to me that the Purchase-Lease Plan must have some cash consideration of immediate consequence to the City if it is to be compared with the straight out Purchase Plan.

Our discussions indicate that your greatest chance of success may be in the Purchase-Lease Plan. I cannot find any value, short or long-term, to Central Power and Light Company in a management contract.

On several occasions the question has been brought up of transferring the 150 megawatt plant from San Benito to Brownsville. It would appear to me that if you could tell the City Council of Brownsville that you would make an expenditure of \$18 - \$20 million for the 150 megawatt plant and other additions in their city limits by 1970 or so you might avoid a lump sum payment to a considerable extent under either the Purchase or Purchase-Lease Plan. The taxes are not insignificant when added to the present annual benefits.

Is it possible to re-explore the transfer of the 150 megawatt unit to Brownsville before we add more cash bait to the Purchase-Lease Plan?

We will, of course, proceed to work along all avenues as we know that you are faced up with having some formulas to talk from.

Sincerely, A OUCSS

RMcCJO
cc: SUP, DMD, FJA.

RETT CP

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CENTRAL POWER AND LIGHT COMPANY

July 27, 1967

Mr. Richard L. Johnson, Executive Vice President
Middle West Service Company
69 W. Washington
Chicago, Illinois 60602

Dear Dick:

We have attached hereto copies of three instruments which we feel would be useful in the Brownsville study. All three of these instruments were supplied to us by the Chief Engineer of the Public Utility Board.

The first of these is his appraisal of the electric plant including depreciation and, also, including the new gas turbine which is presently being installed. If you will note, he has also shown the figures as recorded in the last audit report which are near his figures, but at the same time, they do not show the gas turbine installation.

The second report is one on future electrical generation needs which was prepared by the Chief Engineer for Brown & Root who handles most of the engineering study for the Public Utility Board.

CP
The third instrument is a copy of the 20-year gas contract made with the Rio Grande Valley Gas Company. As you know, we have to secure copies of the ordinances, authorizing the bond sales, from Austin and these are being processed and we should receive them the latter part of this week, or by Monday, at which time they will be forwarded to you.

While talking to Carl Sandeen yesterday, I asked if in the Cash Flow Study to Brownsville, an appeal to such bodies as the school people, the Chamber of Commerce, the Navigation District, and the City would be reflected since I think this is a very important selling point.

If you recall, there was some mention relative to the City issuing Industrial Bonds and we advised that in Texas this was not allowed.

1305

COPY

Mr. Richard L. Johnson

7/27/67

CENTRAL POWER AND LIGHT COMPANY

Page 2.

I checked this out and found that Senate Joint Resolution #14 allows the people of Texas to vote on this particular thing in the General Election on November 5, 1968.

If you need any further information, be sure and let me know.

Sincerely,

BarneyMDavis/fg
Encls.

cc: Mr. S. B. Phillips, Jr.

P.S. Si: As soon as we receive copies of the ordinances referred to, I will send you copies for you to pass on to Mr. Sampsell who had asked for these, also.

We enjoyed the visit the other day and want to say thanks again for the interest that is being shown in what I call a very important project.

B. M. D.

CP

1376



Middle West Service Company

Management and Engineering Consultants

69 West Washington Street / 33rd Floor
Chicago, Illinois 60602

Cable Address: MIWESCO
Phone: 312 • 726-8730

R. L. JOHNSON
Executive Vice President

March 2, 1967

Mr. S. B. Phillips, Jr., President
Central and South West Corporation
20 North Wacker Drive
Chicago, Illinois 60606

Dear Sir:

Over the telephone today I discussed the status on Brownsville with Barney Davis.

He expects to complete his review of the material we sent during the next week. Then, after asking us further questions - if any - on the preliminary report and supplement, Barney would be interested in having another meeting with us. Such a meeting probably could not be before the latter part of March.

The main purpose of such a meeting would be to lay the guidelines for a written presentation for Mr. Joslin to hand to City representatives.

Sincerely yours,

RLJ:cjf

cc EMDavis ✓
RMcClanehan

1350

Middle West Service Company

Management and Engineering Consultants



69 West Washington Street / 33rd Floor
Chicago, Illinois 60602

Cable Address: MIWESCO
Phone: 312 • 726-8730

R. L. JOHNSON
Executive Vice President

9 February 1967

Mr. Ennis S. Joslin, President
Central Power and Light Company
120 North Chaparral Street
Corpus Christi, Texas 78401

Dear Ennis:

Enclosed herewith are fifteen (15) copies of an addendum to our preliminary report pertaining to a minimum offer for the Brownsville property. Presented in this addendum is an offer of \$23,500,000, which is derived for both Plans A and B. This offer is designed to provide a cash flow equal to that expected by the City prior to their allowance for reinvestment in plant. Also presented in the addendum to the preliminary report is a Lease Plan (Plan C) which contemplates an annual payment of \$2,400,000.

Relating to Plan A in which the Company would assume responsibility for paying off the interest and the principal on the debt in accordance with present schedules, we are concerned as to whether or not the interest on such bonds would continue to be tax deductible for the bondholder. We are looking into this aspect and it may be that the most desirable course would be to get a ruling from the Internal Revenue Service.

- more -

CP

66-23



Mr. Ennis S. Joslin

- 2 -

2/3/67

Also, we are proceeding immediately to make an analysis
of the holders of the Brownsville utility bonds.

With best regards,

Sincerely,

encls. (15)

RLJ/vh

cc: Mr. S. B. Phillips, Jr. - Central and South West Corporation
Mr. L. McCabe - Isham, Lincoln & Beale
Mr. R. McClanahan

A 08539



HOME OFFICE: P. O. BOX 2121, CORPUS CHRISTI, TEXAS 78402

December 27, 1966

VICE PRESIDENT
AND
ASSISTANT TO PRESIDENT

326467

Mr. R. B. Phillips
Central and South West Corporation
Chicago, Illinois

Dear Dick:

Attached is copy of the petition we understand is being circulated in Brownsville. Each petition is reportedly being circulated with sheets attached for approximately 200 names. We have also heard that the petition is receiving considerable interest.

We will keep you informed on any news we get relative to this or any other activity in Brownsville.

Sincerely,

BMDavis:AH
Enc.

CC: Mr. S. B. Phillips, Jr.
Mr. R. L. Johnson

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Gentlemen:

That the Charter of the City of Brownsville be amended by deleting Article VI - Utilities Board.

[illegible]

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PROGRESS REPORT RE-BROWNSVILLE

DECEMBER 6, 1966

TO: S. B. PHILLIPS, JR.

FROM: R. L. JOHNSON

Presented herein is a summary of our observations on the status of this matter and a recommendation as to the next and final step in preparing for further discussion with certain Brownsville citizens.

Our purpose is to provide the C&SW representative to Brownsville with adequate Company direction as to the most feasible method and as to an offering price for obtaining operation of the Brownsville property.

To date, several aspects of the study have been covered separately as follows:

1. The economics of operating the property have been studied and found not to support a necessary offering price. This is so since it is impossible to quantify many of the benefits which will probably result from integrating the operation of Brownsville into CP&L.
2. The legal aspects have been investigated and opinions rendered some years ago have been reviewed.
3. The tax aspects have been reviewed and a presentation relating to the most favorable method of obtaining operation of Brownsville tax-wise has been updated.

EP



- 2 -

4. Cash flow to the city has been reviewed for various methods of obtaining operation of Brownsville and we are now informed as to what minimum payments must be.

326442

What now remains is the financial analysis from which we can make conclusions as to the most feasible method and as to the maximum offering price. The criteria must include the following:

- A. The restrictions covered in the most recent Brownsville bonding ordinance.
- B. The probable reactions of the Brownsville bond holders.
- C. The effect on surplus of either writing off a considerable part of the purchase price, or of writing off the sweetener in a leasing or contract purchase arrangement.
- D. The effect on C&SW earnings of the various methods of obtaining the operation.

We propose that this concluding aspect of the study now proceed under the immediate direction of Mr. Fallon with one or more financial analysts such as Sandeen, Lawler or Stevenson working on the project.

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- 3 -

Among other considerations, our study would include the following:

1. Study of all outstanding debt ordinances with reference to redemption provisions, current premiums payable, noncallable issues, total cost to retire, etc.
2. Determine, to the extent possible, names of institutional and other holders of debt issues.
3. Review through contacts with investment bankers who placed bond issues and with institutional holders, difficulties in retiring noncallable debt due to market conditions.

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RLJ/vh

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12

CENTRAL AND SOUTH WEST CORPORATION

RICHARD B. PHILLIPS
ASSISTANT TO THE PRESIDENT

CHICAGO OFFICE
20 NORTH WACKER DRIVE
CHICAGO, ILLINOIS 60606

September 16, 1966

Mr. B. M. Davis, Vice President
Central Power and Light Company
120 N. Chaparral Street
Corpus Christi, Texas 78403

Dear Barney:

My visit to the EEI concerning various acquisitions of municipals and REA's by investor owned companies was not really very fruitful; however, I think perhaps we have added a few new ideas to our stable.

I cannot locate my memo reviewing various lease acquisitions which I prepared for John Osborne, I think, about two years ago; therefore, I have asked Middle West (Elmer Gates) to collect copies of whatever leases they have in their files, which I will again review and report to you later.

Sincerely yours,

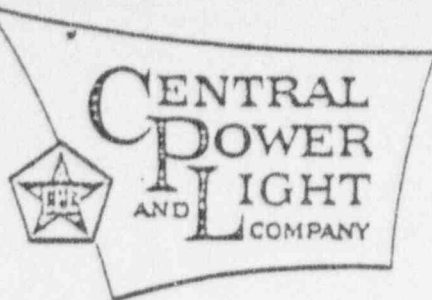


RBP:ds
cc-S. B. Phillips, Jr.
F. J. Herr, Jr.
E. S. Joslin

ICP

1374

A 01072



HOME OFFICE: P. O. BOX 2121, CORPUS CHRISTI, TEXAS 78403

September 13, 1966

VICE PRESIDENT
AND
ASSISTANT TO PRESIDENT

Mr. R. B. Phillips, Assistant to the President
Central and South West Corporation
Chicago, Illinois

Dear Dick:

Attached is a memo of our meeting in Chicago, listing the twelve items that outline the procedure to follow this far. We are sending to your office the following, which comply with these items:

- No. 7 - Two copies of the PUB and City of Brownsville audits dated June 30, 1966 - to be sent under separate cover.
- No. 8 - Attached to this letter is a narrative and breakdown on the generation at Brownsville, showing the size of units and dates placed in service.
- No. 10 - Two rather good reports (under separate cover):
 - a. Lower Rio Grande Valley of Texas Economic Resources and Growth Prospects to 1984, made by Bureau of Business Research of University of Texas in 1966.
 - b. Brownsville-Crossroads of the Hemisphere made by Homer A. Hunter Associates in connection with Urban Renewal.

These are the only copies of these reports that I have, so when you are through with them I would like to have them back.

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Mr. R. B. Phillips

-2-

September 13, 1966

No. 11 - Two copies of the latest engineering study
made by Brown & Root. This was dated
July 1965.

Also, a copy of the Texas Municipal Report on the City
of Brownsville that will give some additional information
I thought Middle West Service might use.

I enjoyed the visit to your office and certainly appreciate the
time given us.

Sincerely,

BMDavis:AH
Encs.

CC: Messrs.S.B.Phillips,Jr.
F.R.Lane
R.L.Johnson

CP

1376
A C1071

15
MEMO

Date of Meeting: September 9, 1966
Subject: Acquisition of Brownsville Municipal Electric System
Attending: Mr. S.B. Phillips, Jr., Central and South West Corporation
Mr. R.B. Phillips, Central and South West Corporation
Mr. Richard Johnson, Middle West Service Company
Mr. Frank R. Lane, Central Power and Light Company
Mr. Barney M. Davis, Central Power and Light Company

The purpose of this meeting was to begin a study toward the acquisition of the Brownsville properties.

A short resumé of past history on the subject was given. Then a pro forma statement that had been prepared by CPL was discussed. These figures were in four parts to show:

FIRST: What the City of Brownsville might expect from their system based on the 1965 audited report and using the same percentage of revenue growth for a 10-year period.

SECOND: The figures were to show what CPL could expect to do should we be operating the properties. These figures were based upon the same audit report.

THIRD: The figures were to show the results if the properties were leased from Brownsville.

FOURTH: To show the effect of purchase of the properties at three different purchase prices----\$20 million, \$26 million, and \$32 million.

The pros and cons of leasing the properties were discussed as well as the problems of financing and regulatory approval of purchase price.

Dick Johnson presented a list of recent acquisition approvals, showing the ratio of purchased price to customers served and to dollar of revenue. The results of this list showed a purchase price below the figures that had been presented.

In conclusion it was decided that the following would be done:

- (1) Dick Johnson would review the lease file of Middle West Service Co.
- (2) S.B. Phillips, Jr. will contact the law firm and present the material accumulated to date. Also he will have the law firm (Leo McCabe) check SEC staff for informal discussion on acquisition price ranges, and have the law firm review methods of acquisition with emphasis on betterments and maintenance of leased property.

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- (3) Dick Johnson will have Middle West Service check the economics of the pro forma statements presented at this meeting.
- (4) S.B. Phillips, Jr. will check with EEL while in New York on methods of acquisitions they might have in their files.
- (5) It was agreed that Middle West Service, the law firm, and Central and South West will study means of financing acquisition-- either/or bonds and stocks--should the acquisition be approved.
- (6) Middle West Service, Central and South West, and CPL will review plans of presenting the proposal to Brownsville should it receive approval.
- (7) CPL will send two copies of the PUB and City of Brownsville audits dated June 30, 1966.
- (8) CPL will determine the amount of total plant that is generation.
- (9) Central and South West will check their files for a list of the Brownsville bondholders.
- (10) CPL will supply a report on the economic future of the Brownsville area.
- (11) CPL will supply two copies of the latest engineering study made by Brown & Root.
- (12) Finally, it was decided that all information on the study would clear through the Central and South West office.

9/12/66

Barney M. Davis

CP

A 01076

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MIDDLE WEST SERVICE COMPANY

FOR COMPANY BUSINESS ONLY

SUBJECT Power Plant Proposed By the City of Brownsville

DATE July 22, 1966

LOCATION _____

TO Mr. E.S. Joslin, President
Central Power and Light Co. - Corpus Christi, Texas
 FROM E. E. Hissel

16 We have examined the proposal of the Public Utilities Board of the City of Brownsville for Harvey Aluminum Incorporated and would like to comment as follows:

1. Investment in the generating plant is realistic.
2. Gas turbines of 100 MW have been built and 125 MW is feasible.
3. One 233 MVA power transformer does not provide stand by at the delivery end of the line. However, duplication would add less than 1% to the investment.
4. The cost of the line cannot be checked because we do not know the length.
5. Station auxiliaries and losses appear to be reasonable.
6. The heat rate ^{MW} kWh is within the ball park even considering occasional operation of the gas turbine which has of course a considerably higher heat rate.
7. Fuel cost and escalation appear to be all right.
8. Bond interest of 5.5% appears rather liberal for tax exempts.
 Recent issues of Eas rated electric utility bonds with 30 years maturity carry 4.3%.
9. The debt service rate of 0.0628 for a 30 year 5.5% bond is all right.
10. Maintenance and supplies at 0.0057 mills per kWh appear to be too low. At the rate of 0.1 mill per kWh an amount of \$150,000 would be more realistic, especially when one of the three units

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HP

is a gas turbine.

On the whole the proposed rates do not appear to be unattainable although the "net revenue to corporation" may turn out to be less than the \$473,500 shown.

HCM/jh

cc: F. Barr

326313

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17



HOME OFFICE: P. O. BOX 2121, CORPUS CHRISTI, TEXAS 78403

February 7, 1966

OFFICE OF THE
PRESIDENT

Mr. R. B. Phillips
Central and South West Corporation
Chicago, Illinois

Dear Dick:

Thank you for your letter of February 3 commenting on the Brownsville situation. The information which you and Hans provided is most helpful, however I am at somewhat of a loss as to how to proceed.

My visit in Brownsville with "the man" was most cordial and I am sure that SI will tell you about it.

One thing that bothers me is the requirement for SEC to approve any purchase by us of these properties. The timing gets around to the old problem--which is first, the chicken or the egg? Jim Wilson has written to Judge Stevenson for help on determining what sort of formula the SEC might approve.

I appreciate all the help you have given me in the past and state again that I realized all along it was most difficult to supply comprehensive figures concerning the value of the Brownsville properties.

Best regards,

ESJ:slh:AH

CC: Mr. S. B. Phillips, Jr.
Mr. Barney M. Davis

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18
February 3, 1966

Mr. E. S. Joslin, President
Central Power and Light Company
120 N. Chaparral Street
Corpus Christi, Texas 78403

326189

Dear Ennis:

This is just a note to express Hans's and my appreciation to you for the opportunity to present our views and what knowledge we have gained on the Brownsville situation. I hope that we have not further confused the problem. Our intent is to help in any way possible, especially in presenting the problem in perspective.

If either or both of us can help in any way, please feel free to call upon us.

I must apologize for my hasty departure; however, SI and I became involved in a discussion of one of our problems and I neglected to keep proper track of my time. With Matt's assistance, I made the airport a few minutes early.

Thanks again.

Sincerely, your friend,

RBP:ds
cc-Mr. S. B. Phillips, Jr.
Mr. B. M. Davis

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January 31, 1966

Mr. E. S. Joslin, President
Central Power and Light Company
120 N. Chaparral Street
Corpus Christi, Texas 78403

326171

Dear Sirs:

Subject: Considerations in Determination of Price for Purchase
of Brownsville Property

Brownsville electric revenues are estimated at the present time to be approximately \$3,000,000 annually. The recently prepared Brown and Root projection indicates a growth rate of approximately 5% in kilowatts annually, and if we assume no change in overall load factor, this means 5% in KWH. Since rate structures are designed as they are, this means a somewhat lower percentage in revenue growth - 3% probably is reasonable for the near future. Brownsville rates are our old (1963) rates. Since most of our 1964 rate adjustment was in the rate available to large use residential customers, the amount of reduction in Brownsville revenue which would result from application of our current rates has been ignored as not being significant.

A realistic approach is first to try to view any possible purchase from the viewpoint of the City of Brownsville. If the reported financial statements, as certified to by Peat, Marwick, Mitchell & Co., anywhere near reflect the true cost of the electric operation on an accrual basis, this utility produces somewhere between \$400,000 and \$1,000,000 annually in profits and free services for the city. It is true that there are some restrictions on use of these profits by the city. If the electric system was privately owned, it is probable that about \$100,000 per year in property taxes would be paid and local franchise and other taxes, fees, etc. could easily amount to another \$100,000 per annum. In addition, the city's bonded debt which is now essentially self-liquidating, would have to be paid off, probably in full, and this currently amounts to about \$15,000,000. With the other utilities, water and sewer, debt free, they should generate about \$200,000 per year in profits. This \$200,000 is approximately the amount of interest currently charged against these operations. If the above \$200,000 in taxes plus the \$200,000 reduction in interest costs to the Water and Sewer Departments is deducted from the total utility income now produced, the balance

HP

Mr. E. S. Joslin
Page 2

January 31, 1964

COPY

of from \$400-600,000, at 5%, is worth between \$8 and \$12 million to the city. This is the amount which would have to be invested at 5% to produce the same income.

For purposes of perspective, we have assumed that the purchase cost would be paid with 60% debt (at 5%) and 40% equity. Currently Central Power and Light Company ratios indicate that approximately 37% of their revenue dollar is available for Federal taxes and all money costs. The amount available to pay for the required capital, before taxes, assuming Brownsville operating costs would be typical of the Central Power and Light system as a whole, would be approximately \$1,110,000 annually. This is 37% of the \$3,000,000 gross revenue which is available for debt service, return on equity, and Federal taxes.

If we assume a purchase price of \$23 to \$27 million, and if we use the \$1,110,000 available for Federal taxes and money costs, and assume that it is financed with 60% debt (\$13,000,000 to \$16,200,000) this would leave only \$300,000 to \$420,000 (after \$690,000 to \$10,000 in debt cost) before Federal taxes, or \$150,000 to \$210,000 after taxes for the required common equity. The indicated net return on common on this basis would be approximately 1.4% to 2.4%. If \$20,000,000 were paid, the return on common would be about \$265,000 or 3.3%. As revenues grow this would gradually produce more net for equity. If continuance of the same 37% operating ratio and 5% revenue growth is assumed, then by the end of the first year there would be about \$240,000 in revenue growth and the net available for debt service, Federal taxes, and equity would have increased approximately \$80,000. As a generalization, it has to be assumed that this growth would produce a full return on the investment required to support that growth. Our average revenue dollar is supported by approximately \$3.50 in net plant investment. Some growth of course can be had at much less investment; however, in the long run the investment must be made at approximately the overall rate. We probably would obtain an initial few years advantage on an incremental investment basis. As revenue increases, so must investment; hence, realization of a full return from such a purchase, standing alone, would be very remote indeed, if ever.

It must be kept in mind that the purchase of this business for anything near its apparent value to the city, or even in between that and depreciated original cost, would result in a very sizeable acquisition adjustment, in the magnitude of \$10,000,000 or more. Depreciated original cost appears to be about \$10-11 million. The excess over depreciated original cost would have to be written-off to surplus in a lump sum or amortized over a period of time (perhaps 10-15 years). For rate-making purposes the write-off of acquisition adjustments is almost always "below the line". Acquisition adjustments are viewed as a charge against the equity of the common shareholder. For Federal income tax purposes the base for depreciation would be fair value and the

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January 31, 1960

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difference, if any, would be a non-depreciable intangible. The impact of a 10 year write-off of a \$10,000,000 acquisition adjustment would depend upon how much of the purchase price was treated for Federal income tax purposes as an intangible. A 10 year amortization would reduce annual income (or surplus) by \$1,000,000 less the Federal income tax on whatever portion above original cost that is depreciable. The whole adjustment could be written-off all at once, if the earned surplus account could absorb it and leave a safe margin for other contingencies.

An alternate approach to lump sum purchase would be to make larger annual payments to the city. This might lower the acquisition adjustment, but could well raise the problem of other communities making greater demands because of the example set by our treatment of Brownsville; hence, it could be very costly in the long run.

Another alternative might be to assume the city's utility debt; however, in view of covenants and a changed money market, it is at least questionable if bondholders would consent. How much difficulty would be involved because of unhappy bondholders has not been considered. It probably would be to the bondholder's advantage to get his money back and reinvest in something else. Rising interest rates cause declining bond prices; hence, there is incentive to get out of an investment at once or better if given the opportunity. Feasibility is a legal matter to be resolved with counsel. The city's interest rate averages about 1% less than our probable cost of new money.

Regardless of the apparent economic hopelessness of the situation, the decision need not rest here alone. Other considerations may well outweigh the present economics:

1. Brownsville apparently is growing faster than CP & I as a whole, and this new business would be captured. We would spend a great deal of effort and money to obtain this growth elsewhere in our System.
2. Brownsville is a natural for industrial development with its good deep-sea harbor and general location, but to sell prospective industries on the location requires more reliable service than the municipal operation appears to be capable of supplying.
3. Brownsville has no hurricane insurance protection - to obtain it could be very costly - perhaps several hundred thousand dollars per year. A hurricane property loss would have to be absorbed by the city and could be ruinous. Our System would take such a loss in stride. This could be a good basis for reducing the value of the present system to the city.

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Mr. E. S. Joslin*

Page 4

January 31, 1961

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4. The elimination of a large strategically located municipal operation has value to us in reducing many future problems. It would eliminate risk of a joint G and T with coo, s and/or a tie in with Mexico. It would eliminate a source of agitation which stir up others.
5. Much of the cost of purchase above depreciated original cost could be recouped by growth otherwise unattainable. Perhaps some reductions in promotional expenditures, etc. might also be in order for consideration.
6. Any proposals that are made to the city probably will have to be on a basis that will leave their utility operation debt free as well as providing them with a source of income. The debt free argument can be used to considerable advantage in negotiations.

326174

Sincerely yours,

REP:ds

cc-Mr S. C. Phillips, Jr.

Mr. R. Stevenson

Mr. F. J. Hart, Jr.

HP

To: Mr. E. S. Joslin, President, Central Power and Light Company

From: Mr. R. B. Phillips

Subject: Considerations in Determination of Price for Purchase of
Brownsville Property

20

Brownsville electric revenues are estimated at approximately \$3,000,000 annually, at the present time. The recent Brown and Root projection indicates a growth rate of approximately 9% in kilowatts annually, and if we assume no change in overall load factor, this means 9% in KWH and a somewhat lower percent in revenue growth - 8% is probably reasonable for the near future. Brownsville rates are our old (1963) rates. Since most of our 1964 rate adjustment was in large use residential customers, the amount of reduction in Brownsville revenue which would result from application of our current rates has been ignored.

A realistic approach is to try to first view any possible purchase from the viewpoint of Brownsville. If the reported financial statements, as certified to by Peat, Marick Mitchell & Co., anywhere near correctly reflect the true accrual cost of the electric operation, this utility produces somewhere between \$800,000 and \$1,000,000 annually in profits and free services for the city. It is true that there are some restrictions on its use by the city. If the electric system were privately owned, it is probable that about

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\$100,000 per year in property taxes would be paid and local franchise and other taxes and fees, etc. could easily amount to another \$100,000 per annum. If this \$200,000 is deducted, the balance of from \$600-800,000, at 5% is worth between \$12 and \$16 million dollars to the city (this much would have to be invested at 5% to produce the same income). In addition, the city's bonded debt which is now essentially self-liquidating, would have to be paid and this currently amounts to about \$15,000,000.

For purposes of perspective, we have assumed that the cost of purchase would be paid with 60% debt (at 5%) and 40% equity. Currently Central Power and Light Company records indicate that approximately 37% of their revenue dollar is available for Federal taxes and all money costs. The amount available to pay for the capital, assuming Brownsville operating costs would be typical of the Central Power and Light system as a whole, would be approximately \$1,110,000 annually. This is 37% of the \$3,000,000 gross revenue which is available for debt service, return on equity, and Federal taxes.

If we take the \$1,110,000 available for Federal taxes and money costs, and assume 60% debt (\$16,200,000 to \$18,600,000) this would leave only \$180-300,000 (after \$810,000 to \$930,000 in debt cost) before Federal taxes, or \$94-156,000 after

taxes for common equity. The indicated net return on common on this basis would be approximately 0.9 to 1.5%. As revenues grow this would gradually produce more net for equity. If we assume continuance of the same operating ratio and 8% revenue growth, this would mean that by the end of the first year we would have about \$240,000 in revenue growth and the net available for debt service, Federal tax, and equity would have increased approximately \$89,000. As a generalization, it must be assumed that this growth would produce a full return on the investment required to support the growth. Our average revenue dollar is supported by approximately \$3.50 in net plant investment. The growth of course can be had at much less investment; however, in the long run the investment must be made at approximately the overall rate. We probably would obtain an initial few years advantage on an incremental investment basis. As revenue increases, so must investment and hence, a full return from such a purchase, standing alone, would be very remote indeed, if ever.

It must be kept in mind that a purchase of this business for anything near its apparent value to the city, or even in between that and depreciated original cost, would result in a very sizeable acquisition adjustment, in the magnitude of perhaps \$10 to \$20,000,000. Depreciated original cost appears to be about \$10-11 million. This would

have to be written-off over a period of time (perhaps 10-15 years). For rate-making purposes the write-offs of acquisition adjustments are almost always "below the line". For Federal income tax purposes the base for depreciation would be fair value and the difference, if any, would be a non-depreciable intangible. The impact of a 10²⁶ year write-off of a \$10,000,000 acquisition adjustment would depend upon how much of the purchase price was treated for Federal income tax purposes as intangible. It would reduce income (or surplus) by \$1,000,000 less the Federal income tax on whatever portion above original cost that is depreciable.

An alternate approach to lump sum purchase would be to make larger annual payments to the city. This might lower the acquisition adjustment, but could well raise the problem of other communities making greater demands because of the example set by our treatment of Brownsville; hence, it could be very costly in the long run.

Regardless of the apparent economic hopelessness of the situation, the decision need not rest here alone. Other considerations may well outweigh the economics as we now see it:

326163

1. Brownsville apparently is growing faster than CP & L as a whole, and this new business would be captured. We would spend a lot of effort and money to obtain this growth elsewhere in our System.
2. Brownsville is a natural for industrial development with its good deep-sea harbor and general location, but to sell prospective industries on the location requires more reliable service than the municipal appears to be capable of supplying.
3. Brownsville has no hurricane insurance protection - to obtain it could be very costly - perhaps several hundred thousand dollars per year. A hurricane property loss would have to be absorbed by the city and could be ruinous. Our System would take such a loss in stride. This could be a good basis for reducing the value of the present system to the city.
4. The elimination of a large strategically located municipal operation has value to us in reducing future problems. It would eliminate risk of a joint G and I with coops and/or tie in with Mexico. It would eliminate a source of agitation which stirs up others.

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CENTRAL POWER AND LIGHT COMPANY

July 2, 1965

Mr. Ygnacio Garza, Jr., Chairman
Brownsville Navigation District
Brownsville, Texas

Dear Mr. Garza:

I want to personally thank the Navigation District Board for the privilege of meeting with you last week. There was evidence of mutual interest and cooperation, although much remains to be resolved.

It is our understanding that the Navigation District Board is to tell the Public Utilities Board of the meeting and suggest they call on us for a meeting at a later date.

As we stated at the meeting, we are in the electric power business and are receptive to hearing any reasonable proposals.

There is much potential in Brownsville and with such excellent port facilities the area should experience continuous growth.

It was indeed a pleasure to meet with the members of the Board as individuals and as a group. I will appreciate your extending our regards.

Sincerely,

ESJostlin:AH

President.

CC: Messrs. R. L. Schultz
Russell Rentfro
John S. Osborne

BCC: Mr. R. C. Nongard

CP

A 04172

4158

LIVE BETTER...Electrically

22

Attending: R. A. Ewing
Gen. Robt. Harper
Keith Stone

R. C. Nongard
John S. Osborne
E. S. Joslin
Barney Davis

Mr. Nongard gave the group his ideas on the Brownsville situation and explained the meeting to be held next afternoon with the Navigation District.

He brought out how long he had worked with the late Fritz Hofmokol and how Fritz was ready to tell the PUB that the Navigation District must have CPL power to grow.

He explained that he has been working with the current Navigation District Board to assist them in arriving at some plan for CPL to serve the Port area. He said the Board was ready for us to take over the area. He did say that though he did not know what propositions would be offered he felt sure some would be ridiculous from our point of view. But he did think that part of his proposition would be that PUB would draw a territorial boundary which they would not penetrate and we would be required to move back to this line.

His discussion was quite lengthy and discussed some personalities on the PUB and Navigation District Boards, to bring out ways in which we might be approached or to prepare our own approach.

Actually, the memo on Brownsville copy of which is attached covered most of what he said he had told the Navigation District.

Barney M. Davis

CP

A 04149

4135

by the Court and the
and the Board of Directors.

[illegible]

Jed. Sci.
COPY 27
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23

August 28, 1963

Mr. J. Harris Ward
Chairman and President
Commonwealth Edison Company
72 West Adams Street
Chicago, Illinois

Dear Harris:

As I mentioned to you yesterday, one of our subsidiary companies, Central Power and Light Company, has had several meetings with officials of Union Carbide concerning the furnishing of power to the plant of its subsidiary, the Union Carbide Chemical Company located at the Port of Brownsville, Texas.

Since the plant was acquired by Union Carbide in 1958, its power requirements have been met by two small turbines in the plant. It is our understanding that the capacity of this plant will be gradually enlarged, and that it will soon require an outside power supply of extreme reliability.

The City of Brownsville has a municipal electric system with a generating capability of somewhere over 35,000 kilowatts, which includes one relatively new unit of 25,000 kilowatts. Central Power and Light Company ties into their system and provides emergency standby service to the City. Naturally, we do not feel it is right for the City to expect us to back up their service to an industrial customer at the Port.

While the Port of Brownsville and the Union Carbide plant are not within the City limits, the City sells power to the Port Authority and is anxious to serve the Union Carbide plant. In previous situations, the City has had the persuasive tool in that it furnishes the water requirements of the Port, and has threatened discontinuance of service to customers who do not take their electric service.

HP 0002036

CP

A 20091

COPY

Mr. J. Harris Ward

August 28, 1963

Our engineers feel that the local management of Union Carbide, for obvious reasons, does not want to oppose the City officials, but that the head office engineers who have met with our people have indicated that they favor use of our company in this connection. We are pretty well convinced that if Union Carbide requested our service the City would accept that decision and not carry out their threat concerning the water supply.

For your information, this same company -- Central Power and Light Company -- is serving the Carbide and Carbon plant at Seadrift, Texas. In 1962, this plant had a peak demand of about 23,500 kilowatts and purchased over 181 million kilowatt-hours. It is my understanding that our relations with that plant are of the best.

I shall certainly appreciate anything you may be able to do in this connection.

With kind regards.

Sincerely yours,

TM

JSO:r

cc: Ennis S. Joslin, V.P. ✓
Central Power and Light Co.

CP

✓
COPY

CENTRAL POWER AND LIGHT COMPANY

August 16, 1963

24
Mr. John S. Osborne
Chicago, Illinois

Dear John:

As requested in your telephone call last Tuesday morning, I asked Bill Price to prepare the enclosed report of our contacts with Union Carbide Chemical Company in Brownsville. Also enclosed are copies of letters and reports covering our negotiations with this customer covering additional power service to their Seadrift Plant as well as a proposed new plant which will have a connected load of some 20,000 to 40,000 KW.

You have some of this information; however I am enclosing a complete file and also sending copies to Robb Winsborough. By this time you have probably received copy of Mr. R. C. Nongard's letter to me dated August 15.

Your advice and guidance are needed to plan our contact with the City Utilities Board of Brownsville. I think we should emphasize our desire to serve Carbide and other industries in the Port of Brownsville area. Do you agree?

Sincerely,

ESjostlin:AH
Encls.

CC: Mr. R.M. Winsborough

CP

HP 0002053

A 20107

LIVE BETTER...Electrically

CENTRAL POWER AND LIGHT COMPANY

SERVING SOUTH TEXAS WITH ELECTRICITY

OFFICE OF THE
VICE PRESIDENT AND GENERAL MANAGER

HOME OFFICE
120 N. CHAPARRAL
CORPUS CHRISTI, TEXAS

July 31, 1963

25

Mr. Wm. P. Barnard, Chief Utility Engineer
Public Utilities Board, City of Brownsville
Brownsville, Texas

Dear Mr. Barnard:

Since receiving your letter of July 3, Mr. Ewing and other members of our Valley organization have been in contact with you. It is my understanding that arrangements have been made to inventory the facilities owned by Central Power and Light Company and useful to you in serving those customers whom you propose to take over by December 31, 1963.

You had previously furnished us with a record of kilowatt hours exchanged between the two systems for the period April 15, 1963 through June 15, 1963. Our check meters indicate that not more than 50% of the kilowatt hours were accounted for. Therefore we have installed a graphic recording watt meter which will provide an accurate hour-by-hour record of power delivered to and received from your system. A full month's results will be available around August 15.

When the group met at Bayview on May 25, 1963, we discussed, among other things, the following subjects:

- (1) Power contract.
- (2) CPL customers within the city limits of Brownsville.
- (3) Easements or franchise needed by CPL to maintain our high voltage system.
- (4) Service to industrial customers in the Port area.
- (5) Brownsville's proposal for a joint-use power plant.

It was agreed that the power contract would be reviewed after August 1, which Central Power and Light Company is ready and willing to do as soon as power flow data is available.

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A 04046

Mr. Wm. P. Barnard

-2-

July 31, 1963

We stated that we made no legal claim to customers who were within the city limits for ten years or more. We also discussed what we considered unfair tactics on the part of some of the Public Utilities Board employees in soliciting our customers whom we have a legal right to serve. Mention was made that water service was withheld in some instances. It is the writer's understanding from Mr. Edelstein that the water rate for customers outside the city limits has been or will be approved. It is our understanding also that it is not the policy of either Board to solicit our customers. We also discussed the possibility of exchanging some of our customers whom we now legally serve for customers in territory not within the city limits. We received the impression that the matter of taking over the customers who had been within the city limits for more than ten years would be delayed until some other matters were resolved; however your letter and actions prior to it indicate that you wish to move ahead.

Of major importance to Central Power and Light Company is the matter of service to industrial customers and the consideration of Brownsville's proposal to furnish us with wholesale power at a low rate. Our contacts since that time have not indicated willingness on the part of your people to cooperate with us in developing large power load, and we have not received any indication as to the formula you would use in developing cost of service to us. I am sure you realize that there is a great advantage to having our major plants near load centers; and if we are unable to develop industrial loads around the proposed plant area, or do not receive a very favorable power cost proposal, there is very little incentive for Central Power and Light Company to participate in any power plant program.

It is agreed that we should meet again at a mutually satisfactory time, which I suggest be after August 15 so that we will have a full month's record of power exchange and provide time for your engineering consultants to present a more definite power cost proposal.

Sincerely yours,

Vice President and General Manager.

CC: Messrs. R. Edelstein
H. Eugene McNair
Jno. S. Osborne
R. C. Nongard
R. A. Ewing

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A 04047

CITY OF BROWNSVILLE

1. Power Sales Contract
 - (a) Present contract expires August 1, 1965.
 - (b) Review at end of third contract year or 8/1/63.
2. Customers within city limits since April 1950.
3. Customers within city limits since April 1960.
4. Franchise for 69 KV lines through present city limits and future extensions.
5. Service to Union Carbide Chemical Co. in Port of Brownsville and policy regarding future power loads in the Port area.
6. Proposal by City of Brownsville to construct 150,000 KW generating plant.

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COPY

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CENTRAL POWER AND LIGHT COMPANY

UNION CARBIDE CHEMICALS CO. -Brownsville

Corpus Christi,

MR. JNO. S. OSBORNE

CHICAGO

July 20,

63

I am attaching copy of a report by Bill Price of a contact with Mr. Fritz Hofmokol, Port Director at Brownsville, which you will find interesting reading.

CP

We have not sent a formal answer to Mr. Barnard's letter of July 3, although we have been in contact with him and - have sent the engineering representatives to inventory distribution materials and equipment.

Mr. Bates reported to you that he saw Mr. Nongard on his trip to Chicago and did not get much encouragement from him. It is my impression that representatives of the Public Utilities Board, the City, and Mr. Nongard are hoping to talk us into all of the concessions and benefits for them and leave very few, if any, advantages to us.

From Mr. Hofmokol's statements to Bill and other indications it appears to me that we are not going to be able to serve the Port area unless customers such as Union Carbide insist on our service. This being the case, I cannot build up much enthusiasm for their proposal to build a large plant to be subsidized by CPL.

I expect to be in Laredo on Monday and Tuesday and in the Winter Garden on Wednesday, and can be reached by telephone at either place. If I do not hear from you I will attempt to contact you by phone next Thursday.

ESJostin:AH



3.1(1)
2.1(1)
2.2(2)

M. G. Carter

WILLIAM P. BARTLETT
CHIEF UTILITY ENGINEER
KERNIT CROMACK
COMPTROLLER

PUBLIC UTILITIES BOARD

July 3, 1963

W. L. WATSON
CHAIRMAN
GUSTAVO PERA
SECRETARY
BARRY M. LEGNAT
CLERK
J. E. MCNEIR
MEMBER

27

Mr. E. S. Joslin, Vice President & General Manager
Central Power & Light Company
Box 2121
Corpus Christi, Texas

Dear Mr. Joslin:

As you know, the Public Utilities Board is extremely interested in connecting to its lines all CP&L customers that have been within the corporate limits of the City of Brownsville for ten years or over. It was agreed at the Bayview meeting that CP&L would turn these accounts over to us, we would in fact like to have all these customers on our lines not later than December 31, 1963. A connection schedule per week or month should be set up and agreed upon.

Yesterday the undersigned met with Messrs. Ewing and Stone, of CP&L and with Mr. Mongard, of Mongard, Showers and Murray, to further discuss the above matter. A general discussion developed regarding (a) the delivery of CP&L customers as above noted, and (b) the possible purchase by the PUB of certain primary and secondary lines, poles, transformers, meters, meter boxes, etc. As a result of the discussion the following was considered a reasonable plan of approach:

(1) Check lines and services with a CP&L representative and decide what facilities will be purchased and sales price of same.

(2) As soon as possible and around August 1st have a meeting to decide upon the actual number of customers to be turned over to us and the rate of customer change-out. At

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56564

July 3, 1963

this meeting we would also discuss:

- (A) Power interchange between PUB and CP&L.
- (B) Power contract.
- (C) New generation facilities at Brownsville and/or the port area.

In connection with (C) and a possible cooperative effort between Central Power & Light and the City of Brownsville, Mr. Nongard stated that he had talked on the long distance phone with Mr. Taylor, President and Mr. Tigges, Vice President of Jackson & Moreland. While in Chicago Mr. Nongard had a personal visit with Messrs. Manson and Karzos, who reported in 1961 on the Brownsville utility situation.

There would seem to be some interesting possibilities in building a municipal plant, if CP&L could join the venture as a wholesale customer.

When items (A) and (B) above have been disposed of, we believe it would be well to request a representative of Jackson & Moreland join in an informal meeting with CP&L officials and PUB members. Your observations will be appreciated.

At the earliest possible opportunity we will appreciate your sending a representative to go over with us those facilities that we may wish to purchase. We appreciate the opportunity of meeting with your people yesterday.

Cordially yours,

W. P. Barnard,
Chief Utility Engineer

WPB:dv

cc: -PUB Members
-City Commission Members
-Mr. John S. Osborne, Pres., CP&L
-Mr. R. C. Nongard
-Mr. R. A. Ewing

CP

5655

October 29, 1962

Mr. Dwight Carlsen, Vice President
Central Power and Light Company
120 North Chaparral Street
Corpus Christi, Texas.

Dear Dwight:

I have spoken to Ove Dendtler about the possibility of a closing on the Del Rio properties in Del Rio on December 15th. He feels that this can be done as a simultaneous transaction, and will go about determining the mechanics as soon as you provide me with the name of the bank in Del Rio where the closing will take place. Ove will then be in touch with the First National here and find out whether they consider this bank adequate for such a transaction.

Kindest regards.

Sincerely yours,

FJR:r
cc: O. Dendtler

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325709

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COPY

CENTRAL POWER AND LIGHT COMPANY

October 25, 1962

Mrs. Leon W. Hill, Regional Director
Bureau of Reclamation
P.O. Box 1609
Amarillo, Texas

Dear Mr. Hill:

During our conference on October 24th in Corpus Christi, Mrs. Bradley and Mrs. Jenkins of your office handed us a draft of a proposed contract relating to our purchase of Folsom power. This draft was dated October 15, 1962.

As discussed with your representatives, this draft will be acceptable to us if changed as follows:

(1) Add following Paragraph 6(h) the provisions: "Availability of energy will be declared by the United States both as to quantity and time available as far in advance as is practicable, and deliveries hereunder will be mutually agreed upon by representatives of the United States and the customer."

(2) Delete the last, unnumbered paragraph under Paragraph 6(c).

(3) Include under Paragraph 11 a sub-paragraph (c) reading substantially as follows: "If and when, as a result of changes in the law or regulations, continuation of deliveries of energy under this contract might place the Contractor, or the owner of any system with which Contractor's transmission system is connected either directly or indirectly, under the jurisdiction of the Federal Power Commission, Contractor may discontinue the taking of energy hereunder, and if Contractor has not resumed taking energy and said condition has not been corrected or removed within ninety (90) days after the date of such discontinuance, either party may terminate this contract by written notice to the other."

TS 21954

COPY

CENTRAL POWER AND LIGHT COMPANY

Mr. Leo W. Hill

October 25, 1962

As explained in our letter of September 12, we have interviewed several of the owners of other systems which are now under consideration for our operations. It is our intention to place in operation these systems covering those in the immediate future. Some of the parties with whom we have contracts have stated that they will not accept into their system any energy that might be the basis for subjecting them to a Federal Power Commission (FPC) action, and that they will discontinue their own systems on the day that this risk is removed.

If it is necessary, therefore, that we have a provision permitting the discontinuing of taking Falcou energy if the law or regulations should be changed so that taking such energy might place us and those interconnected with us under the jurisdiction of the Federal Power Commission.

It was a pleasure to have Mrs. Bradley and Mrs. Jenkins in our office and discuss with them the Falcou power marketing problem.

Sincerely yours,

[Handwritten signature]
Executive

J. L. HANCOCK

CC: Messrs. J. S. Jolly

Miss Lovelady

J. M. Wilson

BCC: Mr. J. S. Osborne

TS 21255

LIVE BETTER Electrically

30

CENTRAL POWER AND LIGHT COMPANY

SERVING SOUTH TEXAS WITH ELECTRICITY

OFFICE OF THE
PRESIDENT

HOME OFFICE
120 N. CHAPARRAL
CORPUS CHRISTI, TEXAS

October 26, 1962

325786

Mr. John S. Osborne
Chicago, Illinois

Dear John:

To a copy of our letter to the Director of the Bureau of Reclamation at Amarillo referring to our conference yesterday, I am attaching proposed contract they brought down, a suggested FPC escape clause, and a study of the Falcon power costs over the past several years and as proposed under the present contract.

The gentlemen yesterday were quite anxious to get the \$300,000 limit removed, but since this had been discussed and agreed upon previously we left it in. They are going to draw up a contract based on our discussions with the necessary additions suggested and send it to us sometime next week, we hope.

The thing that bothers me about this whole matter is that it is likely most of the energy will be delivered at a time of year that we don't need it, and of course the cost is high. In reality this is a two-year contract if you will read Provision F of the General Provisions made a part of the contract by reference.

Sincerely yours,

Bill

JLBates:AH

Encs.

CC: Messrs. E. S. Joslin

M. H. Lovelady

J. M. Wilson

10/31/62
Ok'd 12/5/62
in Texas 12/11/62
JLB

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23
Bordie
COPY

CENTRAL POWER AND LIGHT COMPANY

325630

December 5, 1961

Mr. John C. Thompson, Acting Regional Director
Bureau of Reclamation, P.O. Box 1609
Amarillo, Texas

Dear Mr. Thompson:

This will acknowledge receipt of your letter of November 28, 1961, advising us that there will be some delay in developing a new rate for the sale of power from the Falcon Project. You also advise us that you will consequently be delayed in opening negotiations for the renewal of our power purchase contract at Falcon.

We feel that application of the expiring rate for peaking capacity, RS-S2, to such an interim arrangement is not equitable and cannot accept the declaration of 15,000 KW in peaking capacity for reasons including:

- (1) Peaking capacity is not normally purchased on a temporary basis except in emergencies.
- (2) During the probable term of this temporary agreement (January through June), Central Power and Light Company has excess capacity, and peaking capacity is not required. Our peaking requirements occur during the months of June, July and August. It, therefore, would be difficult to prorate any capacity charge in an equitable manner.
- (3) You have advised us that peaking capacity from the Falcon Project will not be offered for sale under your new rate schedules to be ultimately approved for use after December 28, 1961.

We fully recognize that timing is important in order to avoid operation of the Falcon Project without agreement on a contract rate. We suggest that a rate in the form of an on-peak and off-peak energy charge be utilized in this proposed interim contract for Falcon Project power. This would be similar to what was done in 1954 under like circumstances.

We will be glad to meet with you at your convenience either here or in Amarillo to discuss such a temporary rate that will be equitable to both parties.

Yours very truly,

JL Bates
President.

JLBates:AH

CC: Mr. A.P. Jones

BCC: JSC NAE

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Dorrell (M)
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CENTRAL POWER AND LIGHT COMPANY

SERVING SOUTH TEXAS WITH ELECTRICITY

OFFICE OF THE
PRESIDENT

HOME OFFICE
120 N. CHAPARRAL
CORPUS CHRISTI, TEXAS
December 1, 1961

Mr. John S. Osborne
Chicago, Illinois

Dear John:

Attached is copy of letter received from the
U.S. Department of Interior, Bureau of Reclamation,
which I mentioned over the phone today.

As I indicated to you, this is a most difficult
problem in that we know should we agree to the rate
situation later Amistad power would be available upon
completion of the dam. It probably will be anyhow.

I have asked Mr. Lovelady to mail to you a
copy of the Harza report and the appraisal of the land
in regard to Amistad. It may be that Mr. Cook will
want to look this over if he is available at an early date,
or Mac may have some ideas that would be worthwhile.

Sincerely yours,

Paul

JLBates:AH
Enc.

CC: Mr. M. H. Lovelady

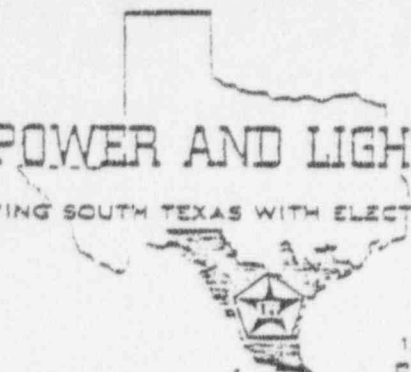
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CENTRAL POWER AND LIGHT COMPANY

SERVING SOUTH TEXAS WITH ELECTRICITY



HOME OFFICE
120 NO. CHAPARRAL ST.
CORPUS CHRISTI, TEXAS
November 16, 1961

325621

Mr. John S. Osborne
Chicago, Illinois

Dear John:

When Hal Dewar was down here about two weeks ago he phoned me and wanted to know if you were still interested in the San Antonio electric property. I told him I thought that you still had an interest in this situation. He wondered if the private utilities couldn't help do something about getting information about the operation of the San Antonio property to the public. I told him that offhand I couldn't see how they could but if he had any ideas to send them to me. Enclosed is the letter I received from him.

The other day I saw one of the attorneys from Austin who represents United Gas Company, which company now has a suit against Alamo Gas Corporation and the San Antonio Public Service Board, trying to set aside the 20-year contract that the Public Service Board made with Alamo Gas Corporation. He thinks they have a good chance to win the law suit. He also told me he had been spending a lot of time in San Antonio and in talking to quite a few businessmen it seems they are very much in favor of the City of San Antonio getting out of the utility business, both electric and gas.

You will note that Hal asks that this matter be discussed with you. If you have any thoughts about it, let us have them.

I hope your ulcers are under control by now. I am feeling fine and the doctor is pleased with the progress I have made. Have been at the office a week.

With very best wishes,

Lon C. HILLMAN
Encs.

4130

HP

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COPY

CENTRAL POWER AND LIGHT COMPANY

325620

November 16, 1961

Mr. H. H. Dewar
Dewar, Robertson & Paucoast
1100 Milam Building
San Antonio 5, Texas

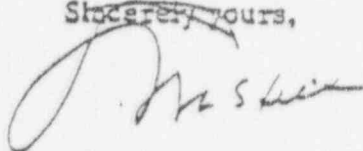
Dear Hal:

I have your letter of November 9 and just don't see how the private utilities could run an ad in the San Antonio newspapers comparing rates with Houston and Dallas and give other pertinent information regarding San Antonio electric rates. I am afraid that the people of San Antonio would not appreciate outsiders coming in and telling them how to run their business. But we could furnish the information to a San Antonio group and let them run the ad.

This is something we will kick around, and if anyone comes up with some ideas I will let you know.

With very best wishes,

Sincerely yours,



Lon C. Hill:AH

BCC: JSO ✓

4104

HP

100 HILAN BLDG.
CAPITOL 5-7141
November 9, 1961

Mr. Lon C. Hill,
Central Power & Light Co.,
120 North Chaparral St.,
Corpus Christi, Texas

325617

Dear Lon:

Thanks for your letter. You asked for any ideas I might have as to how the private utility industry can answer the statement that is so frequently made around here to the effect that private ownership results in higher rates. I do have one thought about this.

The private utility industry has been doing a fine job of national advertising in showing what a tremendous factor it has been in the country's national growth. It seems to me that they could also do some advertising showing that any lower rates offered by public power are subsidized by the Federal Government and indirectly cost the whole citizenship the difference through taxes. At the same time such advertising could cite certain communities like San Antonio where the rates are just as high as they are in other major communities of the same region. Such an ad run as a full page in the San Antonio newspapers would be bound to attract a lot of attention and could factually show the people of this community that these statements so frequently made about higher rates are wrong.

Why don't you talk this over with John Osborn and perhaps he could get the proper national body to do something along this line. As you know from the editorial which I sent you the possibility of re-deeming San Antonio for private ownership is very far from dead. To accomplish it would be the greatest step away from our present socialistic trend in the country that I know of anywhere. It would, of course, also be a tremendous boon to your company in fighting encroaching public power.

I hope we will have a visit soon.

Sincerely yours,

Hil
H. H. Dewar

HHD:dp
Enc.

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4005204

June 17, 1960

Mr. J. S. Osborne, President
Central and South West Corporation
20 North Wacker Drive
Chicago 6, Illinois

Dear Mr. Osborne:

Re: Rate to Brownsville, Texas, as per letter dated June 1, 1960.

At your request, the following ~~comments~~ are made on the adequacy of the rates attached to the above letter.

We have a very limited amount of information on the conditions under which service will be rendered. Our review of the level of the two proposed rates (attached) assumes the customer has a regular load, 69 KV delivery, with a fixed monthly contract demand and annual usage equal to a 50% load factor. These rates, when compared with the average rate of return for the company, produce the following results:

- Rate No. 1 - 87% of Company's average rate of return
- Rate No. 2 - 112% of Company's average rate of return

Attached are items that the company may want to consider during preliminary discussion on serving this load. Wherever a price is indicated, it is for illustration purpose only.

If we can be of further assistance, please advise.

Very truly yours,

5326

Keith R. Carley

HP

KRC/jpm
cc: E. Gates
W. Gazin

COPY

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CENTRAL POWER AND LIGHT COMPANY

37

June 1, 1960

Mr. John S. Osborne
Chicago, Illinois

Dear John:

Attached is a rate we have been considering in connection with the sale of power to Brownsville on a short time basis.

You may be interested to know that they contemplate taking down their largest machine, and Mr. Sheffey requested that we furnish them power during this period of about ten to fifteen days. Of course it will be furnished on the present rate as we have not discussed the one attached.

Sincerely,

JLSates:AM
Enc.

53337

CP

Rates attached to letter to
Mr. J. S. Osborne, dated June 1, 1960

325305

Rate No. 1 -

Monthly demand charge \$1.25/KW

Monthly energy charge 3.5 mills/KWH

Rate No. 2 -

Monthly demand charge \$1.25/KW

Monthly energy charge

First 100,000 KWH 4.0 mills/KWH

Next 200,000 3.0 mills/KWH

La 300,000 2.5 mills/KWH

Plus 2 mills wheeling charge

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CENTRAL POWER AND LIGHT COMPANY

Items that may be considered in Sale of 10,000 KW of Firm Power
to the City of Brownsville, Texas

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1. General Provisions:

- a) Customer shall not sell or otherwise dispose of electrical energy to any other electric utility or distributing agency unless such action is expressly permitted in writing by the Company.
- b) Customer shall not purchase energy from any other source than utility.
- c) Customer will provide and maintain all facilities, transformers, and related equipment to utilize service.
- d) Company may meter on the low side of transformation, then compensated for losses.

2. 10,000 KW Load not regularly used in Parallel Operations. The
Following items could be considered:

- a) Customer has choice of regular or standby use.
- b) Customer may be permitted parallel operations, under company's control, for shifting of load. Customer own and maintain all necessary protective equipment.
- c) Customer state contract demand and where required, install a circuit breaker set at 110-115% of contracts.

d) Charges:

- 1. The monthly billing charges would be spelled out, with

HP

the minimum of \$2.00 per KW of contract demand, or highest 15 minute demand during the primary term of the contract. This should be set high enough to be assured of 40 - 50% load factor.

2. Fuel Adjustment

3. If Book and Tax depreciation from studies now underway change cost, provisions could be made for this.

4. Commodity or Labor Clauses.

5. Tax Clause

3. 10,000 KW Firm Load Paralleled with Utility. The following items could be considered:

- a) The contract might provide for equal load factors on customer generation equipment and purchased power, and if in any month, the load factor on the purchased power is less than the load factor of the total city load, the additional kilowatt-hours shall be added to the actual usage to equalize the load factors. Billing would be at KW portion of the rate, without fuel adjustment. This would call for defining load factor, and specifying how to measure customer's demands.
- b) To protect ^{against} seasonal variation, the billing demand would never be less than 75% of the contract demand. This should be determined from the city's load characteristics.
- c) To encourage off peak usage, the rate could call for something like this:

Demand Charge \$1/KW

Energy Charge

First Block - Equivalent to City load factor 3.5 mills/KW

Second Block - Excess 2.5 mills/KW

The second block would have to be set after study was made of the City's and Central Power and Light's incremental cost of generation.

4. 10,000 KW of Emergency or Standby Load

a) Assuming the city's capacity is of no value to Central Power and Light Company, the company could agree to deliver 10,000 KW during an emergency that is beyond the reasonable control of the city and city would have to use due diligence to remove said emergency as soon as possible, or by prearrangements, this block of power could be used for scheduled maintenance on generation facilities.

The charge could be:

1. Monthly Charge \$_____/month
2. Demand charge of \$0.65 per day or any part thereof for capacity used for emergency over and above 10,000 KW of firm power.

3. Energy as determined in firm rate.

b) If the city's capacity is of value to Central Power and Light an emergency interchange agreement could be made, with charges for power and energy only when used.

HP

LARGE INDUSTRIAL POWER
(Minimum Contract 9,000 KW)

AVAILABILITY

This schedule is available for primary voltage service at a point of delivery to be agreed upon, provided customer executes a five year service contract with a minimum billing demand of 9,000 kilowatts or more.

This schedule is not available for temporary, resale, or standby service, except in conjunction with applicable rider.

TYPE OF SERVICE

Three phase, 60 cycle, alternating current at approximately 12,000 volts will be supplied to the entire premises. In case customer requires duplicate supply lines and/or transformer capacity over and above that which is normally required to furnish satisfactory service, there will be an additional charge of 1% per month of the Company's investment in such duplicate facilities.

NET MONTHLY RATE

Demand Charge

\$1.75 each for the first 9,000 kilowatts of billing demand
\$1.25 each for all additional kilowatts of billing demand

Plus Energy Charge

5 Mills each for the first 250 kwh per kw of billing demand
4 Mills each for the next 250 kwh per kw of billing demand
3 Mills each for all additional kwh used.

Minimum Bill

The Minimum bill will be the demand charge.

DETERMINATION OF BILLING DEMAND

The billing demand shall be the highest 15 minute measured demand during the month but not less than 80% of the contract capacity nor less than 9,000 kw. If the measured demand exceeds the contract capacity for three or more separate days during any month, the average of the three highest demands becomes the new contract capacity.

A 53538

CP

FUEL COST ADJUSTMENT

The net energy charge per kilowatt hour will be increased or decreased .07 mill for each full one-half cent by which the average delivered cost of fuel to the Company during the immediately preceding month exceeds 10 cents or is less than 8 cents for that quantity of fuel used containing one million B.T.U.

POWER FACTOR CLAUSE

Should the average lagging power factor during the month be above 90%, the number of kilowatts furnished to Customer will be adjusted for billing purposes by multiplying the maximum measured kilowatts by 90% and dividing by the average lagging power factor. Should the average lagging power factor during the month be below 80%, the kilowatts supplied to customer will be adjusted for billing purposes by multiplying the maximum measured kilowatts by 80% and dividing by the average lagging power factor. For determining the lagging power factor, a reactive meter of standard make ratcheted so as to prevent reverse operation shall be installed near the metering point by Company. The operation of this clause shall not serve to reduce the minimum billing demand stipulated herein.

TRANSMISSION VOLTAGE SERVICE CREDIT

If customer takes service at transmission voltage (69,000 volts or more) and also owns, operates, and maintains all service facilities, including transformers, required to take service at transmission voltage, a credit of 10 cents per month per kilowatt of contract capacity will be allowed.

When transmission voltage service is metered on the low voltage side of transformers, the measured kilowatt hours will be increased one percent to cover losses.

TERMS OF PAYMENT

All bills are due when rendered and are payable within ten days thereafter.

TERMS AND CONDITIONS

Service will be furnished under Company's Standard Terms and Conditions.

A 53939

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x 3,7
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COPY

CENTRAL POWER AND LIGHT COMPANY

May 9, 1960

Mr. Reynaldo Garza
Cunningham, Garza, Ymaga & Greenspan
Attorneys at Law
Brownsville, Texas

325200

Dear Reynaldo:

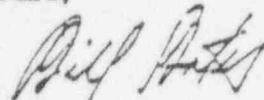
Thank you for your letter of April 29 to which you attached proposed amendment to the charter of the City of Brownsville, Article VI, which would create a separate and distinct agency to be known as the Public Utilities Board of the City of Brownsville.

As your letter pointed out, and as you mentioned over the phone this morning, if this amendment does go through, the City, in our opinion, could not give us the necessary protection we would need if we were to serve the Port. I tried to make this clear to the City Commission while there last Wednesday and again in my letter to the Mayor last week, copy of which you received.

The action on the part of the City, as you related over the phone, calling this election without giving consideration to amending the charter so it would permit the granting of a limited franchise gives further indication to me that they do not intend for us to provide any service to the Port or to any other portion of Brownsville. I am somewhat surprised that they took this action at a special meeting on Saturday, but I do not feel that we can do anything to make our position clearer than we have done heretofore.

If you can think of any way in which we should approach the problem, I will appreciate your keeping me advised.

Sincerely yours,



JLBates:AH

CC: Messrs. Jno. S. Osborne
Lon C. Hill
J. M. Wilson
R. A. Ewing
W. A. Putegnat

5333

HP

36
39
COPY

CENTRAL POWER AND LIGHT COMPANY

TM
325241
February 16, 1960

Mr. Ralph D. Stevenson
Stevenson, Dendtler, Bailey & McCabe
20 North Wacker Drive
Chicago 6, Illinois

Dear Mr. Stevenson:

Reference is made to your letter of February 10, 1960 concerning the City of Brownsville's plan to finance and build additional generating and other utility system facilities by using a non-profit corporation known as "Brownsville Municipal Utility Corporation". Additional information about matters discussed in your said letter, using the same paragraph numbers, is as follows:

1. We obtained a certified copy of the Articles of Incorporation of Brownsville Municipal Utility Corporation filed in the office of the Secretary of State at Austin on January 7, 1960 to effect incorporation. I am enclosing a typed copy of said Articles of Incorporation but not including the certificate which is on our copy.

When the new Texas Business Corporation Act was enacted by the 54th Legislature at its Regular Session in 1955, it did not cover but excluded non-profit corporations. The Texas Non-Profit Corporation Act was then in process of preparation and it was contemplated that it would be enacted later.

The Texas Non-Profit Corporation Act was enacted by the 56th Legislature (Acts of 1959, Chapter 152) and became effective 90 days after adjournment of the Legislature on May 12, 1959 or about August 12, 1959. This Act is now included in the 1959 cumulative annual pocket part to Volume 3A, Business Corporation Act, Vernon's Annotated Revised Civil Statutes of Texas.

I believe that with the above citation you will be able to review this Texas Non-Profit Corporation Act, if you

LIVE BETTER...Electrically 5343

HP

Mr. Ralph D. Stevenson
February 16, 1960
Page 2

325242

need to do so, without any undue difficulty. The purposes for which a non-profit corporation may be organized are stated in Article 2.01 and include "any lawful purpose or purposes" with the exceptions stated under subdivision B.

2. I agree that probably the new non-profit corporation would collect only enough from the city to break even and it is not particularly significant whether said corporation would be liable for Federal income tax. We had in mind, however, that the price and salability of the revenue bonds of said non-profit corporation would be affected by whether or not the interest received on said bonds would be subject to income tax or be exempt from income tax as State and municipal bonds. As I mentioned in my letter, a friend of Mr. Hills in the bond business has told him that the revenue service treats interest on revenue bonds issued by non-profit corporations in situations of this kind as being exempt from income taxes. This, of course, is only hearsay and I do not have any familiarity with the question.

3. The point raised by you had not occurred to me. It might be possible to establish that the deal, from the standpoint of the City, violates the State Constitution, particularly if it develops, as is not unlikely, that the non-profit corporation has to charge for energy supplied to the City a price which clearly is higher than the market value thereof.

4. It seems to me that the City would be doing through the non-profit corporation something that is prohibited in various aspects by provisions of the City Charter which I supplied with my letter of February 2, 1960 and prohibited in addition by similar provisions of the various outstanding revenue bond issues.

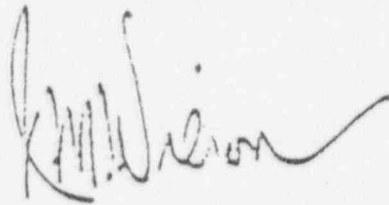
5. Probably it would not be feasible to have local taxpayers institute litigation to stop the proposed plan. As a matter of fact, if Central Power and Light Company instigates or finances litigation it is not improbable that it would never be able to get any advantage from the litigation succeeding. On the other hand, holders of presently outstanding revenue bonds, acting as a matter of self-interest,

Mr. Ralph D. Stevenson
February 16, 1960
Page 3

325243

would be the preferable litigants, and I believe that they would have a reasonably good chance of prevailing in the litigation.

Yours very truly,



JMW/gln

cc: Mr. John S. Osborne ✓
Mr. Lon C. Hill
Mr. J. L. Bates

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CENTRAL POWER AND LIGHT COMPANY

T17

SERVING SOUTH TEXAS WITH ELECTRICITY

OFFICE OF THE
PRESIDENT AND GENERAL MANAGER

HOME OFFICE
120 N. CHAPARRAL ST.
CORPUS CHRISTI, TEXAS
February 8, 1960

Mr. John S. Osborne
Chicago, Illinois

Dear John:

The attached clippings from the BROWNSVILLE HERALD would indicate that everything is moving smoothly for the non-profit corporation. The February 5th article is certainly slanted, in my opinion. Thought you should have it.

Also enclosed is a summary of our offer which was prepared by Easter and others. I sent this to our attorneys and local people in Brownsville, and asked them to give me a call this morning. Our attorney called first and told me of a conversation he had Saturday night with one of the City Commissioners at a social gathering. He said the Commission is quite disturbed over some things that have come up during the conferences recently. He will amend the meeting Thursday to see whether or not they limit the charter amendment to the creation of this Board.

The Mayor and The Commissioner and attorney talked to had understood that the plant was to be an addition to their present plant, and that CPL would be asked to serve the area outside the City, including the Port. The Commissioner advised Saturday that they are running into some legal obstacles and it now appears that the plant, if constructed, would be built at the Port, which of course would eliminate our opportunity to serve this industrial area.

The Mayor and others on the Commission were disappointed in the Committee's recommendations in regard to this and state that they still hope to have that question, that is, of an exclusive franchise voted upon also.

Both Mr. Putegnat and Mr. Garza recommend that we do not purchase advertising space nor give distribution at this time to the data which we sent to them.

Sincerely,

Bill

JLBates:AH

HP

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41
CENTRAL POWER AND LIGHT COMPANY

SERVING SOUTH TEXAS WITH ELECTRICITY

OFFICE OF THE
PRESIDENT AND GENERAL MANAGER

HOME OFFICE
120 N. CHAPARRAL ST.
CORPUS CHRISTI, TEXAS

January 9, 1960

Mr. John S. Osborne
Chicago, Illinois

Dear John:

As related over the phone, things in Brownsville are moving in an adverse direction. This newspaper carries the story of what little I knew when I talked with you. The City Attorney of Brownsville says he was not consulted and that this was largely the work of the Navigation District Manager with investment bankers from Chicago.

Please read the editorial.

Sincerely yours,

Bill

JLBates:AH
Enc.

CC: Mr. Lon C. Hall

5332

HP

325214

COPY

CENTRAL POWER AND LIGHT COMPANY

Mr. R. M. Winsborough

-2-

June 9, 1959

Briefly, in summary, I believe that the issue is far from dead and I feel that by various CPL personnel making frequent contacts around the City we can hold their interest. This coming fall would seem to be the crucial time from all I can gather.

If anything further develops I will keep you posted.

Sincerely,

W

WCC:AH

WILLIAMS C. CUNNEENHAM
Executive Assistant

CC: Mr. John S. Osborne
Mr. J. L. Bates

A 52779

CP

COPY

3.6

CENTRAL POWER AND LIGHT COMPANY

42

June 9, 1959

Mr. R. M. Winsborough, Vice President
Middle West Service Company
Chicago, Illinois

Dear Bob:

Since your last visit to Corpus Christi I have made three trips to Brownsville and have talked to a great number of people there. I thought you might like to have a brief summary of their appraisal of the current situation.

It is the general consensus of opinion that our position has grown stronger steadily in the last few months. With one exception, everyone felt that the apparent apathy of the city fathers has caused a great deal of dissatisfaction with the electric service and the apparent lack of interest in rate reduction and system improvement. There has been a definite increase in the number of influential people who have apparently changed their minds about the sale of the plant.

At the present time the City is experiencing a great deal of financial difficulty and this has helped to point out the poor fiscal policies applied to the electric system.

I have found two or three people there who might be the ones we are looking for to form a rallying point to carry our banner. However it doesn't seem that we are quite ready to take this step as yet. The City Council is very much up in the air as they appointed a new Councilman and just a couple of hours before he was to take office he wrote a letter stating he could not accept.

If things continue along the present lines, it would seem that by next fall's election we will have a pretty strong following. We have been told that the Council needs to call a bond election to help the City out of its present financial dilemma but are afraid to do so, for they know it will be defeated by the people.

A 52778

CP

FALCON DAM

Falcon Dam, on the Rio Grande, is primarily an irrigation and flood control project which was built by the Republic of Mexico and the United States of America. The incidental electric power produced at Falcon Dam has been purchased since 1954 by Central Power and Light Company on a temporary basis.

In 1957 Central Power and Light Company entered into five-year contracts with the Department of Interior and with the Republic of Mexico to buy all of the United States share of the power produced at Falcon Dam and all of the Mexican share of the power not utilized in Mexico.

Central Power and Light Company also entered into another five-year contract in 1957 with the Republic of Mexico in which the Company agreed to sell limited amounts of firm power to Mexico at Falcon Dam for use by Mexico in Monterrey and surrounding area.

During 1957 Central Power and Light Company purchased 61,578,250 kilowatt-hours of power produced at Falcon Dam for which it paid \$226,979.87. In 1957 the Company sold 16,987,450 kilowatt-hours of power to Mexico at Falcon Dam for which it received \$191,757.90.

Information sent to Mr. Osborne by Mr.
Carlsen 1/29/58. Letter of transmittal
in File 111-10 Central & Southwest
Corporation - General

A 10057

A 10058

CP

36
COPY

CENTRAL POWER AND LIGHT COMPANY

44
November 8, 1957

Stevenson, Dendtler, Bailey & McCabe
20 North Wacker Drive
Chicago 6, Illinois

ATTENTION: Mr. George E. Bailey

Gentlemen:

Reference is made to my letters of September 25, 1957 and October 7, 1957 concerning and forwarding certain information in connection with the possible acquisition of the City of Brownsville electric system.

As you may have been advised, the election of new City officials has been held in Brownsville and, with the exception of one City Commissioner, all of those elected were from the ticket more favorable (or less unfavorable) to the sale of the electric system. It follows that we will need to make an offer or alternate offers for the system within the near future and we would like to have the benefit of your studies and suggestions.

I am sure that you have noticed that in connection with the Refunding Bonds Series 1945, which are combination tax and revenue bonds, it is provided (in Section 20 of the Ordinance) that "The bonds of this issue shall not constitute a lien upon the physical properties of said utility systems, and the holders of such bonds shall have no right to require a sale of such systems to enforce the pledge of the revenues securing said bonds". The revenues of the systems (including the electric system), however, are pledged to secure the bonds. Also the other issues, being the 1947, the 1948, the 1949, the 1951, the 1952A, the 1952B, and the 1953 series, are revenue bonds with the provision (allowed by statute) that the holder shall never have the right to demand payment out of funds raised or to be raised out of taxation. They are, however, secured by pledges of the revenues of the systems, including the electric system.

324734

I will mention some of the thoughts and uncertainties that I have in mind in connection with each of the possible types of offer as follows:

(1) PURCHASE FOR CASH:

Assuming SEC approval, a deal of this kind would not present any particular difficulty. The City could not sell and thereby relinquish all revenue from the electric system without retiring the revenue bonds (or guaranteeing payment, probably by a deposit of funds). Although it might be possible to buy a substantial part of the outstanding bonds, even at a discount in view of present money conditions, it would no doubt be necessary to call and pay the required premium on some of them.

This type of deal might not be desirable because of unfavorable conditions for raising the purchase money. Also, our income tax people probably can suggest a deal that would be more favorable from a tax standpoint.

(2) PURCHASE AND TAKE TITLE TO THE SYSTEM PAYING PART CASH AND PART BY DEFERRED PAYMENTS:

This was done in the acquisition of the Harlingen electric and water systems at the end of 1928. In that situation the deferred payments were related to servicing and paying off outstanding bonds and the deferred purchase money obligation (a vendor's lien note) could be reduced by buying bonds on the market and turning them over to the City for cancellation. This, of course, would afford an opportunity for saving on the purchase price in the Brownsville situation particularly in view of the present money condition.

I believe, however, that this type of deal, even assuming SEC approval, would be violative of Section 10, Article III (Page 146) of the Company's Indenture dated November 1, 1943. In addition, the City would be giving up all revenue on the system (pledged to secure the bonds) and the revenue bondholders might complain and possibly they could require that these bonds be called and retired.

(3) TAKE POSSESSION UNDER A CONTRACT OF PURCHASE UNDER WHICH TITLE WOULD BE TRANSFERRED WHEN THE CONSIDERATION IS PAID IN FULL:

The contract of sale could provide for deferred payments as and when needed to service and pay off the bonds and also allow credits as and when outstanding bonds could be purchased by us and surrendered for cancellation.

Uncertainties and possible obstacles to this type of deal include:

(a) This might be an "acquisition" within the meaning of the Indenture provision mentioned above and not be allowed because, in effect, the properties would be encumbered more than permitted by said Indenture provision.

(b) The payments under the contract would be purchase money and such contract might amount to the City alienating its right to revenues on the system in violation of the rights of the holders of the revenue bonds and make it necessary to retire these bonds unless we would protect these bondholders satisfactorily.

(c) From a tax standpoint this type of deal would not be favorable.

(4) LEASE THE SYSTEM UNDER AN AGREEMENT WITH A FIRM OBLIGATION TO BUY AND TAKE TITLE AT A FUTURE DATE:

Probably this would necessitate rental related to and adequate to service and retire the outstanding revenue bonds. Such rental would not likely equal the fair rental value of the property that, together with the firm obligation to buy, would prevent the payments being treated as rental for tax purposes.

(5) LEASE THE SYSTEM WITH AN OPTION TO BUY AND TAKE TITLE AT SOME FUTURE DATE OR WITHIN SOME SPECIFIED TIME:

Difficulties are that in order to have tax advantages

Stevenson, Dendtler, Bailey & McCabe
November 8, 1957
Page 4

326736

the lease would have to provide rental that can be justified as being rental and set up an option to buy which does not patently assure that the property will be bought under it. Since the City likely would have to have payments adequate to service and retire as they mature their outstanding bonds, it might be difficult to provide for "rent".

Also, we would have to consider whether a lease (as mentioned here and as is mentioned in subdivision (4) above) would constitute a relinquishment of revenue in violation of the rights of the holders of revenue bonds. Probably the rent would be the necessary revenues from the system and, if adequate to service the bonds and held for that purpose, afford the bondholders their rights.

Under either type of deal as mentioned above, we would have to have, of course, a franchise for the operation of an electric system in Brownsville and I am sure that the City officials would want to include a provision for it to terminate if our possession of the system under the contract of sale or lease, as the case may be, should terminate without our acquisition of the property being concluded.

There are various problems and points that need consideration by parties other than the lawyers. In particular, I feel that our accountants should anticipate how, under each type of acquisition, they would record expenditures for repairs and maintenance, and expenditures for extensions or other betterments. If we have this advice, it is probable that we can incorporate any needed language in the offer and ensuing contract.

It will be appreciated if you will utilize the advice of Mr. Osborne and others there and promptly give us the benefit of your suggestions because it may develop that the opportune time to move on this matter is in the immediate future.

Yours very truly,

JMW/gln

cc: Mr. John S. Osborne
Mr. Lon C. Hill
Mr. J. L. Bates
Mr. G. Menger

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CSW

COPY

CENTRAL POWER AND LIGHT COMPANY

326347

January 23, 1957

Mr. William M. Longman
Executive Vice President
Central Surveys, Inc.
Shenandoah, Iowa

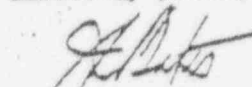
Dear Mr. Longman:

With further reference to the survey you recently made on Brownsville, I believe it would be beneficial to us if we could have included the transcripts of the individual interviews. I think this will be helpful to us in approaching, through other channels, individuals who might assist in getting this before the citizens of Brownsville.

At this time, due to their political attitude, it is doubtful if either of the factions will call this to a vote but possibly we can get this done by pressure from some of the people who we know are in favor of a change.

We have found the report most interesting and optimistic, and while it may take some time to get the matter out in the open our efforts will be directed toward that end.

Sincerely yours,



President.

JLB:es:AE

EOO: JSC ✓

5042

HP

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46

CENTRAL POWER AND LIGHT COMPANY

SERVING SOUTH TEXAS WITH ELECTRICITY

OFFICE OF THE
PRESIDENT AND GENERAL MANAGER

HOME OFFICE
120 N. CHAPARRAL ST.
CORPUS CHRISTI, TEXAS

January 23, 1957

Mr. John S. Osborne
Chicago, Illinois

Dear John:

Attached is copy of Central Surveys report made for us in November and December on the Brownsville matter. The situation down there has not changed any insofar as the political situation is concerned but this report certainly is encouraging.

Sometime ago Bob Winsborough furnished me with some lease purchase contracts, one covering an Illinois situation and another in Mississippi and in New Mexico. I wonder if you could get Fred Herr or Bob to look into the suggested plan of lease purchase agreement in a little more detail and come up with some form of proposal which would cover the Brownsville situation.

I casually mentioned such an idea to the newspaper sometime ago and they seemed to think it might have some merit. What I have in mind, of course, is to reach an agreement on the present value of the property, take an option to purchase it at stipulated intervals, say, every five years or at the expiration of twenty years, whichever seems best, and pay them sufficient in rental to meet their bond requirements plus a reasonable portion of the profits agreed to be put in the new facilities necessary to meet the growth of the property during the life of the lease.

My opinion is that the lease should be for twenty years because of bond maturities, though some provision should be made to acquire the property if the people voted to sell it prior to that time. The City, I am sure, would want to retain the option to purchase the facilities we would install during the life of the lease. But in my opinion, due to the growth of the property and surely if a successful operation is maintained, they would not want to buy at the end of the term but would want to sell.

You will note that I have written to Central Surveys for transcripts which may give us a key to getting this matter activated earlier than now seems possible.

Sincerely yours,

JLBates:AH
Encs.

CC: EMW

5102

HP

47

CENTRAL POWER AND LIGHT COMPANY

SERVING SOUTH TEXAS WITH ELECTRICITY

OFFICE OF THE
PRESIDENT AND GENERAL MANAGER

HOME OFFICE
120 N. CHAPARRAL ST.
CORPUS CHRISTI, TEXAS

June 22, 1956

Mr. John S. Osborne
Central and South West Corporation
Chicago, Illinois

Dear John:

As related to you over the phone, things in Brownsville have developed this week more rapidly than I anticipated. The attached clipping of June 19 pretty well outlines the latest there.

I have told you that they had some pretty bad politics down there and finally the ex-mayor was decided to have been re-elected in November. This is being appealed as you will note from the attached clipping of June 18.

In the same issue, underneath the picture, there is an article outlining that the City gave letters of intent to certain manufacturers for a new 22,000 KW turbine generator with auxiliary equipment. This announcement is what occasioned the blast of June 19.

From talking to several individuals in Brownsville yesterday it appears that any bond issue proposed there will have really rough sledding. Today reporters from both the McAllen MONITOR and the VALLEY MORNING STAR of Harlingen, which are members of the same newspaper organization which operates the Brownsville HERALD, went to our local offices in the respective cities to obtain information about taxes—ad valorem and other—paid to the cities, schools, etc. in those localities. This information is being made available to them and I feel sure it is part of the campaign of the Brownsville HERALD as announced in the editorial.

We have finally decided that we should have local counsel in Brownsville and both Lon Hill and I have met with Mr. Paul Cunningham, whom we have known for quite a while, he being a member of the firm of Sharpe, Cunningham & Garza in Brownsville. Yesterday I visited briefly with all three of these gentlemen on a special matter and am asking Jim Wilson to go down there at his earliest convenience to arrange for their formally being retained as local counsel.

5116

HP

Mr. John S. Osborne

-2-

June 22, 1956

I do not have all the information that will be needed to consider the value of the Brownsville property. In my opinion they may not even hold a bond election. Some weeks ago the City Manager told me he was doubtful that an election would carry and I think the only reason they took this action toward acquiring equipment was because of the court decision in the Stokely matter. I also think that the signing of the letters of intent, when they were in an optimistic mood over the election contest, caused the Brownsville HERALD and citizens generally to fire the first blast.

As I said, this was an unexpected development but if I know anything about the situation down there it will not be too long until we will be asked to look into the situation to see if we will be interested in acquiring the property.

Sincerely yours,

Bill Bates

JLBates:AH
Encs.

CC: LCH
JMW

324267

HP

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10-1-54

John S. Osborne

*Return to
John Osborne*

373960

CONTRACT
DATED
OCTOBER 1, 1954 — *superseded by May 1, 1957*
BETWEEN
THE UNITED STATES OF AMERICA AND
CENTRAL POWER AND LIGHT COMPANY
FOR INTERIM PURCHASE OF POWER AT
PALCO, WITH EXPLANATORY LETTERS. *contract*
E.S.

4074

HP

CENTRAL POWER AND LIGHT COMPANY

October 21, 1954

Mr. D. B. Burnett, Acting Regional Director
United States Department of the Interior
Region 5
Amarillo, Texas

Dear Mr. Burnett:

You will please find attached the five copies of the temporary contract for power and energy produced at Falcon which have been executed by the writer. Inasmuch as this is a temporary agreement, we have signed it, although there are several matters which should be recognized, as they will require understanding and mutual cooperation in operating under this agreement.

Paragraph (6) provides that contractor agrees to take into its system all of the power and energy produced and I am sure you are aware that with the existing single tie being used during the test period, it would be impossible to take into our system the total capacity of U. S. and Mexican power plants, without blocking out protective equipment normally used.

Also in this connection, there is a possibility, even though remote, that hurricanes or other damage to our transmission lines would make it impossible to take this power and energy until the damage could be repaired. Due to the short length of the contract and time required to obtain equipment to correct these conditions, it would not be feasible to place the second line to the plants or reinforce the inter-connection to overcome this. When permanent arrangements are made for distribution of this power, such facilities would be installed to eliminate these situations.

The present meter records energy coming into our system and any energy flowing from our system towards the Government facilities is automatically subtracted by the meter, resulting in a net kWh to us. The operators of the plants will have some problem in determining the use on the Mexican side and on the American side of the meter during times that the two Government plants are not being operated; but I am sure that with cooperation of all concerned proper records can be maintained.

We will rely on the Government to maintain the record of energy interchanged, and it seems to us that we should agree at this time that energy delivered to the Government during periods of shut-down which is deducted from energy delivered by the Government during operating periods be deemed interchange energy without further "prior agreement". We are not suggesting that the contract be amended to cover these points, but merely point out these operating problems that should be recognized. Of course, if, and when a term contract is prepared, such matters will have to be gone into in detail.

I shall appreciate your furnishing us with one signed copy and several conformed copies, after they have been executed by the Government.

Sincerely yours,

JLBates:eb
Encls.

(S) J. L. Bates

President and General Manager

4075

HP

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

Region 5
Amarillo, Texas
Box 1609

Oct. 27, 1954

Address all communications
to the Regional Director
5-600

Air Mail

373970

Mr. J. L. Bates, President
Central Power and Light Company
120 North Schaparral Street
Corpus Christi, Texas

Dear Mr. Bates:

I am returning herewith one signed copy and five conformed service copies of Contract No. 11-06-500-118 for temporary electric service from the Falcon powerplant. Additional service copies are available in this office and will be supplied upon request.

With respect to comments contained in your letter of October 21, 1954, we of course agree that your ability to accept combined deliveries from the United States and Mexico is necessarily limited by the capability of the interim connection. Also, during emergencies on the system of Central Power and Light Company, resulting from uncontrollable forces, your obligation to accept deliveries under the enclosed contract will of course be limited to your ability.

It is recognized that present metering will require adjustment to compensate for interchange deliveries by your company to the United States and Mexico. However, I am quite confident that adequate and proper records can be maintained for this purpose. We also enclose in your proposal that all energy deliveries by your company to the United States should be considered as interchange deliveries to be deducted from United States deliveries to your company without the necessity of further prior agreements.

Very truly yours,

(S) R. S. Bristol

R. S. Bristol
Acting Regional Director

Enclosure

Copy to: Mr. H. L. Hewitt, Commissioner, International Boundary & Water Comm., El Paso, Texas (w/o enclosure)

4076

HP

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

Falcon Dam Project, Texas

323971

EMERGENCY AGREEMENT FOR DISPOSITION OF
ELECTRIC ENERGY GENERATED AT FALCON DAM
ON THE RIO GRANDE

<u>Article</u>	<u>Title</u>	<u>Page No.</u>
1	Preamble	1
2-4	Preliminary recitals	1
5-7	Delivery of electric power and energy	2
8	Rate	2
9	Billing and payments	2
10	Emergency shutdown	2
11	Term of contract	3
12	Officials not to benefit	3

UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION
FALCON DAM POWER

EMERGENCY AGREEMENT FOR DISPOSITION OF ELECTRIC ENERGY
GENERATED AT FALCON DAM ON THE RIO GRANDE

323977

This emergency contract, made on Oct. 1, 1954 in pursuance of the Act of Congress approved June 18, 1954, (68 Stat. 255) between the United States of America hereinafter called the United States, represented by the officer executing this contract, or his duly appointed successor, or his duly authorized representative, herein called the contracting officer, and Central Power and Light Company, a corporation duly organized, created and existing under and by virtue of the laws of the State of Texas, herein called the contractor, and its successors and assigns.

WITNESSETH THAT,

2. WHEREAS, The Secretary of the Interior by the said Act of June 18, 1954, has been authorized to dispose of power and energy generated at Falcon Dam which is available to the United States under the Treaty of February 3, 1944, between the United States and Mexico, to the extent said power is not required in the operation of the International Project, all as determined by the Commissioner of the United States Section, International Boundary and Water Commission and,

3. WHEREAS, The Bureau of Reclamation herein called the Bureau has been designated as marketing agent for the United States' portion of power and energy produced at Falcon Dam and is undertaking studies to determine the classes of power that will be available for marketing, a definite plan of marketing, and appropriate rate schedules for power and energy sales and desires to dispose of the power and energy which will be produced during the testing period and the period of time required for completion of its plan to ultimate power disposal, and,

4. WHEREAS, The contractor now has a 138-kv interconnection into the switchyard at Falcon Powerplant and has indicated its desire and willingness to purchase such power and energy as is made available by the contracting officer.

NOW THEREFORE, The parties hereto agree as follows:

5. The contracting officer will cause to be delivered to the contractor at the point of interconnection of the contractor's 138-kv line to the facilities of the United States at Falcon Switchyard, the power and energy made available for marketing by the Bureau. The power and energy will be delivered as 3-phase, 60 cycle alternating current at a nominal voltage of 138-kv and will be metered at said voltage.

6. The contractor agrees to take into its system all of such power and energy.

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7. The contracting officer will cooperate with the contractor in arranging the delivery of power and energy, within the limits of generating capabilities and water available for generation of power as determined by the Commissioner of the United States Section, in a manner which will result in delivery of power and energy in quantities which will best meet the Company's load pattern.

8. The contractor will pay monthly to the United States for the power and energy furnished at the rate of 2.7 mills per kilowatthour (\$0.0027).

9. The United States will submit bills to the contractor on or before the tenth day of each month for electric service furnished during the preceding month, and payments will be due and payable by the contractor on the first day of the month immediately succeeding the date each bill is submitted.

10. (a) In the event of emergency shutdown of the Falcon Dam generating facilities or other circumstances resulting in a temporary insufficiency of power and energy required in the operation of the International Project, the United States may, in order to obtain necessary power and energy for such purpose, request surplus or unused energy of the contractor, and the contractor may, at its sole discretion, deliver such energy to the United States. Such energy shall be credited to the contractor in an interchange energy account. A record of energy interchanges shall be maintained by each party, and no energy deliveries by the contractor to the other party shall be deemed to be interchange energy unless prior agreement for such delivery has been made between the duly authorized representatives of the parties hereto.

(b) Interchange energy delivered by the contractor to the United States under the terms of this Article shall be returned kilowatthour for kilowatthour at the existing point of interconnection at times and at rates of delivery to be mutually agreed upon by the duly authorized representatives of the parties hereto.

(c) It is the intent of the parties hereto that the interchange energy account shall be balanced by return of energy as promptly as circumstances permit; Provided, that upon termination of this contract, and by mutual agreement of the parties hereto at any time during the term thereof, the net balance in the interchange account shall be settled by payment to the creditor party at the net value per kilowatthour stated in section (d) of this Article.

(d) For settlement purposes as provided for in Section (c) of this Article, interchange energy shall have a net value of 2.7 mills per kilowatthour. Bills submitted by the creditor to the debtor shall become payable within 30 days from date of each bill.

11. This contract shall become effective on the date of its execution and shall remain in effect until June 30, 1945, but may be terminated by the United States at any prior date upon 30-days' advance notice.

12. No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this contract or to any benefit that may arise herefrom, but this restriction shall not be construed to extend to this contract if made with a corporation or company for its general benefit.

IN WITNESS WHEREOF, the parties hereto have executed this contract as of the day and year first above written.

UNITED STATES OF AMERICA

By (S) R. S. Bristol

Title Acting Regional Director

Address P. O. Box 1409
Amarillo, Texas

CENTRAL POWER AND LIGHT COMPANY

By (S) J. L. Bates

J. L. Bates

Title President

Address _____

S E A L

ATTEST:

(S) W. D. Boone

W. D. Boone, Secretary

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Interior - - Duplicating Section, Washington, D. C.

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CENTRAL POWER AND LIGHT COMPANY

September 28, 1954

Comision Federal de Electricidad
Edano 14
Mexico, D.F.

ATTENTION: Mr. Leonardo de Lozanne

Gentlemen:

We wish to acknowledge your letter of September 27th relative to the Mexican share of the power to be generated at Falcon Project.

We accept your offer to sell this power to us for the temporary period on rates to be agreed upon with the agencies of the United States of America. It is contemplated that these rates will be established in the very near future at a conference in Washington and that the details of an interim contract will be agreed upon at that conference. When such an interim contract is drawn up, we will comply with your request and furnish you with a copy of it in order that we may enter into an interim contract with your office.

We appreciated very much the opportunity to confer with you and Messrs. Villanueva and Butt in our office here in Corpus Christi and particularly the promptness with which the conference was arranged.

Yours very truly,

JLBates:AM

President and General Manager.

CC: Mr.C.M.Villanueva

BCC: JSO LCH HAL MEL JMW AHS

TU 21132

UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

BEFORE THE ATOMIC SAFETY LICENSING BOARD

In the Matter of)	
)	
HOUSTON LIGHTING & POWER COMPANY,)	Docket Nos. 50-498A
et al.)	and 50-499A
)	
(South Texas Project, Unit Nos.)	
1 and 2))	
)	
)	
)	
In the Matter of)	
)	
TEXAS UTILITIES GENERATING COMPANY,)	Docket Nos. 50-445A
et al.)	and 50-446A
)	
(Comanche Peak Steam Electric)	
Station, Unit Nos. 1 and 2))	
)	

CERTIFICATE OF SERVICE

I hereby certify that I have caused copies of the foregoing SECOND SET OF INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS ADDRESSED TO CENTRAL AND SOUTH WEST CORPORATION BY THE PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS to be served on the following by deposit in the United States mail, first class, postage paid, or, as indicated by an asterisk (*), by hand this 20th day of February, 1980.

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Marc R. Poirier
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Board of the City of Brownsville,
Texas

February 20, 1980