Community Public Service Company

INVESTOR OWNED ELECTRIC UTILITY

Annual Report 1980

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Highlights

	1980	1979	% Change
Total operating revenues	$216,370,228	$175,652,267	23.2
Net earnings	$ 6,843,921	$ 5,427,177	26.1
Earnings available for common stock	$ 6,018,530	$ 4,567,278	31.8
Weighted average common shares outstanding	1,880,176	1,838,86.	2.2
Earnings per share of common stock	$3.20	$2.48	29.0
Dividends per share of common stock	$1.88	$1.88	—
Net book value of physical property	$158,211,862	$146,297,513	8.1
Kilowatt-hour sales	5,022,760,443	4,702,473,4[illegible]2	6.8
Average annual KWH sales per residential customer	10,842	10,177	6.5
Electric customers served (year end)	163,023	157,514	3.5
Number of employees	885	861	2.8
Number of shareholders	5,404	5,298	2.0

Contents

Annual Meeting

The annual meeting of Community Public Service Company will be held in the Eighth Floor Meeting Room of The First National Bank Parking Garage, 501 West Sixth Street, Fort Worth, Texas, on Friday, April 24, 1981, at 10:00 a.m., Central Standard Time. In connection with this meeting, proxies will be solicited by the board of directors of the Company. A notice of the meeting, together with a proxy statement, a form of proxy and this Annual Report to Shareholders was mailed on or about March 27, 1981, to shareholders of record as of March 5, 1981.

About the Company

Community Public Service Company is an investor-owned electric utility company engaged primarily in transmitting, distributing and selling electric energy in 88 municipalities and adjacent rural areas within the states of Texas and New Mexico.

Form 10-K Availability

Community Public Service Company will file its annual report on Form 10-K with the Securities and Exchange Commission by March 31, 1981. Many of the SEC's 10-K information requirements are satisfied by this 1980 Annual Report; however, a copy of the Form 10-K including the financial statements and schedules will be available free of charge after March 31, 1981, upon request to the Treasurer, Community Public Service Company, 501 West Sixth Street, Fort Worth, Texas, 76102.

The information contained in this report is given in response to general requests for information about the Company, and not in connection with any sale, offer of sale, or solicitation of an offer to buy any securities.

To the Shareholders

Total operating revenues for 1980 were $216.4 million, an increase of 23.2% over 1979 revenues, and earnings available for common stock increased 31.8% to $6.0 million. These increased revenues and improved earnings are directly related to a 6.8% increase in kilowatt-hour sales. Sales to residential customers increased significantly by 10.2% primarily because of prolonged, above-average temperatures experienced in the areas served by the Company during the summer months of 1980.

Earnings per share of common stock were $3.20 for 1980 representing a 12.7% return on average common equity.

In April 1980 the New Mexico Public Service Commission authorized a state-wide rate increase, and the Public Utility Commission of Texas authorized increases in July and December covering all operating areas of Texas. These rates were designed to increase revenues by $11.2 million annually. This increase in revenues significantly improved earnings in 1980 and will continue to provide increases in electric revenues in 1981 because the order providing $5.2 million of the annual increases in revenues was not effective until December 1980.

In recognition of the current earnings level, the board of directors, at the regular quarterly meeting of January 27, 1981, increased quarterly cash dividends 10.6% to 52¢ per share for the first quarter of 1981. This is equivalent to an annual dividend of $2.08 per share.

The Company sold its gas distribution systems in Breckenridge, Graham and Kermit, Texas, in 1980. These transactions benefit the Company financially by eliminating the regulatory burdens incident to a relatively insignificant portion of the Company's business. The Company now derives its total operating revenues from electric operations.

At their meeting in November 1980 the directors took preliminary action to submit to the shareholders at the annual meeting in April 1981 an amendment changing the Company's name to Texas-New Mexico Power Company.

Retiring from the board of directors in 1980 were three distinguished members, Messrs. C.L. Cooke, Murray Kyger and Peter J. Rempe. Mr. Rempe, now deceased, and Mr. Kyger served on the board for 11 years each. Mr. Cooke retired in 1975 as president and chief executive officer, but remained as a director of the Company until April 1980. Mr. Cooke's working career included more than 53 years of service in various capacities, with the last 14 years as a member of the board of directors. Deep appreciation is expressed to these gentlemen for their major contributions to the growth and development of the Company. The board of directors was reduced to seven members effective on April 25, 1980, and Mr. Harris L. Kempner, Jr. was elected to fill the single existing vacancy.

The dedication and enthusiasm exhibited by all employees is appreciated and acknowledged by the board of directors.

By Order of the Board of Directors

R.D. Woofter

R.D. WOOFTER
Chairman, President & Chief Executive Officer

March 27, 1981

Summary of Operations

Revenues

Total operating revenues for the current year increased 23.2% over 1979 to $216,370,228. Electric operations generated 99% of this amount. The remaining 1% contributed by gas operations marks a significant decline in these revenues because the gas properties were sold in the summer of 1980. A detailed explanation regarding the sale of the gas properties is provided under Note 6 to the Financial Statements.

Electric operating revenues increased $42,142,743, or 24.5%, in 1980 to $214,305,260. Increased base rates, increased customer usage and the recovery of escalating fuel and purchased power costs accounted for this significant increase in electric operating revenues. The percent increase in revenues and contributions by classification of customers are as follows:

Revenue Class	Percent Increase	Percent Contributed
Residential	27.4	34.5
Commercial	21.6	23.3
Industrial	22.9	39.6
Municipal & Other	38.7	2.6

After the sale of the gas properties, the Company was restructured into six operating divisions as depicted on the map shown on the inside back cover. The revenues contributed by each division and the corresponding percentages of total operating revenues are shown below.

Division	Revenues	Percentage
Central	$ 14,673,008	6.9
New Mexico	37,579,601	17.6
Northeast	24,717,062	11.5
Panhandle	6,301,593	2.9
Southeast	116,641,406	54.4
Western	14,392,590	6.7
Total	$214,305,260	100.0

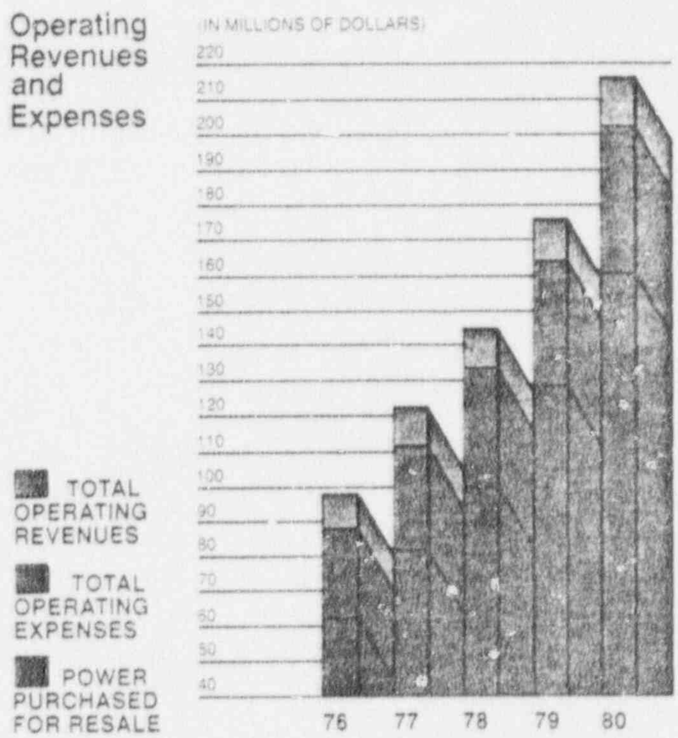
Expenses

Total operating expenses were $201,660,950, an increase of 22.9% over 1979. This increase in expenses of $37,553,093 resulted from increased power purchased for resale, increased customer support activities and increased costs for labor, materials and services necessary to operate the Company.

The most significant operating expense for 1980 was power purchased for resale which increased 24.8% to $160,178,365. This increase amounts to $31,818,765 and represents 84.7% of the total increase in operating expenses. The significant portion of this increase is the result of increased wholesale base rates and fuel costs from the suppliers of energy. This portion of the additional cost is recoverable through the Company's fuel and purchased power adjustment clauses and accounts for approximately 40% of the increase in electric operating revenues.

Other operating and general expenses increased 12.8% to $21,612,358. Such increase is primarily attributable to increased cost of customer support activities responding to customer growth and regulatory reporting requirements. The general inflationary trend for the current year increased the costs of labor, materials and services for these expanded activities. Maintenance expense increased 28.3% due to expanded operations, customer growth and the same inflationary trends experienced by operating and general expenses.

Taxes, other than on income, increased 15.7% to $6,133,861. A significant portion of these taxes is related to revenues and property values. Since revenues for the current period have increased significantly, revenue



related taxes followed the same trend. Property taxes, as part of this expense, have increased due to additional facilities and higher tax valuations.

Interest charges for 1980 increased $1,651,577, or 26.7%, to $7,847,206. The continued effect of inflation during this period was the principal factor contributing to extremely high interest costs for all debt financing. These higher interest charges were the result of larger total outstanding debt and higher interest rates during the current period. The higher interest rates on short-term debt significantly increased the Company's interest expense. Note 2 to the Financial Statements provides a detailed explanation of debt subject to floating prime interest rates.

Earnings

Earnings per share of common stock for 1980 were $3.20, a 29.0% increase above 1979. The increase was derived after giving consideration to an increase of 2.2% in the weighted average number of common shares outstanding. This improvement in earnings resulted in a 12.7% return on average common equity.

Even though total operating revenues went up 23.2% and total operating expenses and interest charges went up 22.9% and 26.7%, respectively, earnings available for common stock increased $1,451,252, or 31.8%, to $6,018,530. Improvement in earnings resulted principally from increases in sales due to the hot weather during the summer of 1980, and from rate increases granted by regulatory authorities. The third quarter's earnings of $2.75 per share provided the most significant improvement in 1980 representing 85.9% of total earnings.

Dividends and Common Stock Market Price

The annual cash dividend of $1.88 per share was paid in 1980 and represents 58.8% of the earnings per share of common stock.

Common Stock Market Price Range
Price of Common Stock on New York Stock Exchange

	1980		1979	
	High	Low	High	Low
1st Quarter	$16⅞	$13⅞	$20⅝	$19
2nd Quarter	17¾	14½	21¼	19¼
3rd Quarter	18	15⅜	22¼	18⅜
4th Quarter	16⅜	13½	19¼	16
Yearly	$18	$13½	$22¼	$16

Quarterly Dividends Paid Per Share*

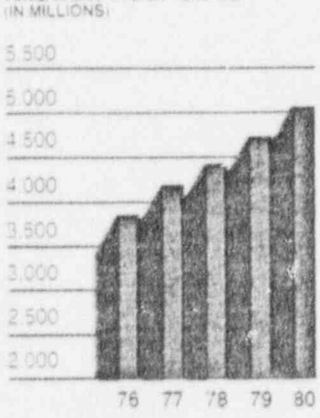
	1980	1979
1st Quarter	$0.47	$0.47
2nd Quarter	0.47	0.47
3rd Quarter	0.47	0.47
4th Quarter	0.47	0.47
Yearly	$1.88	$1.88

*Through 1980, the Company has paid 180 consecutive quarterly dividends.

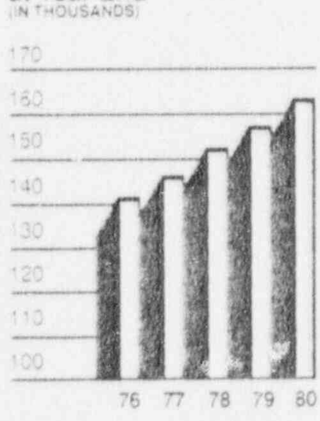
As of November 18, 1980, the Company had 5,404 common shareholders of record.

Charter provisions and bond indentures relating to the Company's preferred stock and bonds, respectively, contain certain restrictions as to the payment of cash dividends on common stock. A more detailed explanation of these restrictions is included under Note 3 to the Financial Statements.

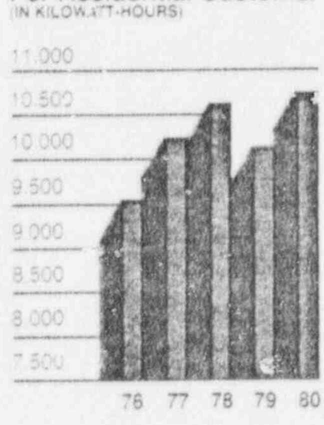
Total Annual Kilowatt-Hour Sales
(IN MILLIONS)



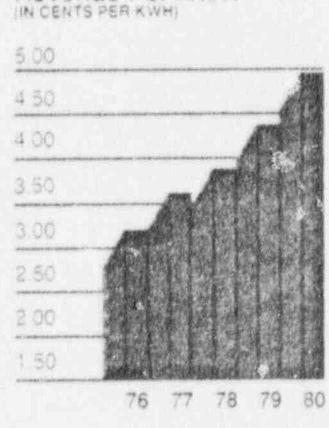
Electric Customers at Year End
(IN THOUSANDS)



Average Annual Use Per Residential Customer
(IN KILOWATT-HOURS)



Average Residential Revenue Per KWH
(IN CENTS PER KWH)



Kilowatt-hour Sales

In 1980 total kilowatt-hour sales increased 6.8% compared to an increase in 1979 of 6.9%. This appears to be a stable trend in growth in total kilowatt-hour sales, however, in 1979 the industrial customers' sales increased 14.6% compared to an increase of only 4.6% in 1980. Sales to residential customers in 1979 declined 0.4% because of mild weather and apparent energy conservation; but in 1980, because of an unusually hot summer, sales to residential customers increased 10.2%. The increase in residential sales is further exemplified by the 1980 average annual use per residential customer increasing 6.5% to a new high of 10,842 kilowatt-hours. All classes of customers showed an increase in sales over 1979 with total sales for the current year surpassing five billion kilowatt-hours.

Financing

On March 31, 1980, the Company exercised a previously obtained commitment from commercial banks for a five-year term loan and issued unsecured promissory notes to banks totaling $12.0 million. The notes mature on March 31, 1985, but may be repaid in full at any time without penalty. Interest on the notes is payable quarterly at rates equal to prime rate for years one and two, prime rate plus 1/4 of one percent for year three, and prime rate plus 1/2 of one percent for years four and five.

SOURCE AND USE OF REVENUE DOLLAR

SOURCE:		
Residential	$ 73,931,273	34.2¢
Commercial	49,929,048	23.1
Industrial	84,922,085	39.3
Other	7,235,535	3.4
Total	$216,017,941	$1.000

USE:		
Power purchased	$160,178,365	74.2¢
Wage and benefits	11,865,185	5.5
Other operating expenses	12,782,996	5.9
Depreciation	6,068,634	2.8
Taxes	10,431,634	4.8
Interest and dividends	12,236,008	5.7
Retained in business	2,455,119	1.1
Total	$216,017,941	$1.000

In October 1980 the Company sold 200,000 shares of common stock to underwriters by negotiated offering. Net proceeds from this financing were approximately $3.1 million. In addition, the Company obtained $400,000 of new equity by issuing 26,271 shares of common stock to the Employee Stock Ownership Plan and Trust and the Thrift Plan for Employees.

The funds received from the five-year term loan and the sale of common stock were used to repay outstanding short-term bank loans. On December 31, 1980, short-term obligations were $6 million, a reduction of $9.5 million from December 31, 1979.

Franchises

Five extensions of municipal franchises were obtained by the Company in 1980. In New Mexico, the cities of Central and Silver City granted franchises for 25 years. In Texas, the cities of Gordon, Nocona, and Perryton granted 30-year franchises. The newly incorporated Village of Dickinson, in the Southeast Division, granted a franchise of 30 years. Expiration dates on the 88 municipal franchises vary from 1983 to 2029.

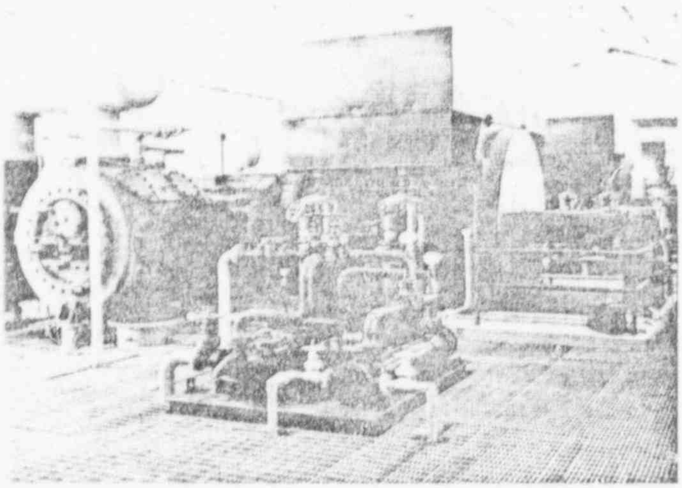
In New Mexico, the Company also holds franchises from seven counties. Their expiration dates vary from 1991 to 2003.

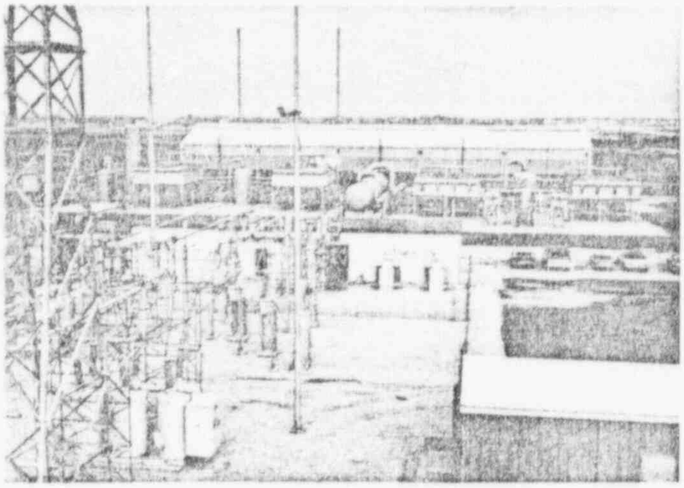
Area Growth

At the end of 1980 approximately 473,000 people located in 88 towns and surrounding rural areas were receiving electricity from Community Public Service Company. Electricity was provided to 139,164 residences, 23,463 businesses and small industries and 195 major industrial accounts. In spite of the unstable economic conditions and the unusual weather patterns in 1980, this was an increase of 3.3% in residential customers, 4.6% in business and small industrial customers and 9.6% in major industrial accounts since 1979.

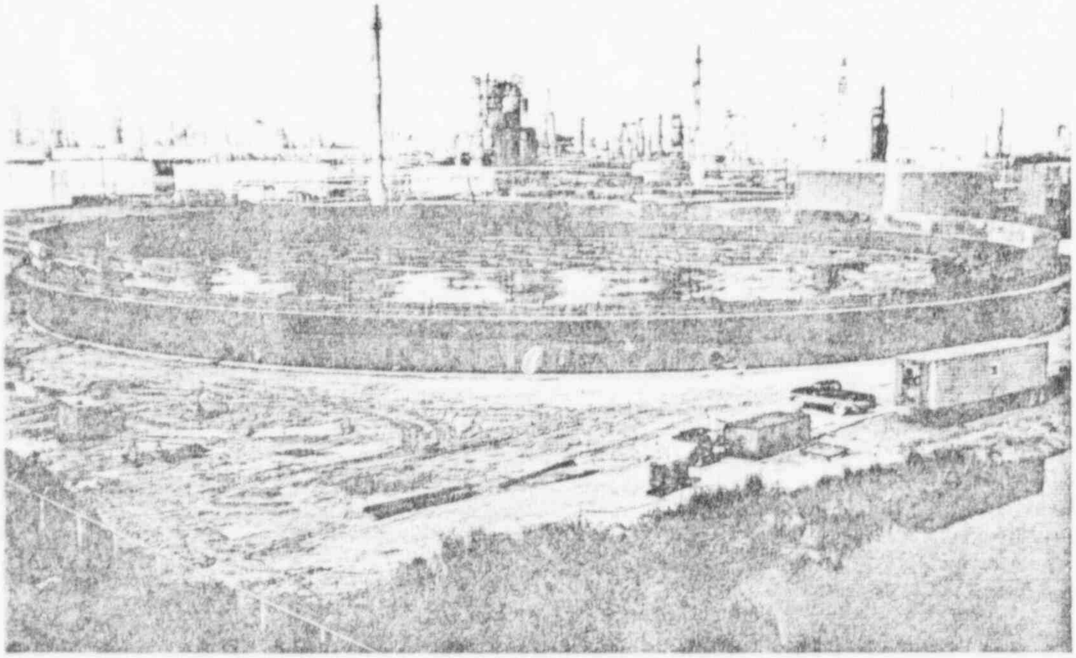
The oil-related businesses in the Panhandle, Western and Central Divisions continued to operate at high levels because of the nation's demand for domestic oil. The petrochemical plants in the Southeast Division, located just south and southwest of Houston, underwent several expansions because of the demand for their products.

Phillips Petroleum Company's Sweeny Refinery & NGL Process Center put a one-billion-pound-per-year ethylene unit into production in January 1979, and began construction of a new methyl tertiary butyl ether plant (MTBE). MTBE is a gasoline additive. The plant is scheduled for completion in November 1981. Phillips is also adding an aromatics recovery unit to the Sweeny Refinery & NGL Process Center facility scheduled for completion in 1982.





Amoco Production Company's natural gas compressor station located in the Southeast Division has four 8,000-horsepower motors (close-up of one is shown above), providing a significant new load for the Company.

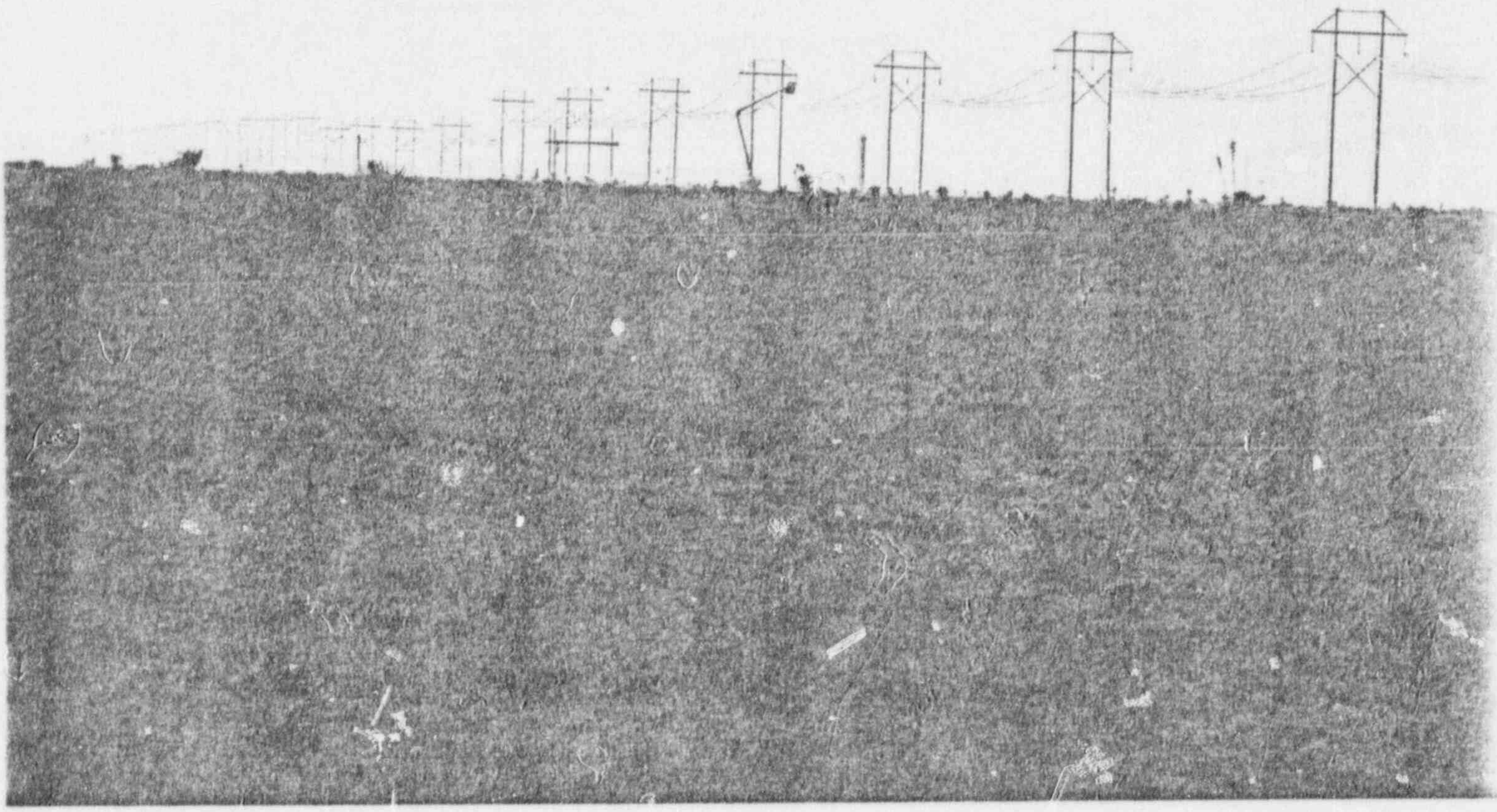


The need for energy continues to stimulate the economy in the Southeast Division. When completed, this will be the largest crude oil storage tank in the world. Owned by Texas City Refinery, this tank (pictured at left) is over 340 feet in diameter and will be 60 feet high. It will have a 750,000 barrel capacity. At the world price of crude oil today, it will cost $30 million to fill the tank.

Arco Pipeline Company, a subsidiary of Atlantic Richfield Company, completed construction of a marine terminal facility in the Port of Texas City last summer. The new $75 million facility includes a crude oil dock, a tank farm and a pipeline. The crude oil dock has facilities for unloading, simultaneously, two medium size crude oil vessels in the 150,000 ton class. The new dock, one of the most modern in the world, provides an economical and high volume Gulf Coast crude oil port for the oil industry.

The gross agricultural income in the Company's service areas was approximately $700 million for 1980, a drop of about 30% under the record established in 1979. This was due to extremely hot weather and little precipitation during the summer and fall growing season.

The research project in West Texas on high saline shallow water irrigation was given an expanded role during 1980 because of a large grant from the Texas Water Resources Institute.



The morning sun reflects from the aluminum conductors of this newly rebuilt 115 KV line in Southwest New Mexico. The Florida Mountains appear in the background.

Due to the tremendous amount of interest in ethanol production by farmers and ranchers in our service areas, preliminary work has begun on an on-farm research facility to produce ethanol.

The Company continued to sponsor programs for many different youth organizations and also to teach short courses to agribusiness leaders in our service areas.

Construction and Expansion of Facilities

During 1980 the construction of new facilities to meet increased customer loads and growth cost $21,067,445 for electric facilities and $75,460 for gas facilities.

The New Mexico Division expanded its transmission line network with the completion of 5.5 miles of a 115,000 volt (115 KV) transmission line from the Company's Ruidoso Substation to the Company's Gavilan Substation. The Gavilan Substation, also completed in 1980, is a 115-12.5 KV distribution substation, which was constructed to provide additional electric power supply capacity for this growing area.

Other work in New Mexico included rebuilding 20 miles of 115 KV transmission line in Grant County. This line is part of a 40-mile interconnection with the Company's purchased power suppliers. The rebuild was necessary to increase the line's ability to transmit a larger block of power.

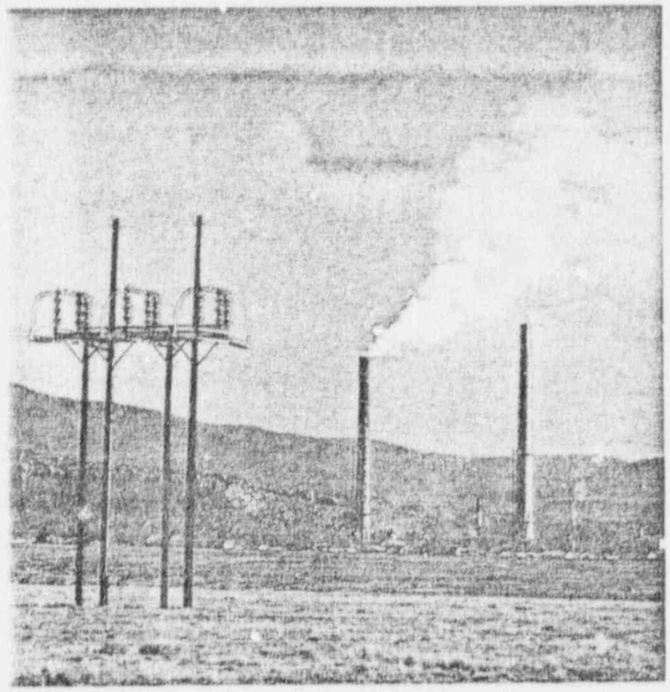
In Texas, in the Southeast Division, 10.1 miles of 138 KV transmission line was erected from West Columbia to Brazoria. The line is initially operating at 69 KV, but

will be converted to 138 KV in the near future to assist in providing for the electric power needs of the Company's customers in the rapidly growing Brazoria County area.

Other major installations in Texas included: Lewisville—addition of a 25/33/42 MVA, 138-12.5 KV transformer in an existing substation; Alvin—replacement of a 12/16/20 MVA transformer in the Alvin Substation with a 25/33/42 MVA, 138-12.5 KV transformer; Brazoria County near Alvin—construction of a 138 KV substation and associated transmission line to provide service for the Amoco Production Company electrical load at Hastings Field; Texas City—construction of a 69-4.16 KV substation with one 5000 KVA transformer to provide electrical service to Marathon Pipeline Company and construction of a 69-4.16 KV substation with two 7500 KVA transformers to provide electrical service to an ARCO pumping installation.

Major construction in the Company's electrical distribution systems included the reconductoring of overhead distribution circuits and/or the addition of distribution circuits were converted to higher voltages in the Central and Western Divisions to achieve increased capacity.

The total number of pole miles at the end of 1980 was 8,700 compared to 8,524 pole miles at the end of 1979. Electric underground distribution increased from 190 miles in 1979 to 231 miles at the end of 1980.



The largest customer in the New Mexico Division is Kennecott Copper Company. This newly rebuilt 115 KV line from Deming serves Kennecott's smelter at Hurley. The 40-mile line was rebuilt to increase the Company's capacity to serve the growing loads in the Grant County area.

Employees

Because of increased work activity, employment at the end of 1980 was 885, an increase of 24 over the previous year. Also affecting this total was the retirement of 13 employees who had an average of 29.5 years of service.

Service awards were presented to 101 employees with an average length of service of 15.2 years.

In November 1980 the board of directors announced the election of a new vice president, Owen D. Ringness, a 30-year veteran of the Company. He assumed the title of chief engineer upon the retirement of Vice President and Chief Engineer W.D. Nuckols in January 1981.

Safety and Training

Always aware of the need for additional employee training, the Company provided instruction in various skills to a total of 576 participants during 1980. Intensive training in lineman's skills was presented to 43 beginning line crew members. Employees were also given formal training in operation and driving of heavy equipment, first aid, cardiopulmonary resuscitation and supervision.

Accident prevention and safety training are vital to the Company's daily operations, and safety education is a continuous effort. Employees worked 1,848,682 man-hours in 1980 with 17 lost-time accidents.

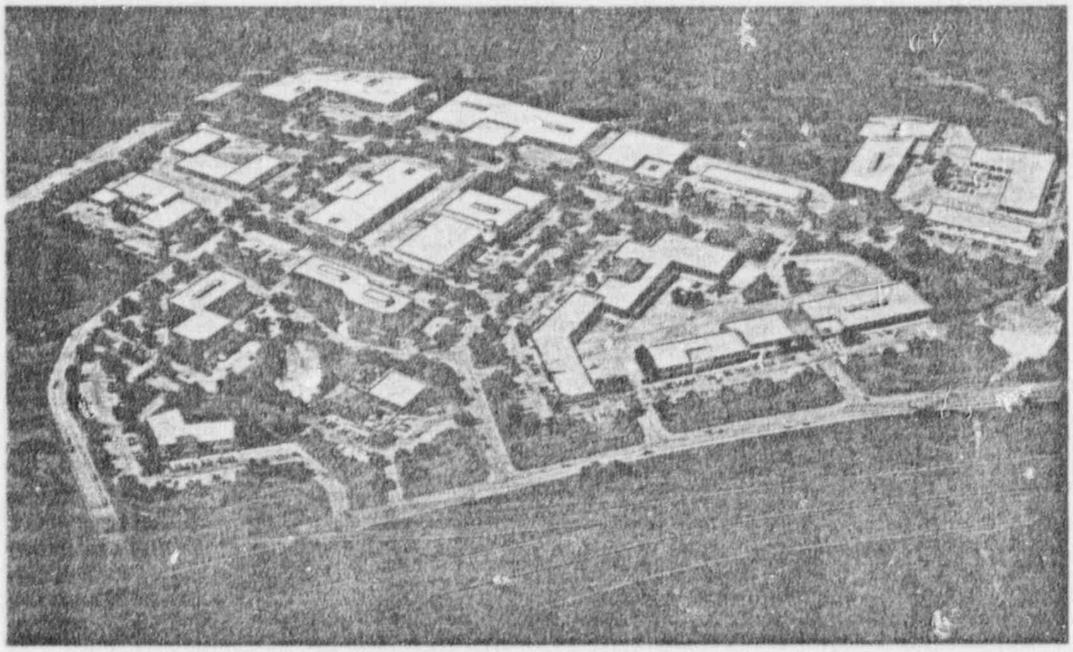
Rates and Regulation

The Company participated in rate proceedings and other regulatory matters during 1980 as follows:

1. Presentation of retail rate cases before regulatory authorities in the states of Texas and New Mexico.
2. Negotiation of power supply contracts and retail sales contracts.
3. Intervention in supplier rate cases at the federal and state levels.
4. Appearances before the regulatory authorities in the states of Texas and New Mexico in proceedings concerning regulatory matters other than rates.

The Company was authorized by the New Mexico Public Service Commission to increase rates in April for the New Mexico Division. These rates will produce additional revenues of $1,158,000 annually.

The Public Utility Commission of Texas authorized an annual increase in rates of $4,800,000 effective in July in the Company's Central, Northeast and Panhandle Divisions.



This high-quality commercial, light industrial, and office park being developed by John Yelland Company is being built to accommodate the many new businesses locating in Lewisville, 30 miles northwest of downtown Dallas.

In December 1980 rates became effective in the Western and Southeast Divisions, and in a portion of the Central Division, which will provide additional annual revenues of approximately $5,200,000.

During 1980 the Company contracted with El Paso Electric Company for additional power for New Mexico. The power supply contract with Public Service Company of New Mexico was amended to provide additional flexibility in scheduling the power supply for the Silver City area.

Six of the Company's suppliers of wholesale power applied to regulatory bodies for increases in wholesale rates. In addition, five earlier wholesale rate proceedings of wholesale power suppliers were still pending before the Federal Energy Regulatory Commission. The Company has intervened in all such proceedings.

The Company was involved in extensive hearings before the Public Utility Commission of Texas and the New Mexico Public Service Commission considering revision of the rules and regulations of these Commissions. Orders of both Commissions in these proceedings required extensive changes in the Company's service and extension policies. Additional orders are under consideration.

The Public Utility Regulatory Policies Act requires that certain accounting and rate making data be submitted to the Federal Energy Regulatory Commission annually. The Company made its initial filing in response to these requirements on November 1, 1980.

In addition to the data required by the Public Utility Regulatory Policies Act, the act requires state regulatory commissions to establish regulations consistent with the act concerning rate design, cost allocation methods and cogeneration activities. Hearings in connection with such regulations were initiated by both the Texas and New Mexico Commissions during 1980. The Company anticipates that upon the completion of these hearings in 1981, additional regulations will be ordered resulting in increased operating expenses for the Company.

Customer Services

The Residential Conservation Service (RCS) program mandated by the National Energy Conservation Policy Act of 1978 (NECPA) will be implemented by the utilities covered by the law. Pending the approval by the Department of Energy of state plans for Texas and New Mexico, the Company will offer energy audits and other services prescribed by the act.

Thirty-one Customer Services Department employees have been trained by the Company and certified as energy auditors as required by the RCS program.

The Energy Security Act adopted in 1980 created the Commercial and Apartment Conservation Service (CACS) program. CACS will require covered utilities to encourage the installation of energy conservation measures in existing small commercial buildings and large multifamily dwellings. CACS will require energy auditing, as well as other administrative responsibilities similar to RCS. A state plan for CACS will have to be developed by Texas and New Mexico with input from the covered utilities. Company representatives will present written and oral testimony at a CACS hearing on the proposed rules early in 1981.

The Energy Conservation and Production Act of 1976 required implementation of the Building Energy and Performance Standards (BEPS). These standards will divide new commercial and residential buildings into 19 specific classifications and assign a Design Energy Budget for each. A test period for BEPS will be in effect until August 1981 with full implementation delayed until April 1, 1983. Company representatives presented testimony in 1980 to DOE concerning unfavorable features of BEPS. The building and the utility industries will be greatly affected by the enforcement of BEPS.

Sources of Energy

The Company purchased 98% of its electric requirements. The remaining 2% was generated at its Lordsburg, New Mexico plant. Oil is the primary fuel for use in the Company's electric generating plant at Lordsburg. The Company has a contract with Standard Oil Company of Texas for 3,000,000 gallons of oil annually which presently may be terminated by either party on one year's notice.

The Company's future load growth is taken into consideration by all its suppliers in planning their future construction expenditures. The Company does not anticipate termination by any of these suppliers or any difficulty in negotiating necessary renewals of the contracts. Any termination of service by those suppliers regulated by the Federal Energy Regulatory Commission (El Paso Electric Company, Southwestern Public Service Company, West Texas Utilities Company and Public Service Company of New Mexico) would require authorization by that Commission. Terminations of service by Houston Lighting & Power Company, Texas Electric Service Company or Texas Power & Light Company, would require authorization by the Public Utility Commission of Texas. By accepting the Company as a customer, the suppliers have committed themselves to continually supply energy sufficient to satisfy the needs of the Company's customers.

The Company obtains its electric energy requirements from the following sources:

Sources	Area Served	Year of Contract Expiration	Percent of Power Supplied*	Principal Fuel Source
	Texas			
Houston Lighting & Power Company (Subsidiary of Houston Industries Incorporated)	Texas Gulf Coast	1991	69%	Natural Gas (Oil Standby)
Texas Electric Service Company (Subsidiary of Texas Utilities Company)	Central and West Texas	1991	8%	Natural Gas and Lignite (Oil Standby)
Texas Power & Light Company (Subsidiary of Texas Utilities Company)	Northeast and Central Texas	1991	18%	Natural Gas and Lignite (Oil Standby)
Southwestern Public Service Company	Texas Panhandle	1990	2%	Natural Gas and Coal (Oil Standby)
West Texas Utilities Company (Subsidiary of Central and South West Corporation)	West Texas	1989	3%	Natural Gas (Oil Standby)
Total			100%	
	New Mexico			
El Paso Electric Company	South Central New Mexico	1985	16%	Coal, Natural Gas and Oil
El Paso Electric Company	Southwest New Mexico	1997	**	Coal, Natural Gas and Oil
Public Service Company of New Mexico	Southwest New Mexico	2006	66%	Coal and Natural Gas (Oil Standby)
Company Generation (Lordsburg plant)	Southwest New Mexico		18%	Oil and Natural Gas
Total			100%	

*For twelve month period ending December 31, 1980.
**Provides supplemental power for future growth.

Statements of Earnings

Three Years ended December 31, 1980

	1980	1979	1978
OPERATING REVENUES:			
Electric (note 4)	$214,305,260	$172,162,517	$141,679,698
Gas (note 6)	2,064,968	3,489,750	2,953,161
Total operating revenues	216,370,228	175,652,267	144,632,859
OPERATING EXPENSES:			
Power purchased for resale	160,178,365	128,359,600	99,960,995
Other operating and general expenses	21,612,358	19,157,661	16,731,038
Maintenance	2,981,007	2,323,562	1,988,882
Depreciation of utility plant	6,068,634	5,605,198	5,146,437
Income taxes (note 5):			
Current	907,991	827,146	1,754,893
Deferred	1,933,493	1,286,661	1,105,684
Investment tax credit adjustments	1,845,241	1,245,198	1,742,614
Taxes, other than on income	6,133,861	5,302,831	4,616,674
Total operating expenses	201,660,950	164,107,857	133,047,217
Net operating income	14,709,278	11,544,410	11,585,642
OTHER INCOME (EXPENSE), net of taxes (note 5)	(18,151)	78,395	26,520
Earnings before interest charges	14,691,127	11,622,805	11,612,162
INTEREST CHARGES:			
Interest on long-term debt	5,915,324	4,612,905	4,682,469
Other interest and amortization of debt discount, premium and expense	2,131,907	1,649,550	716,894
Allowance for borrowed funds used during construction	(200,025)	(66,827)	(122,184)
Total interest charges	7,847,206	6,195,628	5,277,179
Net earnings	6,843,921	5,427,177	6,334,983
DIVIDENDS ON PREFERRED STOCK	825,391	859,899	868,376
Earnings available for common stock	$ 6,018,530	$ 4,567,278	$ 5,466,607
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,880,176	1,838,864	1,757,220
EARNINGS PER SHARE OF COMMON STOCK	$ 3.20	$ 2.48	$ 3.11

See accompanying notes to financial statements.

Statements of Changes in Financial Position

Three Years ended December 31, 1980

	1980	1979	1978
FUNDS PROVIDED:			
Net earnings	$ 6,843,921	$ 5,427,177	$ 6,334,983
Add (deduct) items not affecting working capital:			
Depreciation	6,068,634	5,605,198	5,146,437
Deferred income taxes	1,742,127	1,275,844	1,085,559
Investment tax credit adjustments	1,466,338	1,060,507	1,498,493
Allowance for borrowed funds used during construction	(200,025)	(66,827)	(122,184)
Amortization of debt expense and other deferred charges	204,525	227,922	127,047
Working capital provided by operations	16,125,520	13,529,821	14,070,335
Increase in long-term notes payable to banks	12,000,000	—	—
Sale of common stock	3,554,614	—	3,939,000
Increase in short-term notes payable to banks	—	8,500,000	5,000,000
Disposals of utility plant assets	2,860,231	285,260	—
Increase in customers' advances for construction	100,584	—	568,814
Net decrease in working capital other than debt due within one year	1,568,744	—	—
	$36,209,693	$22,315,081	$23,578,149
FUNDS USED:			
Additions to utility plant, net of capitalized depreciation and interest	$20,643,189	$15,380,209	$15,573,775
Decrease in short-term notes payable to banks	9,500,000	—	—
Dividends paid	4,388,803	4,316,963	3,958,360
Decrease in long-term debt	706,000	852,000	1,780,000
Purchase of preferred stock	453,150	153,885	151,500
Costs associated with sale of common stock	169,697	—	101,118
Decrease in customers' advances for construction	—	404,318	—
Other—net	348,854	624,274	509,989
Net increase in working capital other than debt due within one year	—	583,432	1,503,407
	$36,209,693	$22,315,081	$23,578,149
THE CHANGES IN WORKING CAPITAL other than debt due within one year are summarized as follows:			
Cash	$ 344,430	$ 184,125	$ 1,686,641
Receivables	2,008,991	1,007,025	2,980,511
Inventories	291,109	277,867	103,674
Prepaid expenses	(10,243)	(786)	83,021
Accounts payable	(3,537,823)	(1,082,107)	(2,023,281)
Accrued interest	361,629	(285,060)	(95,887)
Accrued taxes	(1,091,265)	545,168	(917,671)
Customers' deposits	23,626	(188,745)	(133,593)
Other current and accrued liabilities	40,802	125,945	(180,008)
Net increase (decrease) in working capital other than debt due within one year	$ (1,568,744)	$ 583,432	$ 1,503,407

See accompanying notes to financial statements.

Balance Sheets

December 31, 1980 and 1979

Assets	1980	1979
UTILITY PLANT, at original cost (note 2):		
Electric plant	$200,553,122	$181,746,035
Gas plant (note 6)	—	3,809,365
Construction work in progress	1,635,024	1,651,200
Other	1,439	1,439
	202,189,585	187,208,039
Less accumulated depreciation	43,977,723	40,910,526
Net utility plant	158,211,862	146,297,513
NONUTILITY PROPERTY, at cost	175,735	175,735
CURRENT ASSETS:		
Cash	4,039,330	3,694,900
Receivables less allowance for doubtful accounts of $55,631 in each year	12,732,993	10,724,002
Inventories, at the lower of average cost or market	4,293,536	4,002,427
Prepaid expenses	338,972	349,215
Total current assets	21,404,831	18,770,544
UNAMORTIZED DEBT EXPENSE	419,616	447,805
OTHER DEFERRED CHARGES	1,100,995	931,589
	$181,313,039	$166,623,186

Capitalization and Liabilities	1980	1979
CAPITALIZATION:		
Common stock equity:		
Common stock, $10 par value per share. Authorized 3,000,000 shares; issued 2,065,135 shares	$ 20,651,350	$ 18,388,640
Capital in excess of par value	8,828,269	7,509,515
Retained earnings (note 3)	20,970,017	18,684,595
Total common stock equity	50,449,636	44,582,750
Redeemable cumulative preferred stocks (note 3)	11,000,000	11,480,000
Long-term debt, net of amount due within one year (note 2)	70,521,837	59,657,950
Total capitalization	131,971,473	115,720,700
CURRENT LIABILITIES:		
Long-term debt due within one year	830,000	403,000
Notes payable to banks—unsecured (note 2)	6,000,000	15,500,000
Accounts payable	15,401,216	11,863,393
Accrued interest	1,214,973	1,576,602
Accrued taxes	1,842,929	751,664
Customers' deposits	1,438,952	1,462,578
Other current and accrued liabilities	128,798	169,600
Total current liabilities	26,856,868	31,726,837
CUSTOMERS' ADVANCES FOR CONSTRUCTION	1,232,909	1,132,324
ACCUMULATED DEFERRED TAXES ON INCOME	13,098,063	11,355,937
ACCUMULATED DEFERRED INVESTMENT TAX CREDITS	8,153,726	6,687,388
	$181,313,039	$166,623,186

See accompanying notes to financial statements.

Statements of Common Stock Equity and Redeemable Cumulative Preferred Stocks

Three Years ended December 31, 1980

	Common Stock Equity					Redeemable cumulative preferred stocks
	Common stock Shares	Common stock Amount	Capital in excess of par value	Retained earnings	Total	
YEAR ENDED DECEMBER 31, 1978:						
Balance, December 31, 1977	1,638,864	$16,388,640	$5,515,900	$15,298,876	$37,203,416	$11,840,000
Net earnings for the year	—	—	—	6,334,983	6,334,983	—
Dividends on preferred stocks	—	—	—	(868,376)	(868,376)	—
Dividends on common stock—$1.775 per share	—	—	—	(3,089,984)	(3,089,984)	—
Sale of common stock	200,000	2,000,000	1,939,000	—	3,939,000	—
Costs associated with sale of common stock	—	—	—	(101,118)	(101,118)	—
Purchase and retirement of preferred stocks—1,200 shares 4.65% Series B and 600 shares 4.75% Series C....	—	—	28,500	—	28,500	(180,000)
Balance, December 31, 1978	1,838,864	$18,388,640	$7,483,400	$17,574,381	$43,446,421	$11,660,000
YEAR ENDED DECEMBER 31, 1979:						
Net earnings for the year	—	—	—	5,427,177	5,427,177	—
Dividends on preferred stocks	—	—	—	(859,899)	(859,899)	—
Dividends on common stock—$1.88 per share	—	—	—	(3,457,064)	(3,457,064)	—
Purchase and retirement of preferred stocks—1,200 shares 4.65% Series B and 600 shares 4.75% Series C....	—	—	26,115	—	26,115	(180,000)
Balance, December 31, 1979	1,838,864	$18,388,640	$7,509,515	$18,684,595	$44,582,750	$11,480,000
YEAR ENDED DECEMBER 31, 1980:						
Net earnings for the year	—	—	—	6,843,921	6,843,921	—
Dividends on preferred stocks	—	—	—	(825,391)	(825,391)	—
Dividends on common stock—$1.88 per share	—	—	—	(3,563,411)	(3,563,411)	—
Sale of common stock	226,271	2,262,710	1,291,904	—	3,554,614	—
Costs associated with sale of common stock	—	—	—	(169,697)	(169,697)	—
Purchase and retirement of preferred stocks—1,200 shares 4.65% Series B, 600 shares 4.75% Series C, 1,200 shares 11% Series D, 600 shares 11% Series E and 1,200 shares 11% Series F	—	—	26,850	—	26,850	(480,000)
Balance, December 31, 1980	2,065,135	$20,651,350	$8,828,269	$20,970,017	$50,449,636	$11,000,000

See accompanying notes to financial statements.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Utility Plant

The cost of additions to utility plant and replacement of retired units of property are capitalized. Cost includes labor, materials and similar items and indirect charges for such items as engineering, supervision and transportation. Property repairs and replacement of minor items of property are included in maintenance expense.

The cost of depreciable units of plant retired or disposed of in the normal course of business is eliminated from utility plant accounts and such cost plus removal expenses less salvage is charged to accumulated depreciation. When complete operating units are disposed of, appropriate adjustments are made to accumulated depreciation, and the resulting gains or losses, if any, are recognized.

Depreciation

Depreciation is provided on a straight-line basis over the estimated service lives of the properties. Depreciation of utility plant, other than transportation equipment, is charged to earnings. Depreciation of transportation equipment is charged to earnings and property accounts in accordance with the equipment's use.

Depreciation as a percentage of average depreciable cost was 3.31%, 3.29% and 3.26% in 1980, 1979 and 1978, respectively.

Unamortized Debt Expense, Discount and Premium on Debt

Expenses incurred in connection with the issuance of presently outstanding first mortgage bonds and discount and premium relating to such debt are being amortized on a straight-line basis over the lives of the respective issues.

Other Deferred Charges

Other deferred charges include costs incurred in connection with completed rate filings, costs associated with a maintenance and inspection contract at the Company's Lordsburg, New Mexico generating facilities, and costs of a project to develop and implement significantly improved data processing capabilities and information systems for management and rate filing purposes. The costs related to the completed rate filings are being amortized over twelve to eighteen months by the straight-line method. The information system project costs will be similarly amortized over three to five years subsequent to completion of the project in 1981.

Revenues

Revenues are recognized on the basis of meter readings which are made on a monthly cycle. The Company does not accrue revenues for power sold but not billed at the end of an accounting period.

Power Purchased

The Company records power purchased on the basis of billings from suppliers; no accrual is made for power delivered to the Company between the dates of such billings and the end of an accounting period.

Allowance for Funds Used During Construction

The applicable regulatory uniform system of accounts defines allowance for funds used during construction as including the net cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. In that connection the Company used an accrual rate of approximately 9% in 1980, and 7.5% in 1979 and 1978 for borrowed funds used during construction.

Income Taxes

The Company accounts for certain income and expense items differently for financial reporting purposes than for income tax purposes. Provisions for deferred income taxes are being made to the extent required by regulatory authority (note 5).

Amounts equal to the reduction in income taxes arising from investment tax credits are charged to earnings and concurrently credited to accumulated deferred investment tax credits. The Company is amortizing the accumulated deferred investment tax credits to earnings over the estimated service lives of the related assets.

Employee Benefit Plans

The Company has in effect a contributory trusteed retirement plan available to employees 25 years of age and over and having one year of service. The total pension expense for 1980, 1979 and 1978 was \$1,008,000, \$827,000 and \$678,000, respectively, which includes amortization of prior service cost principally over a period of forty years.

The Company makes annual contributions to the above plan equal to the amounts accrued for pension expense. A comparison of accumulated plan benefits and plan

net assets at the latest actuarial valuation date is presented below:

	January 1, 1980	1979
Actuarial present value of accumulated plan benefits:		
Vested	$12,206,482	$10,480,704
Nonvested	516,390	408,632
	$12,722,872	$10,889,336
Net assets available for benefits, at market value	$12,053,141	$ 9,721,531

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.5% for both 1980 and 1979.

The Company has a voluntary thrift plan whereby the Company contributes to a trustee amounts equal to certain percentages of amounts contributed by employees. Employees have the option of investing their contributions and related contributions of the Company in either certain government securities or the Company's common stock. Company contributions to the thrift plan amounted to approximately $437,000, $379,000 and $334,000 during 1980, 1979 and 1978, respectively. Thrift plan assets included 404,729 and 326,776 shares of the Company's common stock at December 31, 1980 and 1979, respectively.

Additionally, the Company has an Employee Stock Ownership Plan (ESOP) which provides that the Company may contribute to a Trust an amount not exceeding 1% of qualified capital asset additions during each calendar year through 1983. An extra .5% is similarly available each year through 1983 if there are contributions by employees to the ESOP matching the .5%. Such contributions are being used to purchase common stock of the Company, which is to be held in Trust for the benefit of the Company's employees. The Company receives a deduction for Federal income tax purposes equal to the total amount contributed to the Trust. Contributions made or accrued by the Company were approximately $258,000 in 1980 and $244,000 in both 1979 and 1978. The ESOP assets included 53,375 and 33,194 shares of the Company's common stock at December 31, 1980 and 1979, respectively.

Earnings Per Share

Earnings per share of common stock are based upon the weighted average number of common shares outstanding; net earnings are reduced for preferred dividend requirements.

(2) Long-term Debt and Notes Payable to Banks

Long-term debt outstanding is as follows:

	1980	1979
First mortgage bonds:		
Series C, 4.075% due 1982	$ 389,000	$ 389,000
Series D, 3.45% due 1984	2,154,000	2,250,000
Series G, 4.70% due 1993	10,904,000	11,034,000
Series H, 4.95% due 1995	4,300,000	4,328,000
Series I, 6.075% due 1996	4,250,000	4,327,000
Series J, 9.00% due 1999	8,936,000	9,091,000
Series K, 8.50% due 2001	7,351,000	7,351,000
Series L, 10.50% due 2000	11,400,000	11,520,000
Series M, 8.70% due 2006	9,650,000	9,750,000
	59,334,000	60,040,000
Unamortized premium on debt—net of discount	17,837	20,950
Less long-term debt due within one year	(830,000)	(403,000)
Notes payable to banks—unsecured	12,000,000	—
Total long-term debt, net of amount due within one year	$70,521,837	$59,657,950

Substantially all of the Company's utility plant is subject to the lien of the first mortgage bonds.

The above long-term notes payable to banks mature on March 31, 1985, but may be prepaid in full at any time without penalty. Interest on the notes is payable quarterly at rates equal to prime rate for years one and two, prime rate plus 1/4 of 1% for year three and prime rate plus 1/2 of 1% for years four and five. Among other matters, the notes provide for the maintenance of certain liability to net worth ratios.

Long-term debt maturities and sinking fund requirements for the four years following 1981 are as follows:

December 31,	
1982	$ 580,000
1983	630,000
1984	2,784,000
1985	12,630,000

Unsecured short-term notes payable to banks totaled $6,000,000 and $15,500,000 at December 31, 1980 and 1979, respectively. Such notes were issued under loan commitments from banks which increase to $24,000,000 effective April 1, 1981 and expire on March 31, 1982. Under the terms of the loan commitments, interest at the prime lending rate as it fluctuates on outstanding notes payable and a fee of 1/4 of 1% per annum of the average unused commitments are payable quarterly, with no compensating bank balance requirements.

(3) Redeemable Cumulative Preferred Stocks

Redeemable cumulative preferred stocks (authorized 200,000 shares at $100 par value per share) issued and outstanding at December 31, 1980 and 1979, with related redemption prices (at the Company's option), are as follows:

Series	Redemption price 1980	Redemption price 1979	Shares outstanding 1980	Shares outstanding 1979	Total par value 1980	Total par value 1979
B 4.65%	$100.00	$100.00	40,800	42,000	$ 4,080,000	$ 4,200,000
C 4.75	100.00	101.15	22,200	22,800	2,220,000	2,280,000
D 11.00	108.38	108.90	18,800	20,000	1,880,000	2,000,000
E 11.00	108.38	108.90	9,400	10,000	940,000	1,000,000
F 11.00	108.38	108.90	18,800	20,000	1,880,000	2,000,000
			110,000	114,800	$11,000,000	$11,480,000

On October 1 of each year, the Company is required to offer to purchase from the holders of shares in Series B and Series C, at a price not exceeding $100 per share plus accrued dividends, a number of shares equal to 2% of the maximum number of shares of each series outstanding at any one time prior to August 15 of such year. In addition, the Company is required to redeem, at a price of $100 per share plus accrued dividends, 1,200 shares each of Series D and F and 600 shares of Series E on March 15, 1981 and on each March 15 thereafter through March 1, 1996. The requirement to redeem such shares is cumulative and will total $300,000 on an annual basis.

Charter provisions relating to the preferred stocks and the indentures under which the bonds are issued contain restrictions as to the payment of cash dividends on common stock. At December 31, 1980, the amount of restricted retained earnings was approximately $6,938,000.

In the event of voluntary liquidation of the Company, holders of the preferred stocks have a preference to the extent of amounts payable on redemption, and in the event of involuntary liquidation, to the extent of par plus accrued dividends.

(4) Information About Major Customers

Electric operating revenues in the accompanying statements of earnings include revenues totaling approximately $25,613,000, $22,748,000 and $15,346,000 in 1980, 1979 and 1978, respectively, from various industrial and commercial customers which are under the common control of one entity. Such customers are principally located in the Company's southeast division and receive service from various delivery points of power.

(5) Income Taxes

Income taxes as set forth in the statements of earnings consist of the following components:

	1980	1979	1978
Charged to operating expenses:			
Current:			
Federal	$ 855,693	$ 786,338	$1,689,035
State	52,298	40,808	65,858
	907,991	827,146	1,754,893
Deferred Federal income taxes	1,933,493	1,286,661	1,105,684
Investment tax credit adjustments:			
Amount equivalent to current investment tax credits	2,090,407	1,447,622	1,901,237
Amortization of accumulated deferred investment tax credits	(245,166)	(202,424)	(158,623)
	1,845,241	1,245,198	1,742,614
Charged (credited) to other income	(388,953)	109,442	59,209
Total income taxes	$4,297,772	$3,468,447	$4,662,400

Total income tax expense for 1980, 1979 and 1978 is less than the amount computed by applying the statutory Federal income tax rates of 46% in 1980 and 1979 and

48% in 1978 to income before taxes. The reasons for the differences are as follows:

	1980	1979	1978
Income tax expense at statutory rate	$5,101,122	$4,091,988	$5,278,743
Flow-through of income tax benefits as allowed by regulatory authority relating to:			
Additional depreciation for tax purposes	(139,028)	(179,621)	(140,759)
Interest and certain employee benefits capitalized as construction cost for book purposes and deducted for tax purposes	(373,450)	(275,868)	(276,896)
Amortization of accumulated deferred investment tax credits	(245,166)	(202,424)	(158,623)
Other—net	(45,706)	34,372	(40,065)
	$4,297,772	$3,468,447	$4,662,400
Effective tax rate	38.8%	39.0%	42.4%

The provisions for deferred income taxes for 1980, 1979 and 1978 result from the following timing differences:

	1980	1979	1978
Accelerated depreciation	$1,327,742	$1,176,968	$ 895,852
Deferred charges and other costs expensed for tax purposes	627,700	98,876	176,791
Other	(21,949)	10,817	33,040
	$1,933,493	$1,286,661	$1,105,683

(6) Sale of Gas Properties

The Company's gas distribution systems in Breckenridge and Graham, Texas were sold to Brazos River Gas Company on July 1, 1980. These two systems contributed 1.3% of the Company's total operating revenues for the twelve months ended June 30, 1980. The Company's one remaining gas distribution system in Kermit, Texas (which contributed only 0.4% of the Company's total operating revenues for the twelve months ended August 31, 1980) was sold to West Texas Gas, Inc. effective September 1, 1980. Earnings before interest charges from these gas systems and losses incurred on the dispositions thereof were insignificant to the Company's operations.

Accountants' Report

The Stockholders and Board of Directors
Community Public Service Company:

We have examined the balance sheets of Community Public Service Company as of December 31, 1980 and 1979 and the related statements of earnings, common stock equity and redeemable cumulative preferred stocks, and changes in financial position for each of the years in the three year period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Community Public Service Company at December 31, 1980 and 1979 and the results of its operations and changes in its financial position for each of the years in the three year period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

January 30, 1981
Fort Worth, Texas

Selected Quarterly Financial Data (Unaudited)

The following selected quarterly financial data is unaudited, but in the opinion of the Company's management all adjustments (none of which were other than normal recurring accruals) necessary for a fair presentation of such data have been included:

1980	March 31	June 30	Sept. 30	Dec. 31
Total operating revenues	$46,323,103	$49,686,641	$67,757,002	$52,603,482
Net operating income	2,415,782	2,540,867	7,123,823	2,628,806
Net earnings	548,678	446,486	5,262,978	585,780
Earnings available for common stock	335,278	241,336	5,057,828	384,089
Weighted average number of common shares outstanding	1,838,864	1,838,864	1,842,464	1,999,652
Earnings per share of common stock	$ .18	$ .13	$ 2.75	$ .19

1979	March 31	June 30	Sept. 30	Dec. 31
Total operating revenues	$40,382,841	$41,103,109	$52,033,802	$42,132,515
Net operating income	2,629,161	2,297,283	4,697,850	1,920,116
Net earnings	1,212,717	790,566	3,139,618	284,276
Earnings available for common stock	997,210	575,059	2,924,111	70,899
Weighted average number of common shares outstanding	1,838,864	1,838,864	1,838,864	1,838,864
Earnings per share of common stock	$ .54	$ .31	$ 1.59	$ .04

Respective Quarters of 1980 and 1979 Compared

The decreases in net earnings for the quarters ended March 31 and June 30 are principally due to increased operating expenses and interest charges. The increase in net earnings for the quarter ended September 30 is primarily due to unusually hot weather during the summer of 1980, and increased rates placed into effect in the Company's New Mexico Division in April 1980, and increased rates placed into effect in three of the Company's six operating divisions in Texas in July 1980. The increase in net earnings for the quarter ended December 31 is primarily due to increased rates.

Management's Discussion and Analysis of Results of Operations and Financial Condition

This discussion presents management's analysis of significant aspects of current operations and financial position and trends which are important to an understanding of the Company's operations and financial condition for the years ended December 31, 1980, 1979 and 1978.

RESULTS OF OPERATIONS

Operating Revenues

Electric operating revenues increased significantly in each of the years ended December 31, 1980, 1979 and 1978 compared with the immediately preceding year as a result of the following principal factors:

	1980	1979	1978
	(Percent Increase Over Prior Year)		
Increased recovery of fuel and purchased power costs	9.7%	12.6%	9.6%
Increased base rates	8.0	3.5	3.7
Increased customer usage and other	6.8	5.4	5.2
Total	24.5%	21.5%	18.5%

For information relating to kilowatt-hour sales by customer classification, increases in number of customers and other relevant facts, please refer to

Selected Annual Financial Data

	1980	1979	1978	1977	1976
Total operating revenues	$216,370,228	$175,652,267	$144,632,859	$121,678,369	$ 97,977,668
Net operating income	$ 14,709,278	$ 11,544,410	$ 11,585,642	$ 10,114,111	$ 9,774,446
Net earnings	$ 6,843,921	$ 5,427,177	$ 6,334,983	$ 5,450,358	$ 5,073,080
Earnings available for common stock	$ 6,018,530	$ 4,567,278	$ 5,466,607	$ 4,573,552	$ 4,187,258
Weighted average number of common shares outstanding	1,880,176	1,838,864	1,757,220	1,638,864	1,527,494
Per share of common stock:					
Earnings	$ 3.20	$ 2.48	$ 3.11	$ 2.79	$ 2.74
Cash dividends declared	$ 1.88	$ 1.88	$ 1.775	$ 1.65	$ 1.62
Book value	$ 24.43	$ 24.24	$ 23.63	$ 22.70	$ 21.52
Total assets	$181,313,039	$166,623,186	$155,205,276	$139,422,150	$132,033,474
CAPITALIZATION:					
Common equity	$ 50,449,636	$ 44,582,750	$ 43,446,421	$ 37,203,416	$ 35,269,790
Redeemable cumulative preferred stocks	11,000,000	11,480,000	11,660,000	11,840,000	12,020,000
Long-term debt, net of amount due within one year	70,521,837	59,657,950	60,353,201	61,016,386	62,780,028
Total capitalization	$131,971,473	$115,720,700	$115,459,622	$110,059,802	$110,069,818
CAPITALIZATION RATIOS:					
Common equity	38.2%	38.5%	37.6%	33.8%	32.0%
Redeemable cumulative preferred stocks	8.3	9.9	10.1	10.8	10.9
Long-term debt, net of amount due within one year	53.5	51.6	52.3	55.4	57.1
Total capitalization	100.0%	100.0%	100.0%	100.0%	100.0%
LONG-TERM DEBT due within one year and short-term notes payable to banks	$ 6,830,000	$ 15,903,000	$ 7,563,000	$ 3,683,000	$ 540,000

Operating Statistics. Also, please refer to Supplementary Information Regarding Inflation and Changing Prices where certain information about the effects of changing prices is provided.

The Company implemented new rates in all operating divisions during various quarters of 1980. These new rates contributed significantly to increased revenues in 1980. The unusually hot weather during the summer of 1980 also contributed to increased operating revenues.

The Company expects future electric operating revenues to continue to increase. The Company's fuel and purchased power adjustment clauses provide recovery of increases in fuel and purchased power costs. Requests for rate increases will be filed as necessary to provide a return sufficient to maintain the Company's financial integrity and provide a reasonable return on stockholder's equity without being unduly burdensome on customers. (Please refer to Rates and Regulation for 1980 rate activity.) The Company expects weather conditions to normalize, apparent customer conservation to continue and that customer usage should approximate the 1979 level adjusted for a customer growth factor. Customer growth historically has averaged 3.5% annually beginning in 1976.

During 1980, the Company sold its gas distribution

systems in Breckenridge, Graham and Kermit, Texas. The reduction in operating revenues as a result of these sales is insignificant to total operating revenues.

Operating Expenses

Power purchased for resale continues to be the Company's most significant operating expense. The principal reasons for increases in power purchased for resale are higher cost per unit from suppliers and increased units purchased. While the former reason is not directly controlled by the Company, cost to the Company is subject to regulatory authority over wholesale rates charged by various suppliers. The Company has and will continue to intervene in such rate cases for the purpose of assuring a fair and equitable cost to the Company's customers. Management does, however, expect this expense to increase for many of the same economic reasons affecting the utility industry and the Company as discussed below.

Other operating and general expenses and maintenance expenses increased in each of the past three years. Inflation has become a significant factor in the economy and the industry. Inflation has specifically affected the Company primarily through increases in cost of fuel used by the Company in generation of electricity and increases in salaries and employee benefits. Additionally, customer growth has required increased expenses associated with the Company's distribution system and customer support activities.

The Company expects operating expenses to continue to increase as long as inflation is a significant factor in the economy. Also, customer growth will require expansion of facilities and increases in operating expenses. Further, the Company expects operating expenses to continue to increase as a result of provisions in the National Energy Conservation Policy Act which requires a technically trained staff to respond to its requirements. Management will, through careful budgeting and monitoring procedures, control these costs to the maximum extent possible.

Interest Charges

The increase in interest charges during the three years covered by this annual report are due primarily to increases in total outstanding debt and higher interest rates on certain debt that, by its terms, vary with changes in local prime interest rates. Therefore, to the extent of changes in prime interest rates and total outstanding debt, future interest charges will fluctuate.

Net Earnings

Net earnings increased in 1980 and 1978 over the prior year. The increase in these years resulted principally from increases in usage and base rates which more than offset increases in operating expenses and interest charges. The decrease in 1979 resulted from reduced kilowatt-hour sales per customer in the residential classification due to mild summer weather and apparent conservation, increased operating expenses and increased interest charges.

Several factors will influence net earnings in 1981. The more significant factors are discussed under Operating Revenues, Operating Expenses and Interest Charges. In summary, management expects that net earnings will increase in 1981, primarily as the result of the total annual effect of higher base rates implemented during various quarters of 1980.

FINANCIAL CONDITION

During the three years ended December 31, 1980, the Company has generated internally (after payment of cash dividends on outstanding common and preferred stock) 54% to 58% of its major capital needs consisting of construction of utility plant assets and debt and preferred stock sinking fund requirements. The remainder has been financed externally by the issuance of debt and common stock.

The Company's 1981 construction program and debt and preferred stock sinking fund requirements will total in excess of $27,000,000. The Company expects that approximately 57% of such capital requirements will be generated internally after the payment of cash dividends on common and preferred stock. The remainder will be financed externally by the issuance of short-term debt under existing loan commitments from banks. (See Note 2 to the Company's Financial Statements.) Such short-term debt will be subsequently refinanced by issuance of first mortgage bonds and/or common or preferred stock.

Charter provisions relating to the preferred stocks and the indentures under which Company bonds are issued contain certain earnings tests which must be met before additional bonds or preferred stocks may be issued. Under such tests, the Company could have issued at December 31, 1980, approximately $24,000,000 principal amount of additional bonds and $5,000,000 of additional preferred stocks assuming an interest and preferred dividend rate of 13%.

The Company has maintained a capital structure of 51.6% to 53.5% debt, 37.6% to 38.5% equity and the balance in preferred stock during the past three years. (For exact capital structure ratios, please refer to Selected Annual Financial Data.) The Company's goal is to achieve a conservative structure for the future with a debt, equity and preferred stock ratio of 50%, 40% and 10%, respectively. Due to unsettled market conditions, management is unable to estimate a reasonable time frame for accomplishing this goal.

Selected Electric Operating Statistics

	1980	1979	1978	1977	1976
OPERATING REVENUES—thousands of dollars:					
Residential	$ 73,931	$ 58,035	$ 51,895	$ 44,621	$ 36,236
Commercial	49,929	41,066	36,464	31,075	25,762
Industrial	84,922	69,080	49,729	40,920	31,898
Other	5,523	3,982	3,592	2,915	2,184
Total	$ 214,305	$ 172,163	$ 141,680	$ 119,531	$ 96,080
SALES-thousand kilowatt-hours:					
Residential	1,489,599	1,351,339	1,356,935	1,257,956	1,128,280
Commercial	1,006,234	938,737	923,433	873,454	805,393
Industrial	2,407,207	2,300,488	2,007,838	1,941,499	1,815,797
Other	119,720	111,909	111,903	108,034	98,718
Total (a)	5,022,760	4,702,473	4,400,109	4,180,943	3,848,188
NUMBER OF CUSTOMERS (end of period):					
Residential	139,164	134,696	129,783	124,834	120,531
Commercial	23,463	22,439	21,816	21,174	20,930
Industrial	195	178	173	160	158
Other	201	201	191	191	191
Total	163,023	157,514	151,963	146,359	141,810
Average annual use per residential customer—KWH	10,842	10,177	10,627	10,230	9,512
Average annual revenue per residential customer—dollars	538	437	406	363	305
Average revenue per KWH sold—residential—cents	4.96	4.30	3.82	3.55	3.21
Average revenue per KWH sold—total sales—cents	4.24	3.65	3.21	2.86	2.49
Source—net generated and purchased—thousand kilowatt-hours:					
Generated	128,458	99,635	103,612	155,893	152,162
Purchased	5,198,270	4,884,717	4,548,620	4,268,776	3,955,986
Total (a)	5,326,728	4,984,552	4,652,232	4,424,669	4,108,148
Average cost per KWH generated and purchased—cents	3.10	2.64	2.21	1.95	1.60
Net book value of physical property	$1[illegible]8,211,862	$143,735,197	$134,230,170	$123,695,337	$115,275,678
Electric line—total pole miles	8,700	8,524	8,330	8,174	8,031
Estimated population served at retail	473,000	465,000	447,000	434,000	422,000
Total employees	885	861	800	747	716

(a) Difference between total source and total sales represents Company use and line losses.

Supplementary Information Regarding Inflation and Changing Prices

The following information is supplied in accordance with the requirements of Financial Accounting Standards Board Statement No. 33, *Financial Reporting and Changing Prices*, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the changes in specific prices of utility plant from the date such assets were acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of utility plant represents the estimated cost of replacing such assets and was determined by indexing the surviving plant principally by the Handy-Whitman Index of Public Utility Construction Costs. The current year's provision for depreciation on the constant dollar and current cost amounts of plant was determined by applying the

Statement of Earnings Adjusted for Changing Prices For the Year Ended December 31, 1980

	Conventional Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
TOTAL OPERATING REVENUES	$216,370,228	$216,370,228	$216,370,228
OPERATING EXPENSES:			
Power purchased for resale	160,178,365	160,178,365	160,178,365
Other operating and general expenses	21,612,358	21,612,358	21,612,358
Maintenance	2,981,007	2,981,007	2,981,007
Depreciation of utility plant	6,068,634	12,256,528	13,616,274
Income taxes	4,686,725	4,686,725	4,686,725
Taxes, other than on income	6,133,861	6,133,861	6,133,861
Total operating expenses	201,660,950	207,848,844	209,208,590
Net operating income	14,709,278	8,521,384	7,161,638
OTHER (EXPENSE), net of taxes	(18,151)	(18,151)	(18,151)
Earnings before interest charges	14,691,127	8,503,233	7,143,487
INTEREST CHARGES	7,847,206	7,847,206	7,847,206
Net earnings (loss)—excluding reduction to net recoverable cost	$ 6,843,921	$ 656,027(a)	$ (703,719)
Increase in specific prices (current cost) of net utility plant held during the year (b)			$ 26,396,704
Reduction to net recoverable cost		$(11,668,859)	(23,721,502)
Effect of increase in general price level			(12,984,315)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(10,309,113)
Gain from decline in purchasing power of net amounts owed		11,772,762	11,772,762
Net		$ 103,903	$ 1,463,649

(a) Including the reduction to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been $11,012,832 for 1980.

(b) At December 31, 1980, current costs of utility plant, net of accumulated depreciation, was $355,319,727, while historical cost or net cost recoverable through depreciation was $1[illegible]8,211,862.

Company's composite depreciation rate to the respective average constant dollar and current cost plant amounts.

As prescribed in Statement 33, income taxes were not adjusted. In rate filings with the regulatory commissions to which the Company is subject, only the historical cost of utility plant has been recoverable in revenues as depreciation. Therefore, the excess of the cost of utility plant stated in terms of constant dollars or current cost over the historical cost of utility plant is not presently recoverable in rates as depreciation and is reflected as a reduction to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing the Company's utility plant, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To reflect properly the economics of rate regulation in the following Statement of Earnings Adjusted for Changing Prices, the reduction of net plant should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance the Company's utility plant. Since the depreciation on this utility plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Five Year Comparison of Selected Financial Data Adjusted for the Effect of Changing Prices (In Average 1980 Dollars)

	Years Ended December 31				
	1980	1979	1978	1977	1976
HISTORICAL COST INFORMATION adjusted for general inflation					
Total operating revenues	$216,370,228	$199,406,529	$182,678,555	$165,455,766	$141,823,393
Net earnings—excluding reduction to net recoverable cost	656,027	578,670			
Net earnings per share of common stock—excluding reduction to net recoverable cost	.35	.32			
Net assets at year-end at net recoverable cost	48,184,869	47,860,056			
CURRENT COST INFORMATION					
Net (loss)—excluding reduction to net recoverable cost	(703,719)	(1,371,769)			
Net (loss) per share of common stock—excluding reduction to net recoverable cost	(.37)	(.75)			
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	10,309,113	12,590,777			
Net assets at year-end at net recoverable cost	48,184,869	47,860,056			
GENERAL INFORMATION					
Gain from decline in purchasing power of net amounts owed	11,772,762	12,924,301			
Cash dividends declared per common share	$1.88	$2.13	$2.24	$2.25	$2.35
Market price per common share at year-end	$14.92	$17.31	$23.11	$27.19	$27.08
Average consumer price index	246.8	217.4	195.4	181.5	170.5

BOARD OF DIRECTORS

R.D. Woofter (6)
Chairman, President & Chief Executive Officer
Fort Worth, Texas

Ted A. Bonnell (6,b,c)
Rancher
Cloudcroft, New Mexico

Cass O. Edwards (6,a,c)
Managing Partner—Crawford O. Edwards Trust—ranching & farming
Fort Worth, Texas

Robert W. Gerrard (2,a,b)
Chairman & Chief Executive Officer
Continental National Bank
Fort Worth, Texas

John S. Justin, Jr. (2,c,d)
Chairman & Chief Executive Officer—Justin Industries
Fort Worth, Texas

Harris L. Kempner, Jr. (1,b,d)
President, United States National Bancshares, Inc.
Galveston, Texas

Dr. T.S. Mackey, P.E. (4,a,d)
President, Key Metals & Minerals Engineering Corp.
Texas City, Texas

COMPANY OFFICERS

R.D. WOOFTER (1950)
Chairman, President & Chief Executive Officer

D.R. BARNARD (1961)
Vice President & Treasurer

M.C. DAVIE (1964)
Vice President—Public Affairs

J.R. DEAN (1938)
Vice President—Division Manager

W.D. NUCKOLS (1937)
Vice President & Chief Engineer

D.R. SPURLOCK (1959)
Vice President—Division Manager

J.M. TARPLEY (1958)
Vice President—Contracts and Regulation

F.G. VON HUBEN (1965)
Vice President, Secretary & General Counsel

O.D. RINGNESS (1950)
Vice President & Assistant Chief Engineer

F.E. PITTMAN (1956)
Assistant Treasurer

C.T. SUBBIE (1946)
Assistant Secretary & Assistant Treasurer

( ) Year of employment

DIVISION MANAGERS

J.H. COOK, Panhandle

T.F. CRAWFORD, Central

J.R. DEAN, New Mexico

W.H. IVY, Western

L.O. MILLS, Northeast

D.R. SPURLOCK, Southeast

Registrar of Preferred Stock

The Fort Worth National Bank
500 Throckmorton Street
Fort Worth, Texas 76101

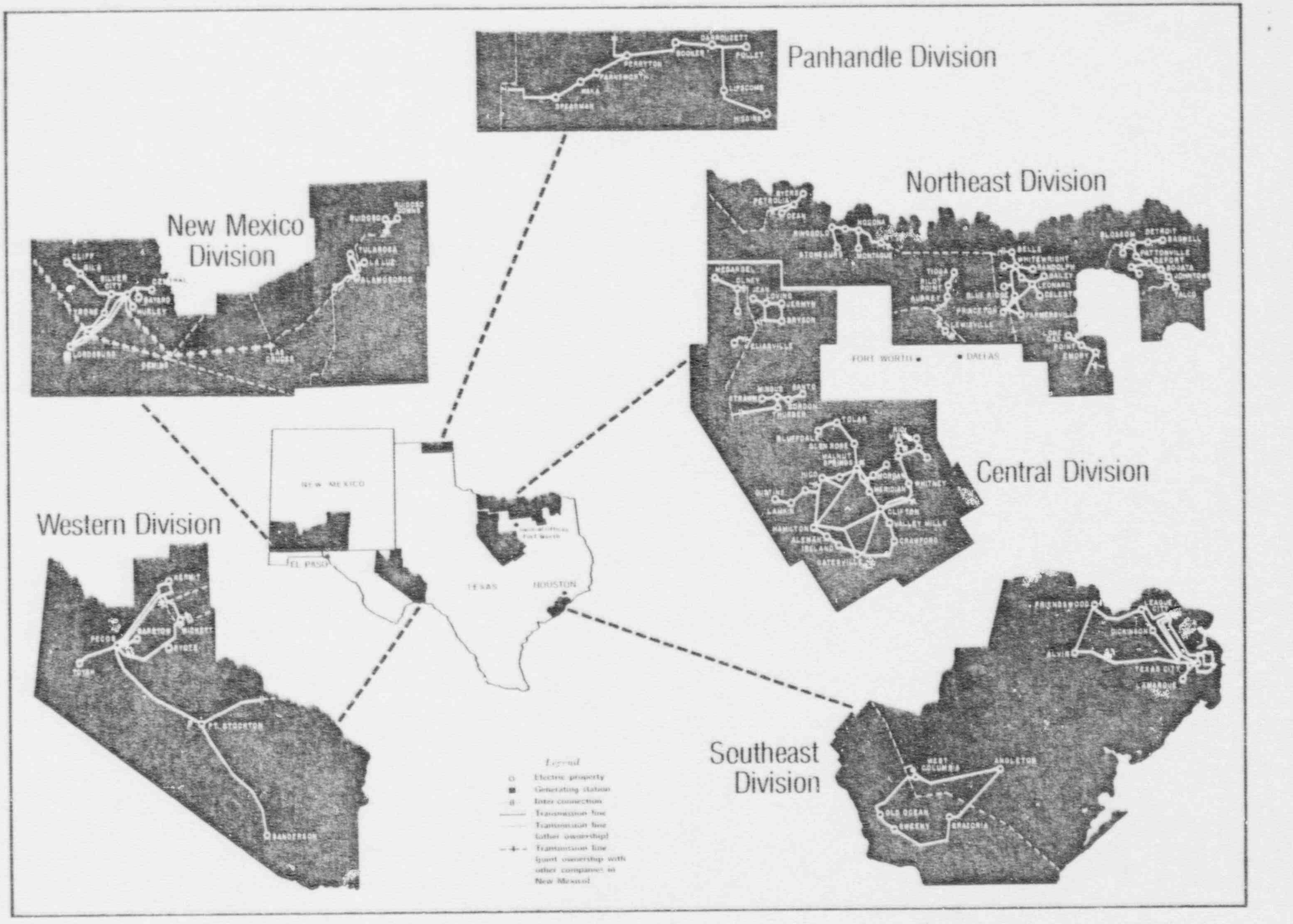
Transfer Agent for Preferred Stock
Registrar and Transfer Agent for Common Stock
Dividend Disbursing Agent for Common and Preferred Stock

The First National Bank of Fort Worth
One Burnett Plaza
Fort Worth, Texas 76101

General Offices

501 West Sixth Street
Fort Worth, Texas 76102

( ) Years of Service
a Audit Committee
b Financial Committee
c Personnel, Organization and Nominating Committee
d Pension Plan Administrative Committee


Panhandle Division
Northeast Division
Central Division
New Mexico Division
Western Division
Southeast Division
NEW MEXICO
TEXAS
EL PASO
HOUSTON
FORT WORTH
DALLAS
Legend
Electric property
Generating station
Inter connection
Transmission line
Transmission line (other ownership)
Transmission line (joint ownership with other companies in New Mexico)