TU ELECTRIC

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April 14, 1997

C. Lance Terry
Group Vice President

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, DC 20555

SUBJECT: COMANCHE PEAK STEAM ELECTRIC STATION (CPSES)
DOCKET NOS. 50-445 AND 50-446
SUBMITTAL OF SECURITIES AND EXCHANGE COMMISSION
ANNUAL REPORT FORM 10K FOR TU ELECTRIC

Gentlemen:

Pursuant to 10CFR50.71(b), TU Electric hereby submits five (5) copies of the Form 10K Annual Report.

Sincerely,

C. L. Terry

C. L. Terry

By: Roger D. Walker
Roger D. Walker
Regulatory Affairs Manager

JDS/grp
Enclosures

c - Mr. E. W. Merschoff, Region IV
Mr. J. I. Tapia, Region IV
Mr. T. J. Polich, NRR
Resident Inspectors, CPSES

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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1996

— OR—

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number	Exact Name of Registrant as Specified in its Charter; Address of Principal Executive Offices; and Telephone Number	I.R.S. Employer Identification No.
1-3591	**Texas Utilities Company** Energy Plaza, 1601 Bryan Street Dallas, Texas 75201-3411 (214) 812-4600	75-0705930
0-11442	**Texas Utilities Electric Company** Energy Plaza, 1601 Bryan Street Dallas, Texas 75201-3411 (214) 812-4600	75-1837355

Securities registered pursuant to Section 12(b) of the Act:

Registrant	*Title of Each Class*	*Name of Each Exchange on Which Registered*
Texas Utilities Company	Common Stock, without par value	New York Stock Exchange The Chicago Stock Exchange The Pacific Stock Exchange
Texas Utilities Electric Company	Depositary Shares, each representing ¼ of a share of $8.20 Cumulative Preferred Stock, without par value	New York Stock Exchange
Texas Utilities Electric Company	Depositary Shares, Series A, each representing ¼ of a share of $7.50 Cumulative Preferred Stock, without par value	New York Stock Exchange
Texas Utilities Electric Company	Depositary Shares, Series B, each representing ¼ of a share of $7.22 Cumulative Preferred Stock, without par value	New York Stock Exchange
TU Electric Capital I, a subsidiary of Texas Utilities Electric Company	8.25% Trust Originated Preferred Securities	New York Stock Exchange
TU Electric Capital II, a subsidiary of Texas Utilities Electric Company	9.00% Trust Originated Preferred Securities	New York Stock Exchange
TU Electric Capital III, a subsidiary of Texas Utilities Electric Company	8.00% Quarterly Income Preferred Securities	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Preferred Stock of Texas Utilities Electric Company, without par value

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Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ✓ No____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of Texas Utilities Company Common Stock held by non-affiliates, based on the last reported sale price on the composite tape on February 28, 1997: $9,064,605,462

Aggregate market value of Texas Utilities Electric Company Common Stock held by non-affiliates: None

Common Stock outstanding at February 28, 1997: Texas Utilities Company - 224,602,557 shares, without par value
Texas Utilities Electric Company - 156,800,000 shares, without par value

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement pursuant to Regulation 14A, which will be mailed to the Commission for filing on or about April 1, 1997, are incorporated by reference into Part III of this report.

This combined Form 10-K is filed separately by Texas Utilities Company and Texas Utilities Electric Company. Information contained herein relating to an individual registrant is filed by that registrant on its own behalf except that the information with respect to Texas Utilities Electric Company, other than the financial statements of Texas Utilities Electric Company, is filed by each of Texas Utilities Electric Company and Texas Utilities Company. Neither Texas Utilities Company nor Texas Utilities Electric Company makes representation as to information filed by the other registrant.

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PART I

Item 1. BUSINESS

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

Texas Utilities Company (Company) was incorporated under the laws of the State of Texas in 1945 and has perpetual existence under the provisions of the Texas Business Corporation Act. The Company is a holding company which owns all of the outstanding common stock of Texas Utilities Electric Company and Subsidiaries (TU Electric), the principal subsidiary of the Company, Southwestern Electric Service Company (SESCO), and Texas Utilities Australia Pty. Ltd. (TU Australia). The Company also has seven other wholly-owned subsidiaries which perform specialized functions within the Texas Utilities Company system. The Company and all of its subsidiaries are referred to herein as "System Companies". References herein to TU Electric include its financing subsidiaries, TU Electric Capital I, II, III, IV and V.

The Company holds no franchises other than its corporate franchise. TU Electric, SESCO and TU Australia possess all of the necessary franchises, licenses and certificates required to enable them to conduct their respective businesses (see Regulation and Rates).

For information concerning TU Electric, the principal subsidiary of the Company, see TU Electric below.

In April 1996, the Company announced that it had entered into a merger agreement with Dallas-based ENSERCH Corporation (ENSERCH). Under the terms of the agreement, Lone Star Gas Company (Lone Star Gas) and Lone Star Pipeline Company (Lone Star Pipeline), the local distribution and pipeline divisions of ENSERCH, and other businesses, excluding Enserch Exploration Inc. (EEX), a subsidiary of ENSERCH, will be acquired by a new holding company, which will be named Texas Utilities Company and will own all of the common stock of ENSERCH and the Company. Shares of the Company's common stock will be automatically converted into shares of the new holding company common stock on a one-for-one basis in a tax-free transaction. Lone Star Gas is one of the largest gas distribution companies in the United States and the largest in Texas, serving over 1.3 million customers and providing service through over 23,500 miles of distribution mains. Lone Star Pipeline has one of the largest pipelines in the United States that consists of 9,200 miles of gathering and transmission pipelines in Texas. Also included in the acquisition are ENSERCH's subsidiaries engaged in natural gas processing, natural gas marketing and independent power production. The new holding company is expected to issue approximately $550 million of the new holding company's common stock to ENSERCH shareholders, and approximately $1.15 billion of ENSERCH's debt and preferred stock would remain outstanding after the merger. The transaction is subject to certain conditions which include the approval by the Securities and Exchange Commission (SEC) and receipt by ENSERCH of a favorable tax ruling from the Internal Revenue Service (IRS) to the effect that its distribution of EEX stock is a tax-free transaction. ENSERCH received this IRS ruling on March 6, 1997. The transaction was approved at special meetings of the shareholders of ENSERCH, EEX and the Company held separately on November 15, 1996. The Texas Railroad Commission (TRC) has been notified of the proposed transaction and has indicated no objection to it. On March 7, 1997, the Antitrust Division of the U.S. Department of Justice notified the SEC that it had closed its investigation of the proposed transaction and indicated that no further action would be required. The acquisition of ENSERCH will be accounted for as a purchase business combination.

SESCO is engaged in the purchase, transmission, distribution and sale of electric energy in ten counties in the eastern and central parts of Texas with a population estimated at 126,900. SESCO generates no electric energy.

TU Australia owns all of the common stock of Eastern Energy Limited (Eastern Energy), one of five Australian electricity distribution companies operating in Victoria, Australia. Eastern Energy is engaged in the purchase, distribution, marketing and sale of electric energy to approximately 481,000 customers in a 31,000 square mile service area extending from the outer eastern suburbs of the Melbourne metropolitan area to the eastern coastal areas of Victoria and north to the New South Wales border. Eastern Energy generates no electric energy. References herein to TU Australia include its subsidiary, Eastern Energy.

For consolidated energy sales and operating revenues contributed by TU Electric, SESCO and TU Australia for each customer classification, see Item 6. Selected Financial Data – Texas Utilities Company and Subsidiaries - Consolidated Operating Statistics.

Texas Utilities Fuel Company (Fuel Company) owns a natural gas pipeline system, acquires, stores and delivers fuel gas and provides other fuel services at cost for the generation of electric energy by TU Electric.

Texas Utilities Mining Company (Mining Company) owns, leases and operates fuel production facilities for the surface mining and recovery of lignite at cost for the generation of electric energy by TU Electric.

Texas Utilities Services Inc. (TU Services) provides financial, accounting, information technology, environmental services, customer services, procurement, personnel and other administrative services at cost to the System Companies. TU Services acts as transfer agent, registrar and dividend paying agent with respect to the common stock of the Company, the preferred stock and preferred securities of TU Electric, and as agent for participants under the Company's Automatic Dividend Reinvestment and Common Stock Purchase Plan.

Texas Utilities Properties Inc. owns, leases and manages real and personal properties, primarily the Company's corporate headquarters.

Texas Utilities Communications Inc. was organized to provide access to advanced telecommunications technology, primarily for the System Companies' expected expansion of the energy services business.

Basic Resources Inc. was organized for the purpose of developing natural resources, primarily energy sources and other business opportunities.

Chaco Energy Company (Chaco) was organized to own and operate facilities for the acquisition, production, sale and delivery of coal and other fuels and currently leases extensive coal reserves.

At December 31, 1996, the System Companies had 11,451 full-time employees.

TEXAS UTILITIES ELECTRIC COMPANY AND SUBSIDIARIES

TU Electric was incorporated under the laws of the State of Texas in 1982 and has perpetual existence under the provisions of the Texas Business Corporation Act. TU Electric is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electric energy wholly within the State of Texas. TU Electric possesses all of the necessary franchises and certificates required to enable it to conduct its business (see Regulation and Rates). TU Electric is the principal subsidiary of the Company.

TU Electric's service area is located in the north central, eastern and western parts of Texas, with a population estimated at 5,890,000 — about one-third of the population of Texas. Electric service is provided in 91 counties and 372 incorporated municipalities, including Dallas, Fort Worth, Arlington, Irving, Plano, Waco, Mesquite, Grand Prairie, Wichita Falls, Odessa, Midland, Carrollton, Tyler, Richardson and Killeen. The area is a diversified commercial and industrial center with substantial banking, insurance, communications, electronics, aerospace, petrochemical and specialized steel manufacturing, and automotive and aircraft assembly. The territory served includes major portions of the oil and gas fields in the Permian Basin and East Texas, as well as substantial farming and ranching sections of the State. Its service territory also includes the Dallas-Forth Worth International Airport and the Alliance Airport. For energy sales and operating revenues contributed by each customer classification, see Item 6. Selected Financial Data — Texas Utilities Electric Company and Subsidiaries — Consolidated Operating Statistics.

At December 31, 1996, TU Electric had 6,474 full-time employees.

The Company and TU Electric

The peak load and net capability for the System Companies includes those for TU Electric contained in the chart below in addition to the peak loads for SESCO and Eastern Energy. Peak load was 249 megawatts (MW) on July 23, 1996 for SESCO and 910 MW on July 15, 1996 for Eastern Energy. SESCO and TU Australia generate no electric energy.

TU Electric's net capability, peak load and reserve, in MW, at the time of peak were as follows during the years indicated:

Year	Net Capability	Peak Load (a) Amount	Peak Load (a) Increase (Decrease) Over Prior Year	Firm Peak Load	Reserve(b)
1996	22,389(c)(d)(e)	19,668	2.5%	18,930	3,459
1995	22,469(d)(e)(f)	19,180	6.4	18,631	3,619
1994	22,350(e)(g)	18,030	(1.6)	17,515	4,835

(a) The 1996 peak load occurred on July 8. TU Electric's peak load includes interruptible load at the time of peak of 738 MW in 1996, 744 MW in 1995 and 656 MW in 1994.
(b) Amount of net capability in excess of firm peak load at the time of peak.
(c) Included in net capability is 1,164 MW of firm purchased capacity, all of which is cogeneration and small power production.
(d) In December 1995, TU Electric adjusted the net generating capabilities of its existing fossil-fueled generating units to more closely reflect actual operating capability. Included in net capability is the adjustment amounting to a net increase of 219 MW.
(e) In November 1993, the emissions chimney serving Unit 3 (750 MW) of the Monticello lignite-fueled generating station collapsed, rendering the unit inoperable. The unit was rebuilt and returned to service in June 1995. Such unit is included in net capability.
(f) Included in net capability is 1,244 MW of firm purchased capacity, of which 1,164 MW is cogeneration and small power production.
(g) Included in net capability is 1,344 MW of firm purchased capacity, of which 1,264 MW is cogeneration and small power production. In 1994, one 70 MW natural gas-fueled unit was retired.

TU Electric

The peak load changes for 1996 as compared to 1995 resulted primarily from customer growth and warmer temperatures. The peak load changes for 1995 and 1994, compared in each case to the prior year, resulted primarily from customer growth and weather factors. TU Electric expects to continue to purchase capacity in the future from various sources. (See Fuel Supply and Purchased Power and Note 15 to Consolidated Financial Statements.) Firm peak load increases over the next ten years are expected to average approximately 2% annually, after consideration of load management programs (including interruptible contracts).

Changes in utility regulation and legislation at the federal and state levels such as the Public Utility Regulatory Policy Act of 1978 (PURPA), the National Energy Policy Act of 1992 (Energy Policy Act) and the 1995 amendments to the Public Utility Regulatory Act (PURA) in Texas have significantly changed the way in which utilities plan for new resources. TU Electric believes the results of competitive resource solicitations will be a major factor in determining future resource additions to serve customer loads. Thus, for planning purposes, TU Electric can no longer readily identify the ownership and types of resources to include in its plan before the actual solicitation and selection of those resources. TU Electric has decided to reflect this uncertainty through the use of the term "Unspecified Resources." Except for known contracts, all potential new resource needs are designated as "Unspecified Resources."

In October 1994, TU Electric filed an application for approval by the Public Utility Commission of Texas (PUC) of certain aspects of its Integrated Resource Plan (IRP) for the ten year period 1995 – 2004. The IRP, developed as an experimental pilot project in conjunction with regulatory and customer groups, included the acquisition of electric energy through a competitive bidding process of third party-supplied demand-side management resources and renewable resources. In August 1995, the PUC remanded the case to an Administrative Law Judge for development of a solicitation plan and to more closely conform the TU Electric 1995 IRP to new state legislation that required the PUC to adopt a state-wide integrated resource planning rule by September 1, 1996. In January 1996, TU Electric filed an updated IRP with the PUC along with a proposed plan for the solicitation of resources through a competitive bidding process. The PUC issued its final order on TU Electric's IRP in October 1996, and modified the order in

December 1996 and February 1997. The modified order approved a flexible solicitation plan that will allow TU Electric to conduct up to three optional resource solicitations for a total of 2,074 MW of demand-side and supply-side resources prior to the filing of its next IRP in June 1999. TU Electric is currently reviewing the need and timing for conducting the first of these resource solicitations.

In addition to its solicitation plan in the IRP docket, TU Electric requested and received approval from the PUC to expand its Power Cost Recovery tariff to provide current cost recovery of resource acquisition costs for demand-side management resources acquired in the solicitations to the extent such costs are not currently reflected in TU Electric's base rates. The PUC also approved cost recovery for eight previously approved demand-side management contracts entered into by TU Electric.

Resource Estimates

The resource additions identified in TU Electric's 1997 ten year forecast are as follows:

Resource Additions	1997-2006 Firm Capability (MW)	1997-2006 Percent
Load Management(a)	714	15.4%
Renewable Resources(b)	4	0.1
Unspecified Resources	3,903	84.5
Total	4,621	100.0%

(a) TU Electric has negotiated and signed contracts with eight suppliers of demand-side management services designed to displace a total of 72 MW by 2004.

(b) TU Electric has negotiated and signed one purchased power contract for 40 MW (4 MW firm) of wind-powered resources to be placed in service during 1998.

FUEL SUPPLY AND PURCHASED POWER

General

The Company and TU Electric

Net input for the System Companies during 1996 totalled 106,254 million kilowatt-hours (kWh) of which 88,130 million kWh were generated by TU Electric. Average fuel and purchased power cost (excluding capacity charges) per kWh of net input for the Company and TU Electric were 1.94 and 1.79 cents for 1996, 1.64 and 1.62 cents for 1995 and 1.76 and 1.76 cents for 1994, respectively. The Company's increase for 1996 primarily reflects increased natural gas costs and decreased nuclear generation for TU Electric, and the inclusion of Eastern Energy. A comparison of TU Electric's resource mix for net kWh input and the unit cost per million British thermal units (Btu) of fuel during the last three years is as follows:

	Mix for Net kWh Input			Unit Cost Per Million Btu		
	1996	1995	1994	1996	1995	1994
Fuel for Electric Generation:						
Gas/Oil (a)	33.0%	33.4%	34.5%	$2.66	$2.31	$2.53
Lignite/Coal (b)	39.6	37.4	37.3	1.03	1.02	1.04
Nuclear	15.0	17.9	15.7	0.56	0.59	0.67
Total/Weighted Average Fuel Cost	87.6	88.7	87.5	$1.58	$1.43	$1.58
Purchased Power (c)	12.4	11.3	12.5			
Total	100.0%	100.0%	100.0%			

(a) Fuel oil was an insignificant component of total fuel and purchased power requirements.

(b) Lignite cost per ton to TU Electric was $13.22 in 1996, $13.05 in 1995 and $13.34 in 1994.

(c) Excludes SESCO's and Eastern Energy's purchased power: 1996 - 616 million kWh and 5,090 million kWh, respectively; 1995 - 865 million kWh and 335 million kWh, respectively.

TU Electric, SESCO and Eastern Energy are unable to predict: (i) whether or not problems may be encountered in the future in obtaining the fuel and purchased power each will require, (ii) the effect upon operations of any difficulty any of them may experience in protecting rights to fuel and purchased power now under contract, or (iii) the cost of fuel and purchased power. The reasonable costs of fuel and purchased power of TU Electric and SESCO are generally recoverable subject to the rules of the PUC. (See Regulation and Rates for information pertaining to the method of recovery of purchased power and fuel costs.)

Gas/Oil

TU Electric

Fuel gas for units at nineteen of the principal generating stations of TU Electric, having an aggregate net gas/oil capability of 13,100 MW, was provided during 1996 by Fuel Company. Fuel Company supplied approximately 21% of such fuel gas requirements under contracts with producers at the wellhead and under other contracts with dedicated reserves and 79% under contracts with commercial suppliers.

The Company

Fuel Company has acquired under contracts expiring at intervals through 2008, with producers at the wellhead, supplies of gas that are generally expected to be produced over a ten to fifteen year period. As gas production under contract declines and contracts expire, new contracts are expected to be negotiated to replenish or augment such supplies. Fuel Company has negotiated gas purchase contracts, with terms ranging from one to twenty years, with a number of commercial suppliers. Additionally, Fuel Company has entered into a number of short-term gas purchase contracts with other commercial suppliers at spot market prices; however, these contracts typically do not provide for a firm supply obligation from the seller or a firm purchase obligation from Fuel Company. In the past, curtailments of gas deliveries have been experienced during periods of winter peak gas demand; however, such curtailments have been of relatively short duration, have had a minimal impact on operations and have generally required utilization of fuel oil and gas storage inventories to replace the gas curtailed. During 1996, no curtailments were experienced.

Fuel Company owns and operates an intrastate natural gas pipeline system that extends from the gas-producing area of the Permian Basin in West Texas to the East Texas gas fields and southward to the Gulf Coast area. This system includes a one-half interest in a 36-inch pipeline that extends 395 miles from the Permian Basin area of West Texas to a point of termination south of the Dallas-Fort Worth area and has a total estimated capacity of 885 million cubic feet per day with existing compression facilities. Additionally, Fuel Company owns a 39% undivided interest in another 36-inch pipeline connecting to this pipeline and extending 58 miles eastward to one of Fuel Company's underground gas storage facilities. Fuel Company also owns and operates approximately 1,600 miles of various smaller capacity lines that are used to gather and transport natural gas from other gas-producing areas. The pipeline facilities of Fuel Company form an integrated network through which fuel gas is gathered and transported to certain TU Electric generating stations for use in the generation of electric energy.

Fuel Company also owns and operates three underground gas storage facilities with a usable capacity of 27.2 billion cubic feet with approximately 17.5 billion cubic feet of gas in inventory at December 31, 1996. Gas stored in these facilities currently can be withdrawn for use during periods of peak demand to meet seasonal and other fluctuations or curtailment of deliveries by gas suppliers. Under normal operating conditions, up to 400 million cubic feet can be withdrawn each day for a ten-day period, with withdrawals at lower rates thereafter.

Fuel oil is stored at eighteen of the principally gas-fueled generating stations. At December 31, 1996, the System Companies had fuel oil storage capacity sufficient to accommodate approximately 6.2 million barrels of oil, with approximately 2.1 million barrels of oil in inventory.

Lignite/Coal

TU Electric

Lignite is used as the primary fuel in two units at the Big Brown generating station (Big Brown), three units at Monticello generating station (Monticello), three units at the Martin Lake generating station (Martin Lake), and one unit at the Sandow generating station (Sandow), having an aggregate net capability of 5,825 MW. TU Electric's lignite units have been constructed adjacent to surface minable lignite reserves. At the present time, TU Electric owns in fee or has under lease an estimated 553 million tons of proven reserves dedicated to the Big Brown, Monticello, and Martin Lake generating stations. TU Electric also owns in fee or has under lease in excess of 270 million tons of proven reserves not dedicated to specific generating stations. Mining Company operates owned and/or leased equipment to

remove the overburden and recover the lignite. One of TU Electric's lignite units, Sandow Unit 4, is fueled from lignite deposits owned by Alcoa, which furnishes fuel at no cost to TU Electric for that portion of energy generated from such unit that is equal to the amount of energy delivered to Alcoa (see Item 6. Selected Financial Data - Consolidated Operating Statistics).

Lignite production operations at Big Brown, Monticello, and Martin Lake are accompanied by an extensive reclamation program that returns the land to productive uses such as wildlife habitats, commercial timberland, and pasture land. For information concerning federal and state laws with respect to surface mining, see Environmental Matters.

TU Electric is currently supplementing TU Electric-owned lignite fuel at its Monticello plant with western coal from the Powder River Basin (PRB) in Wyoming. The coal is purchased and transported on an "as available, as required" basis. Because current mine capacity in the PRB is greater than demand, ample amounts of western coal are presently available at favorable prices. TU Electric is also considering the use of western coal as a supplemental fuel at its other existing lignite-fueled plants and as a long-term alternative fuel. For information concerning applicable air quality standards, see Environmental Matters.

The Company

Chaco has a coal lease agreement for the rights to certain surface mineable coal reserves located in New Mexico. The agreement encompasses a minimum of 228 million tons of coal with provisions for advance royalty payments to be made annually through 2017. The Company has entered into a surety agreement to assure the performance by Chaco with respect to this agreement. During 1996, certain state and federal coal leases covering approximately 120 million tons of coal were terminated. Because of the present ample availability of western coal at favorable prices from other mines, Chaco has delayed plans to commence mining operations, and accordingly, is reassessing its alternatives with respect to its coal properties including seeking purchasers thereof. (See Item 2. Properties and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation and Note 14 to Consolidated Financial Statements.)

Nuclear

TU Electric

TU Electric owns and operates two nuclear-fueled generating units at the Comanche Peak nuclear generating station (Comanche Peak), each of which is designed for a net capability of 1,150 MW. (See Peak Load and Capability.)

The nuclear fuel cycle requires the mining and milling of uranium ore to provide uranium oxide concentrate (U_3O_8), the conversion of U_3O_8 to uranium hexafluoride (UF_6), the enrichment of the UF_6 and the fabrication of the enriched uranium into fuel assemblies. TU Electric has on hand, or has contracted for, the raw materials and services it expects to need for its nuclear units through future years as follows: uranium (2001), conversion (2003), enrichment (2014), and fabrication (2002). Although TU Electric cannot predict the future availability of uranium and nuclear fuel services, TU Electric does not currently expect to have difficulty obtaining U_3O_8 and the services necessary for its conversion, enrichment and fabrication into nuclear fuel for years later than those shown above.

The Energy Policy Act has provisions for the recovery of a portion of the costs associated with the decommissioning and decontamination of the gaseous diffusion plants used to enrich uranium for fuel. These costs are being recovered in annual fees paid to the United States Department of Energy (DOE) as determined by the Secretary of Energy. The total annual assessment for all domestic utilities is capped at $150 million per federal fiscal year assessable for fifteen years. TU Electric's assessment for 1997, as calculated by the DOE, is $973,000.

The Nuclear Waste Policy Act of 1982, as amended (NWPA), provides for the development by the DOE of interim storage and permanent disposal facilities for spent nuclear fuel and/or high level radioactive waste materials. In December 1996, the DOE notified program participants that it did not expect to meet its obligation to begin acceptance of spent nuclear fuel by 1998. TU Electric is unable to predict what impact, if any, the DOE delay will have on TU Electric's future operations. Under provisions of the NWPA, funding for the program is provided by a one-mill per kWh fee currently levied on electricity generated and sold from nuclear reactors, including the Comanche Peak units.

Currently, TU Electric's onsite storage capability for spent nuclear fuel is sufficient to accommodate the operation of Comanche Peak through the year 2001. TU Electric is currently pursuing options for increasing its storage capability, subject to approval by the Nuclear Regulatory Commission (NRC).

Purchased Power

The Company and TU Electric

In 1996, System Companies purchased a net of 18,119 million kWh or approximately 17% of their energy requirements. TU Electric and SESCO had available 1,337 MW of firm purchased capacity under contract. As a result of the renewable resources solicitation that was part of the IRP filing, TU Electric has negotiated a 15-year contract with a developer for the purchase of energy produced from wind turbines equivalent to approximately 40 MW (or approximately 4 MW of firm capacity at peak) beginning in 1998. Recent changes in PURA and PUC substantive rules require utilities to conduct solicitations for proposals to provide new resources (both demand-side and supply-side) in developing their integrated resource plans. Utility provided demand-side resources must be bid in such solicitations. A utility will be allowed to construct new generating facilities only if such measures will provide resources less costly than those proposed in responses to the solicitations for proposals. Thus, it is very likely that the Company will acquire additional amounts of purchased resources in the future to adequately and reliably accommodate its customers' electrical needs. For information concerning the IRP, see Peak Load and Capability and Note 13 to Consolidated Financial Statements.

Eastern Energy and the other distribution companies in Victoria purchase their electric energy needs from a competitive power pool operated by a statutory, independent corporation. While the spot price of electric energy from the pool can vary substantially, Eastern Energy enters into hedging contracts with electric energy generators and others to manage its exposure to such price fluctuations (see Note 9 to Consolidated Financial Statements). Eastern Energy also has arrangements with a number of cogenerators under which it is required to purchase approximately 45 MW of capacity.

REGULATION AND RATES

The Company and TU Electric

Regulation

The Company is a holding company as defined in the Public Utility Holding Company Act of 1935. However, the Company and all of its subsidiary companies are exempt from the provisions of such Act, except Section 9(a)(2) which relates to the acquisition of securities of public utility companies.

TU Electric and SESCO do not transmit electric energy in interstate commerce or sell electric energy at wholesale in interstate commerce, or own or operate facilities therefor, and their facilities are not connected directly or indirectly to other systems which are involved in such interstate activities, except during the continuance of emergencies permitting temporary or permanent connections or under order of the Federal Energy Regulatory Commission (FERC) exempting TU Electric and SESCO from jurisdiction under the Federal Power Act. In view thereof, TU Electric and SESCO believe that they are not public utilities as defined in the Federal Power Act and have been advised by their counsel that they are not subject to general regulation under such Act.

The PUC has original jurisdiction over electric rates and service in unincorporated areas and those municipalities that have ceded original jurisdiction to the PUC and has exclusive appellate jurisdiction to review the rate and service orders and ordinances of municipalities. Generally, PURA prohibits the collection of any rates or charges (including charges for fuel) by a public utility that does not have the prior approval of the PUC.

TU Electric is subject to the jurisdiction of the NRC with respect to nuclear power plants. NRC regulations govern the granting of licenses for the construction and operation of nuclear power plants and subject such plants to continuing review and regulation.

Eastern Energy is subject to regulation by the Office of the Regulator General (ORG). The ORG has the power to issue licenses for the supply, distribution and sale of electricity within Victoria and regulates tariffs for the use of the transmission system, distribution system, and other ancillary services. The existing tariff under which Eastern Energy operates is in effect through December 31, 2000. The ORG will review the existing tariff to be effective after December 31, 2000.

The System Companies are also subject to various other federal, state and local regulations. (See Environmental Matters.)

TU Electric

Fuel Cost Recovery Rule

Pursuant to a PUC rule, the recovery of TU Electric's eligible fuel costs is provided through fixed fuel factors. The rule allows a utility's fuel factor to be revised upward or downward every six months, according to a specified schedule. A utility is required to petition to make either surcharges or refunds to ratepayers, together with interest based on a twelve month average of prime commercial rates, for any material, as defined by the PUC, cumulative under- or over-recovery of fuel costs. If the cumulative difference of the under- or over-recovery, plus interest, is in excess of 4% of the annual estimated fuel costs most recently approved by the PUC, it will be deemed to be material. In accordance with PUC approvals, TU Electric has refunded to customers an aggregate of approximately $154 million, including interest, in over-collected fuel costs for the period June 1994 through September 1995. These over-collections were primarily due to lower natural gas prices than previously anticipated. In August 1994, TU Electric petitioned the PUC for a recovery of approximately $93 million, including interest, in under-collected fuel costs for the period July 1993 through June 1994. The PUC approved the recovery of this amount through a surcharge to customers over a six-month period beginning in January 1995. The PUC's approval of this surcharge and a previously approved $147.5 million surcharge for fuel cost recovery for a prior period have been appealed by certain intervenors to district courts of Travis County, Texas. In those appeals, those parties are contending that the PUC is without authority to allow a fuel cost surcharge without a hearing and resultant findings that the costs are reasonable and necessary and that the prices charged to TU Electric by supplying affiliates are no higher than the prices charged by those affiliates to others for the same item or class of items. TU Electric is vigorously defending its position in these appeals but is unable to predict their outcome.

The fuel cost recovery rule also contains a procedure for an expedited change in the fixed fuel factor in the event of an emergency. Final reconciliation of fuel costs must be made either in a reconciliation proceeding, which may cover no more than three years and no less than one year, or in a general rate case. In a final reconciliation, a utility has the burden of proving that fuel costs under review were reasonable and necessary to provide reliable electric service, that it has properly accounted for its fuel-related revenues, and that fuel prices charged to the utility by an affiliate were reasonable and necessary and not higher than prices charged for similar items by such affiliate to other affiliates or nonaffiliates. In addition, for generating utilities like TU Electric, the rule provides for recovery of purchased power capacity costs through a power cost recovery factor (PCRF) with respect to purchases from qualifying facilities, to the extent such costs are not otherwise included in base rates. The energy-related costs of such purchases are included in the fixed fuel factor. For non-generating utilities like SESCO, the rule provides for the recovery of all costs of power purchased at wholesale chargeable under rate schedules approved by a federal or state regulatory authority and all amounts paid to qualifying facilities for the purchase of capacity and/or energy, to the extent such costs are not otherwise included in base rates. Penalties of up to 10% will be imposed in the event an emergency increase has been granted when there was no emergency or when collections under the PCRF exceed PCRF costs by 10% in any month or 5% in the most recent twelve months.

Fuel Reconciliation Proceeding

On December 29, 1995, in accordance with PUC rules, TU Electric filed a petition with the PUC seeking final reconciliation of all eligible fuel and purchased power expenses incurred during the reconciliation period of July 1, 1992 through June 30, 1995, amounting to a total of $4.7 billion. In hearings completed in December 1996, the PUC Staff recommended a disallowance of $71.9 million. TU Electric believes that all of its eligible fuel and purchase power expenses have been prudently incurred and no amounts have been accrued for any disallowance. A final decision is expected by mid-1997. TU Electric is unable to predict the outcome of such proceeding; however, a disallowance, if any, will result in a future loss, which could possibly have a material effect on TU Electric's results of operation or cash flows.

In addition, and as permitted by the PUC rules, TU Electric is also seeking an accounting order from the PUC that will allow certain costs incurred, and to be incurred, to facilitate the use of coal as a supplemental fuel at Monticello to be treated as eligible fuel costs and billed pursuant to TU Electric's fuel cost factor. By incurring these expenses, TU Electric believes that it can significantly improve the reliability of the supply of fuel to Monticello and can, at the same time, lower the fuel costs that would be incurred in the absence of these expenditures.

Flexible Rate Initiatives

TU Electric continues to offer flexible rates in over 160 cities with original regulatory jurisdiction within its service territory (including the cities of Dallas and Fort Worth) to existing non-residential retail and wholesale customers that have viable alternative sources of supply and would otherwise leave the system. TU Electric also continues to offer

an economic development rider to attract new businesses and to encourage existing customers to expand their facilities as well as an environmental technology rider to encourage qualifying customers to convert to technologies that conserve energy or improve the environment. TU Electric will continue to pursue the expanded use of flexible rates when such rates are necessary to be price-competitive.

Docket 9300

The PUC's final order (Order) in connection with TU Electric's January 1990 rate increase request (Docket 9300) was reviewed by the 250th Judicial District Court of Travis County, Texas, and thereafter was appealed to the Court of Appeals for the Third District of Texas and to the Supreme Court of Texas (Supreme Court). As a result of such review and appeals, an aggregate of $909 million of disallowances with respect to TU Electric's reacquisitions of minority owners' interests in Comanche Peak, which had previously been recorded as a charge to the Company's and TU Electric's earnings, has been remanded to the PUC for reconsideration on the basis of a prudent investment standard. On remand, the PUC will also be required to reevaluate the appropriate level of TU Electric's construction work in progress included in rate base in light of its financial condition at the time of the initial hearing. In January 1997, the Supreme Court denied a motion for rehearing on the Comanche Peak minority owners issue filed by the original complainants. TU Electric cannot predict the outcome of the reconsideration of the Order on remand by the PUC.

In its decision, the Supreme Court also affirmed the previous $472 million prudence disallowance related to Comanche Peak. Since the Company and TU Electric each has previously recorded a charge to earnings for this prudence disallowance, the Supreme Court's decision did not have an effect on the Company's or TU Electric's current financial position, results of operation or cash flows.

Docket 11735

In July 1994, TU Electric filed a petition in the 200th Judicial District Court of Travis County, Texas to seek judicial review of the final order of the PUC granting a $449 million, or 9.0%, rate increase in connection with TU Electric's January 1993 rate increase request of $760 million, or 15.3% (Docket 11735). Other parties to the PUC proceedings also filed appeals with respect to various portions of the order. TU Electric is unable to predict the outcome of such appeals.

Docket 15638

In May 1996, TU Electric filed with the PUC its transmission cost information and tariffs for open-access wholesale transmission service (Docket 15638) in accordance with PUC rules adopted in February 1996. These tariffs also provide for generation-related ancillary services necessary to support wholesale transactions. Upon final PUC approval and the implementation of transmission rates for each transmission provider within the Electric Reliability Council of Texas (ERCOT), TU Electric's payments for transmission service will exceed its revenues for providing transmission service. The PUC is required by the rules to adopt a rate-moderation plan that will minimize the impact of the new pricing mechanism for the first three years the rules are in effect. As such, the current maximum impact on TU Electric for 1997 is a $4.26 million deficit, which, in the opinion of TU Electric, is not expected to have a material effect on its financial position, results of operation or cash flows. TU Electric expects to have its open-access wholesale transmission tariff in place for service within ERCOT in early 1997. (See Competition.)

Other

In connection with the PUC's regular earnings monitoring process, the PUC Staff has advised the PUC that it believes TU Electric was earning in excess of a reasonable rate of return and that it was engaged in discussions with TU Electric concerning possible remedies for such perceived over-earnings. The city of Sulphur Springs, Texas, which exercises original jurisdiction over TU Electric's rates within that city's boundaries, has initiated an inquiry into the reasonableness of TU Electric's rates. TU Electric is currently preparing the information required by Sulphur Springs in connection with its inquiry. TU Electric is unable to predict the outcome of either the discussions with the PUC Staff or the inquiry of Sulphur Springs.

COMPETITION

The Company and TU Electric

General

As legislative, regulatory, economic and technological changes occur, the energy and utility industries are faced with increasing pressure to become more competitive while adhering to regulatory requirements. The level of competition is affected by a number of variables, including price, reliability of service, the cost of energy alternatives, new technologies and governmental regulations.

Federal legislation such as the PURPA and, more recently, the Energy Policy Act, as well as initiatives in various states, encourage wholesale competition among electric utility and non-utility power producers. Together with increasing customer demand for lower-priced electricity and other energy services, these measures have accelerated the industry's movement toward a more competitive pricing and cost structure. Competition in the electric utility industry was also addressed in the 1995 session of the Texas legislature. PURA was amended to encourage greater wholesale competition and flexible retail pricing. PURA amendments also require the PUC to report to the legislature, during each legislative session, on competition in electric markets. Accordingly, PUC reports were submitted to the Texas legislature in January 1997, recommending that the legislature continue the process of expanding competition in the Texas electricity markets, leading to expanded retail competition, and authorize the PUC to take numerous steps toward that goal. The PUC further recommended that full competition not occur prior to the year 2000 in order to provide an environment through which both retail customers and utilities in Texas move more smoothly to achieve the perceived benefits of competition. The PUC is seeking guidance from the legislature and authority to address the issue of stranded cost recovery. In advance of the implementation of full retail competition, the PUC is requesting authority to create an Electric Service Reseller, a new entity that purchases power from the incumbent utility, bundles electric service with other services, and resells the power in the retail market. The PUC is also requesting authority to: (i) approve or disapprove mergers and acquisitions of Texas' electric utilities, (ii) allow alternative forms of regulation for transmission and distribution services, (iii) mandate a minimum set of consumer rights with regard to reliability, consumer protection and universal service, (iv) address market power concerns, (v) use alternative fuel recovery mechanisms, (vi) provide the PUC authority over regional reliability groups, and (vii) develop rules for a framework of transitioning to full retail competition.

As a result of the shift in emphasis toward greater competition, large and small industry participants are offering energy services and energy-related products that are both economically and environmentally attractive to customers. In Texas, aggressive marketing of competitive prices by rural electric cooperatives, municipally-owned electric systems, and other energy providers who are not subject to the traditional governmental regulation experienced by the energy and utility industries has intensified competition within the state's wholesale markets and, in multi-certificated areas, retail customer markets.

Furthermore, there is increasing pressure on utilities to reduce costs, including the cost of power, and to tailor energy services to the specific needs of customers. Such competitive pressures among electric utility and non-utility power producers could result in the loss by TU Electric of customers and the cost of certain of its assets becoming stranded costs (i.e., costs of assets that may not be recoverable from customers as a result of competitive pricing). To the extent stranded costs cannot be recovered from customers, it may be necessary for such costs to be borne partially or entirely by shareholders. In response to these competitive pressures, many utilities are implementing significant restructuring and re-engineering initiatives designed to make them more competitive. Since the implementation of an Operations Review and Cost Reduction program in April 1992, the System Companies continue to take steps to reduce costs by streamlining business processes and operating practices. (For information pertaining to the effects of competition on the treatment of certain regulatory assets and liabilities, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation and Note 1 to Consolidated Financial Statements.)

Wholesale Market

In the wholesale power market, TU Electric competes with a variety of utilities and other suppliers, some of which are willing and able to sell at rates below TU Electric's standard wholesale power service rate as approved by the PUC. As a result, TU Electric has received notifications of termination of approximately 750 MW of wholesale load through 1999. In 1996, wholesale revenues represented about 3% of TU Electric's total consolidated operating revenues.

Amendments to PURA made during the 1995 session of the Texas legislature allow for wholesale pricing flexibility. While wholesale rates for electric utilities are not deregulated, wholesale tariffs or contracts with charges less than approved rates but greater than the utility's marginal cost may be approved by the regulatory authority upon application by the utility. Competitive wholesale power contracts have been successfully negotiated with two existing customers, Lyntegar Electric Cooperative and Taylor Electric Cooperative, and with the City of College Station, a new customer.

Open-Access Transmission

In February 1996, pursuant to the 1995 amendments to PURA, the PUC adopted rules requiring each electric utility in ERCOT to provide wholesale transmission and related services to other utilities and non-utility power suppliers at rates, terms and conditions that are comparable to those applicable to such utility's use of its own transmission facilities.

Under the rules, the PUC established a transmission pricing mechanism consisting of an ERCOT system-wide component and a distance-sensitive component. The ERCOT system-wide component provides that each load-serving entity in ERCOT will pay a share of the ERCOT-wide transmission cost of service based on the entity's load. The distance-sensitive component provides that a distance-sensitive rate will be paid to utilities that own transmission facilities, based on the impact of transmitting generation resources to loads. The rates charged for using the transmission system are designed to ensure that all market participants pay on a comparable basis to use the system. While all users of the transmission grid pay rates that are comparably designed, the impact on individual users will differ.

In May 1996, TU Electric filed with the PUC, under Docket 15638, its transmission cost information and tariffs for open-access wholesale transmission service. These tariffs also provide for generation-related ancillary services necessary to support wholesale transactions. Company-specific proceedings to determine transmission rates were concluded in 1996, and in early 1997, TU Electric is expected to have its open-access wholesale transmission tariff in place for service within ERCOT. (See Regulation and Rates.)

As a result of the PUC rules, the organization and structure of ERCOT has been changed to provide for equal governance among all wholesale electricity market participants. These changes were made in order to facilitate wholesale competition while ensuring continued reliability within ERCOT.

At the federal level, the Energy Policy Act empowers the FERC to require utilities to provide transmission service for the delivery of wholesale power from other power producers to qualified resellers, such as municipalities, cooperatives and other utilities. In April 1996, the FERC issued Order No. 888 which requires all FERC-jurisdictional electric utilities to offer third parties wholesale transmission services under an open-access tariff and provides a framework for recovery of "legitimate, prudent and verifiable stranded costs" resulting from the implementation of open-access wholesale transmission service.

Retail Market

TU Electric and SESCO are experiencing competition for retail load in areas that are multi-certificated with rural electric cooperatives or municipal utilities. Except in areas where there is multi-certification by the PUC, TU Electric and SESCO currently have the exclusive right to provide electric service to the public within their service areas.

In addition, some energy consumers have the ability to produce their own electricity or to use alternative forms of energy. Industrial customers may also be able to relocate their facilities to lower-cost service areas. To some degree, there is competition among utilities with defined service areas to attract and retain large customers. TU Electric and SESCO are pursuing efforts to remain competitive through competitive pricing, economic development and other initiatives. (See Regulation and Rates.)

Congress, as well as legislatures and regulatory commissions in several states have begun to examine the possibility of mandated "retail wheeling," the required delivery by an electric utility over its transmission and distribution facilities of energy produced by another entity to retail customers in such utility's service territory. If implemented, such access could allow a retail customer to purchase electric service from any other electric service provider, subject to the practical constraints of long distance transmission. To date, retail wheeling has not been implemented in Texas; however, this issue is being pursued again during the 1997 session of the Texas legislature and in the 105th Congress.

The Company and TU Electric do not anticipate any legislation being enacted during the 1997 legislature to authorize competition in the retail market. The Company and TU Electric cannot predict the ultimate outcome of the ongoing efforts that are taking place to restructure the electric utility industry or whether such outcome will have a material effect on their financial position, results of operation or cash flows.

The energy supply franchise portion of Eastern Energy's business is gradually being exposed to competition through a phase-in of customers' right to choose their energy supplier. This phase-in is by customer class and is expected to be complete by December 31, 2000, at which time all energy customers in Victoria will have the right to choose their energy supplier. Eastern Energy is required to offer distribution of electric energy in its service territory on behalf of other electric suppliers and distribution companies to those customers having a right to choose their supplier, and Eastern Energy can similarly supply electric energy to such customers in other service territories by utilizing the distribution networks of the distribution companies in those service territories.

TU Electric, SESCO and Eastern Energy are not able to predict the extent of future competitive developments or what impact, if any, such developments may have on their operations.

ENVIRONMENTAL MATTERS

The Company and TU Electric

General

The System Companies are subject to various federal, state and local regulations dealing with air and water quality and related environmental matters. (See Item 2. Properties - Capital Expenditures and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation for environmental expenditures.)

Air

Under the Texas Clean Air Act, the Texas Natural Resource Conservation Commission (TNRCC) has jurisdiction over the permissible level of air contaminant emissions from generating facilities located within the State of Texas. In addition, the new source performance standards of the Environmental Protection Agency (EPA) promulgated under the federal Clean Air Act, as amended (Clean Air Act), which have also been adopted by the TNRCC, are applicable to generating units, the construction of which commenced after August 17, 1971. TU Electric's generating units have been constructed to operate in compliance with current regulations and emission standards promulgated pursuant to these Acts; however, due to variations in the quality of the lignite fuel, operation of certain of the lignite-fueled generating units at reduced loads is required from time to time in order to maintain compliance with these standards.

The Clean Air Act includes provisions which, among other things, place limits on the sulfur dioxide emissions produced by generating units. In addition to the new source performance standards applicable to sulfur dioxide, the Clean Air Act requires that fossil-fueled plants meet certain sulfur dioxide emission allowances by 1995 (Phase I) and will require more restrictions on sulfur dioxide emission allowances by 2000 (Phase II). TU Electric's generating units were not affected by the Phase I requirements. The applicable Phase II requirements currently are met by 52 out of the 56 of TU Electric's generating units to which those requirements apply. Because the sulfur dioxide emissions from the other four units are relatively low and alternatives are available to enable these units to reduce sulfur dioxide emissions or utilize compensatory reduction allowances achieved in other units, compliance with the applicable Phase II sulfur dioxide requirements is not expected to have a significant impact on TU Electric. In January 1993, the EPA issued its "core" regulations to implement the sulfur dioxide reduction program. TU Electric is preparing compliance plans in accordance with these regulations and expects these plans to be implemented by January 1, 2000.

To meet these sulfur dioxide requirements, the Clean Air Act provides for the annual allocation of sulfur dioxide emission allowances to utilities. Under the Clean Air Act, utilities are permitted to transfer allowances within their own systems and to buy or sell allowances from or to other utilities. The EPA grants a maximum number of allowances annually to TU Electric based on the amount of emissions from units in operation during the period 1985 through 1987. The Clean Air Act also provides that TU Electric will be granted additional annual allowances for Units 1 and 2 of the Twin Oak facility. TU Electric intends to utilize internal allocation of emission allowances within its system and, if cost effective, may purchase additional emission allowances to enable both existing and future electric generating units to meet the requirements of the Clean Air Act. TU Electric may also sell excess emission allowances. TU Electric is unable to predict the extent to which it may generate excess allowances or will be able to acquire allowances from others if needed but does not anticipate any significant problems in keeping emissions within its allotted allowances.

TU Electric's generating units meet the nitrogen oxide limits currently required by the Clean Air Act. The TNRCC and the EPA have determined that the requirements of the Clean Air Act for ozone nonattainment areas will not require nitrogen oxide emission reductions at TU Electric's generating units in the Dallas-Fort Worth area. The Clean Air Act also requires studies, which began in 1991, by the EPA to assess the potential for toxic emissions from utility boilers. TU Electric is unable to predict either the results of such studies or the effects of any subsequent regulations. Recently, the EPA proposed a more stringent standard for ambient levels of ozone and of fine particulates. The impact of these new standards, if adopted, is unknown at this time.

Only certain parts of the regulations implementing the Clean Air Act have been published as final rules. Until more of these regulations have been promulgated and specific state requirements developed, TU Electric will not be able to fully determine the cost or method of compliance with these requirements. TU Electric believes that it can meet the requirements necessary to be in compliance with these provisions as they are developed. Estimates for the capital requirements related to the Clean Air Act are included in TU Electric's estimated construction expenditures. Any additional capital expenditures, as well as any increased operating costs associated with new requirements or compliance measures, are expected to be recoverable through rates, as similar costs have been recovered in the past.

Water

The TNRCC and the EPA have jurisdiction over all water discharges (including storm water) from all System Companies' domestic facilities. The System Companies' domestic facilities are presently in compliance with applicable state and federal requirements relating to discharge of pollutants into the water. TU Electric, Fuel Company, and Mining Company have obtained all required waste water discharge permits from the TNRCC and the EPA for facilities in operation and have applied for or obtained necessary permits for facilities under construction. TU Electric, Fuel Company and Mining Company believe they can satisfy the requirements necessary to obtain any required permits or renewals.

Other

Diversion, impoundment and withdrawal of water for cooling and other purposes are subject to the jurisdiction of the TNRCC. Certain System Companies, including TU Electric, possess all necessary permits for these activities from the TNRCC for their present operations.

Federal legislation regulating surface mining was enacted in August 1977 and regulations implementing the law have been issued. Mining Company's lignite mining operations are currently regulated at the state level by the TRC, with oversight by the United States Department of the Interior's Office of Surface Mining, Reclamation and Enforcement. Surface mining permits have been issued for current Mining Company operations that provide fuel for Big Brown, Monticello and Martin Lake.

Treatment, storage and disposal of solid and hazardous waste are regulated at the state level under the Texas Solid Waste Disposal Act (Texas Act) and at the federal level under the Resource Conservation and Recovery Act of 1976, as amended (RCRA) and the Toxic Substances Control Act (TSCA). The EPA has issued regulations under the RCRA and TSCA, and the TNRCC and the RCT have issued regulations under the Texas Act applicable to System Companies' domestic facilities. The Company has registered its solid waste disposal sites and has obtained or applied for such permits as are required by such regulations.

Under the federal Low-Level Radioactive Waste Policy Act of 1980, as amended, the State of Texas is required to provide, either on its own or jointly with other states in a compact, for the disposal of all low-level radioactive waste generated within the state. The State of Texas is taking steps to site, construct and operate a low-level radioactive waste disposal site by 1999 and submitted a license application in March 1992 for such a facility. The license application has been finalized and a contested Administrative Hearing on the adequacy of the application is scheduled to begin in January 1998. The State of Texas has agreed to a compact with the States of Maine and Vermont, which is subject to ratification by Congress, for such a facility. Low-level waste material will be shipped off-site as long as an alternate disposal site is available. Otherwise the low-level waste material will be stored on-site. TU Electric's on-site storage capacity is expected to be adequate until other facilities are available.

Eastern Energy is subject to various Australian federal and Victorian state environmental regulations, the most significant of which is the Victorian Environmental Protection Act of 1970 (VEPA). VEPA regulates, in particular, the discharge of waste into air, land and water, site contamination, the emission of noise and the storage, recycling and disposal of solid and industrial waste. VEPA establishes the Environmental Protection Authority (Authority) and grants

the Authority a wide range of powers to control and prevent environmental pollution. These powers include issuing approvals for construction of works which may cause noise or emissions to air, water or land, waste discharge licenses and pollution abatement notices. No licenses or works approvals from the Authority are currently required for activities undertaken by Eastern Energy.

Item 2. PROPERTIES

The Company and TU Electric

The Company owns no utility plant or real property. At December 31, 1996, TU Electric owned or leased and operated the following generating units:

Electric Generating Units	Fuel Source	Net Capability (MW)	%
46	Natural Gas (a)	12,105	57.0 %
9	Lignite/Coal	5,825	27.5
2	Nuclear	2,300	10.8
15	Combustion Turbines (b)	975	4.6
10	Diesel	20	0.1
	Total	21,225	100.0 %

(a) Thirty-seven natural gas units are designed to operate on fuel oil for short periods when gas supplies are interrupted or curtailed. Five natural gas units are designed to operate on fuel oil for extended periods.
(b) Natural gas units leased and operated by TU Electric. Such units are designed to operate on fuel oil for extended periods.

The principal generating facilities and load centers of TU Electric and SESCO are connected by 3,863 circuit miles of 345,000 volt transmission lines and 9,327 circuit miles of 138,000 and 69,000 volt transmission lines.

TU Electric is connected by six 345,000 volt lines to Houston Lighting & Power Company; by three 345,000 volt, eight 138,000 volt and nine 69,000 volt lines to West Texas Utilities Company; by two 345,000 volt and eight 138,000 volt lines to the Lower Colorado River Authority; by four 345,000 volt and eight 138,000 volt lines to the Texas Municipal Power Agency; by one asynchronous high voltage direct current interconnection to Southwestern Electric Power Company; and at several points with smaller systems operating wholly within Texas. SESCO is connected to TU Electric by three 138,000 volt lines, ten 69,000 volt lines and three lines at distribution voltage. TU Electric and SESCO are members of ERCOT, an intrastate network of investor-owned entities, cooperatives, public entities, non-utility generators and power marketers. ERCOT is the regional reliability coordinating organization for member electric power systems in Texas and is responsible for ensuring equal access to transmission service by all wholesale market participants in the ERCOT region.

Eastern Energy's distribution network is comprised primarily of subtransmission and distribution assets. It owns no generating or transmission facilities. Eastern Energy's distribution system is interconnected with an intrastate power network comprised of the operator of the electric energy pool, Victorian Power Exchange, and each of the other distribution companies within Victoria. Eastern Energy has entered into distribution system agreements with each of the distribution businesses which share the boundaries of its distribution area to provide for wheeling of electricity on behalf of those distribution businesses and for the reciprocal provision of other distribution services.

The generating stations and other important units of property of TU Electric and SESCO are located on lands owned primarily in fee simple. The greater portion of the transmission and distribution lines of TU Electric and SESCO, and of the gas gathering and transmission lines of Fuel Company, has been constructed over lands of others pursuant to easements or along public highways and streets as permitted by law. The rights of the System Companies in the realty on which their properties are located are considered by them to be adequate for their use in the conduct of their business. Minor defects and irregularities customarily found in titles to properties of like size and character may exist, but any such defects and irregularities do not materially impair the use of the properties affected thereby. TU Electric, SESCO, Fuel Company and Eastern Energy have the right of eminent domain whereby they may, if necessary, perfect or secure titles or gain access to privately held land used or to be used in their operations. Utility plant of TU Electric and SESCO is generally subject to the liens of their respective mortgages.

CAPITAL EXPENDITURES

The Company and TU Electric

The Company has taken steps to aggressively manage its construction expenditures. Such construction expenditures for utility related activities, excluding allowance for funds used during construction (see Note 1 to Consolidated Financial Statements) are presently estimated at $513 million, $527 million and $556 million for the Company and $440 million, $470 million and $497 million for TU Electric for each of the years 1997, 1998, and 1999, respectively. The System Companies are subject to federal, state and local regulations dealing with environmental protection. (See Item 1. Business - Environmental Matters.) Such expenditures for construction to meet the requirements of environmental regulations at existing generating units are estimated to be $10 million for 1997 (included in the 1997 construction estimates noted above) and were approximately $14 million in 1996, $64 million in 1995 and $40 million in 1994. Expenditures for non-utility property are presently estimated to be $75 million, $44 million and $78 million for the Company for each of the years 1997, 1998 and 1999, respectively. Expenditures for nuclear fuel are presently estimated to be $66 million, $78 million and $115 million for the Company and TU Electric for each of the years 1997, 1998 and 1999, respectively.

The re-evaluation of growth expectations, the effects of inflation, additional regulatory requirements and the availability of fuel, labor, materials and capital may result in changes in estimated construction costs and dates of completion. Commitments in connection with the construction program are generally revocable subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties. (See Item 1. Business - Peak Load and Capability.)

The Company and TU Electric each plans to seek new investment opportunities from time to time when it concludes that such investments are consistent with its business strategies and will likely enhance the long-term returns to shareholders. The timing and amounts of any specific new business investment opportunities are presently undetermined.

For information regarding the financing of capital expenditures, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Item 3. LEGAL PROCEEDINGS

The Company

The Antitrust Division of the U.S. Department of Justice submitted to the Company a civil investigative demand (CID) in October 1995. This CID requests documents and information relating to an investigation of whether alleged tying arrangements or other actions that unreasonably deny or condition access to TU Electric's transmission system by others have occurred in violation of certain antitrust laws. While the Company intends to comply with requests within the appropriate purview of the Department of Justice, it believes that it has not violated such antitrust laws. The Company is unable to predict the outcome of any such investigation and does not expect it to have a material effect on the Company's financial position, results of operation or cash flows.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company

A special meeting of the shareholders of the Company was held on November 15, 1996 for the purpose of approving an Amended and Restated Agreement and Plan of Merger involving the Company and ENSERCH and the transactions contemplated therein, including as described in the Joint Proxy Statement/Prospectus sent to the shareholders of both companies on September 23, 1996, the merger of a wholly owned subsidiary of TUC Holding Company, a new company owned 50% by the Company and 50% by ENSERCH, with and into the Company, as a result of which the Company will become a wholly owned subsidiary of TUC Holding Company. At the effective time of the merger, TUC Holding Company will change its name to Texas Utilities Company and the outstanding shares of the Company's Common Stock will be converted into shares of TUC Holding Company Common Stock on a one-for-one basis. Voting results of the special meeting were as follows: 173,214,638 shares were voted FOR the proposal, 1,153,345 shares were voted AGAINST the proposal and 1,196,009 shares ABSTAINED or were broker non-votes as to the proposal.

TU Electric

None.

EXECUTIVE OFFICERS OF THE COMPANY

Name of Officer	Age	Positions and Offices Presently Held (Current Term Expires May 23, 1997)	Date First Elected to Present Office(s)	Business Experience (Preceding Five Years)
J. S. Farrington	62	Chairman and Director	February 20, 1987	Same and Chief Executive of the Company.
Erle Nye	59	President, Chief Executive and Director	May 19, 1995	Chairman of the Board and Chief Executive of TU Electric.

There is no family relationship between either of the above named Executive Officers.

Item 5. MARKET FOR EACH REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company

The Company's common stock is listed on the New York, Chicago and Pacific stock exchanges (symbol: TXU).

The price range of the common stock of the Company on the composite tape, as reported by *The Wall Street Journal*, and the dividends paid, for each of the calendar quarters of 1996 and 1995 were as follows:

	Price Range				Dividends Paid	
	1996		1995		1996	1995
Quarter Ended	High	Low	High	Low		
March 31	$42⅞	$38⅞	$35	$30⅛	$0.50	$0.77
June 30	42¾	38½	36⅛	31⅝	0.50	0.77
September 30	43¾	39⅜	35	32⅝	0.50	0.77
December 31	42⅛	38¾	41¼	34¼	0.50	0.77
					$2.00	$3.08

The Company has declared common stock dividends payable in cash in each year since its incorporation in 1945. The Board of Directors of the Company, at its February 1997 meeting, declared a quarterly dividend of $0.525 a share, payable April 1, 1997 to shareholders of record on March 7, 1997. For information concerning the Company's dividend policy, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation. Future dividends may vary depending upon the Company's profit levels and capital requirements as well as financial and other conditions existing at the time. Reference is made to Note 5 to Consolidated Financial Statements regarding limitations upon payment of dividends on common stock of TU Electric and SESCO.

The number of record holders of the common stock of the Company as of February 28, 1997 was 87,303.

TU Electric

All of TU Electric's common stock is owned by the Company. Reference is made to Note 5 to Consolidated Financial Statements regarding limitations upon payment of dividends on common stock of TU Electric.

Item 6. SELECTED FINANCIAL DATA

TEXAS UTILITIES COMPANY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATISTICS

	Year Ended December 31,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands, except per share amounts)				
Total assets — end of year	$21,375,707	$21,535,851	$20,893,408	$21,518,128	$19,428,568
Utility plant - gross — end of year	$24,931,239	$24,911,787	$24,206,351	$23,836,729	$23,043,778
Accumulated depreciation and amortization — end of year	6,496,724	5,857,580	5,228,423	4,710,398	4,251,002
Reserve for regulatory disallowances — end of year	836,005	1,308,460	1,308,460	1,308,460	1,308,460
Construction expenditures (including allowance for funds used during construction)	434,139	434,338	444,245	871,450	1,136,971
Capitalization — end of year					
Long-term debt	$ 8,668,111	$ 9,174,575	$ 7,888,413	$ 8,379,826	$ 7,931,981
TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	381,311	381,476	—	—	—
Preferred stock of subsidiary:					
Not subject to mandatory redemption	464,427	489,695	870,190	1,083,008	909,564
Subject to mandatory redemption	238,391	263,196	387,482	396,917	418,748
Common stock equity	6,032,913	5,731,753	6,490,047	6,570,993	6,590,537
Total	$15,785,153	$16,040,695	$15,636,132	$16,430,744	$15,850,830
Capitalization ratios — end of year					
Long-term debt	54.9%	57.2%	50.5%	51.0%	50.0%
TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	2.4	2.4	—	—	—
Preferred stock of subsidiary	4.5	4.7	8.0	9.0	8.4
Common stock equity	38.2	35.7	41.5	40.0	41.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Embedded interest cost on long-term debt — end of year	8.1%	8.4%	8.7%	8.7%	9.2%
Embedded distribution cost on TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric — end of year	8.7%	8.6%	—%	—%	—%
Embedded dividend cost on preferred stock of subsidiary — end of year	7.5%	7.4%	7.5%	7.6%	8.4%
Income (loss) before cumulative effect of a change in accounting principle	$753,606	$(138,645)	$542,799	$368,660	$619,204
Cumulative effect of a change in accounting for unbilled revenue (net of taxes of $41,679,000)	—	—	—	—	80,907
Consolidated net income (loss)	$753,606	$(138,645)	$542,799	$368,660	$700,111
Dividends declared on common stock	$456,059	$634,613	$695,590	$682,438	$653,146
Common stock data					
Shares outstanding — average	225,159,846	225,841,037	225,833,659	221,555,218	214,850,225
Shares outstanding — end of year	224,602,557	225,841,037	225,841,037	224,345,422	217,316,054
Earnings (loss) per share (on average shares outstanding):					
Before cumulative effect of a change in accounting	$3.35	$(0.61)	$2.40	$1.66	$2.88
Cumulative effect of a change in accounting for unbilled revenue	—	—	—	—	0.38
Total earnings (loss) per average share	$3.35	$(0.61)	$2.40	$1.66	$3.26
Dividends declared per share	$2.025	$2.81	$3.08	$3.08	$3.04
Book value per share — end of year	$26.86	$25.38	$28.74	$29.29	$30.33
Return on average common stock equity	12.8%	(2.3)%	8.3%	5.6%	10.9%
Ratio of earnings to fixed charges:					
Pre-tax	2.4	0.8	2.3	1.9	2.3
After-tax	2.0	0.9	1.9	1.6	2.0
Allowance for funds used during construction as percent of consolidated net income	1.7%	—%	4.1%	71.4%	43.5%

Certain financial statistics for 1996 and 1995 were affected by the December 1995 acquisition of Eastern Energy; for the year 1995, were affected by recording of the impairment of certain assets (see Note 14 to Consolidated Financial Statements); and for the year 1993, were affected by TU Electric recording a regulatory disallowance in a rate order issued by the Public Utility Commission of Texas in Docket 11735 (see Note 13 to Consolidated Financial Statements).

TEXAS UTILITIES COMPANY AND SUBSIDIARIES
CONSOLIDATED OPERATING STATISTICS

	Year Ended December 31,				
	1996	1995	1994	1993	1992
ELECTRIC ENERGY GENERATED AND PURCHASED (MWh)					
Generated — net station output	88,129,637	83,876,565	81,320,922	79,105,495	74,652,339
Purchased and net interchange	18,119,171	11,880,174	12,551,167	12,785,246	11,417,251
Total generated and purchased	106,248,808	95,756,739	93,872,089	91,890,741	86,069,590
Company use, losses and unaccounted for	5,905,076	5,653,698	5,246,480	5,631,085	5,016,596
Total electric energy sales	100,343,732	90,103,041	88,625,609	86,259,656	81,052,994
ELECTRIC ENERGY SALES (MWh)					
Residential	35,855,314	31,284,477	30,460,307	30,504,991	27,524,621
Commercial	27,946,728	25,899,942	25,073,687	24,269,456	23,176,888
Industrial	25,755,045	23,586,291	23,154,145	21,586,803	21,278,889
Government and municipal	6,161,150	5,752,800	5,619,135	5,427,436	5,080,440
Total general business	95,718,237	86,523,510	84,307,274	81,788,686	77,060,838
Other electric utilities	4,625,495	3,579,531	4,318,335	4,470,970	3,992,156
Total electric energy sales	100,343,732	90,103,041	88,625,609	86,259,656	81,052,994
OPERATING REVENUES (thousands)					
Base rate:					
Residential	$2,251,734	$1,920,087	$1,862,525	$1,704,766	$1,478,758
Commercial	1,357,326	1,219,443	1,183,757	1,061,591	972,733
Industrial	690,943	602,518	595,213	536,800	517,896
Government and municipal	322,013	287,674	283,783	245,458	209,426
Total general business	4,622,016	4,029,722	3,925,278	3,548,615	3,178,813
Other electric utilities	146,358	117,904	155,389	149,289	137,051
Total base rate revenues	4,768,374	4,147,626	4,080,667	3,697,904	3,315,864
Fuel revenue (including over/under-recovered)	1,670,844	1,418,211	1,513,929	1,657,331	1,540,667
Other operating revenues	111,710	72,851	68,947	79,277	51,345
Total operating revenues	$6,550,928	$5,638,688	$5,663,543	$5,434,512	$4,907,876
ELECTRIC CUSTOMERS (end of year)					
Residential	2,558,025	2,504,128	2,053,235	2,020,667	1,952,916
Commercial	274,076	267,579	225,479	221,422	210,185
Industrial	49,390	49,558	21,673	21,954	21,969
Government and municipal	31,108	30,458	29,437	29,034	28,204
Total general business	2,912,599	2,851,723	2,329,824	2,293,077	2,213,274
Other electric utilities	161	165	212	220	243
Total electric customers	2,912,760	2,851,888	2,330,036	2,293,297	2,213,517
RESIDENTIAL STATISTICS (excludes master-metered customers, kWh sales and revenues)					
Average annual kWh per customer	13,551	12,003	14,192	14,594	13,463
Average revenue per kWh	8.02¢	8.08¢	8.25¢	7.56¢	7.40¢

Industrial classification includes service to Alcoa-Sandow:					
Electric energy sales (Mwh)	3,841,904	3,764,658	3,886,258	3,166,797	3,157,852
Operating revenues (thousands)	$46,853	$47,739	$54,699	$53,352	$56,043

Certain previously reported operating statistics have been reclassified to conform to current classifications, and for 1996 and 1995, were affected by the December 1995 acquisition of Eastern Energy.

TEXAS UTILITIES ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATISTICS

	Year Ended December 31,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands)				
Total assets — end of year	$18,794,939	$19,003,374	$19,446,998	$19,870,990	$17,962,812
Electric plant – gross — end of year	$22,664,086	$22,747,860	$23,063,436	$22,680,508	$21,957,681
Accumulated depreciation and amortization — end of year	5,963,477	5,370,818	4,765,474	4,233,720	3,790,626
Reserve for regulatory disallowances — end of year	836,005	1,308,460	1,308,460	1,308,460	1,308,460
Construction expenditures (including allowance for funds used during construction)	377,438	407,305	415,290	841,181	1,107,555
Capitalization — end of year					
Long-term debt	$ 6,310,594	$ 7,212,070	$ 7,220,641	$ 7,607,090	$ 7,280,301
TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	381,311	381,476	—	—	—
Preferred stock:					
Not subject to mandatory redemption	464,427	489,695	870,190	1,083,008	909,564
Subject to mandatory redemption	238,391	263,196	387,482	396,917	418,748
Common stock equity	6,105,907	5,799,898	6,114,261	6,029,217	6,198,208
Total	$13,500,630	$14,146,335	$14,592,574	$15,116,232	$14,806,821
Embedded interest cost on long-term debt — end of year	8.3%	8.4%	8.7%	8.8%	9.2%
Embedded distribution cost on TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric — end of year	8.7%	8.6%	—%	—%	—%
Embedded dividend cost on preferred stock — end of year	7.5%	7.4%	7.5%	7.6%	8.4%
Consolidated income before cumulative effect of a change in accounting principle	$862,695	$452,631	$658,192	$476,526	$740,216
Cumulative effect of a change in accounting for unbilled revenue (net of taxes of $41,679,000)	—	—	—	—	80,907
Consolidated net income	$862,695	$452,631	$658,192	$476,526	$821,123
Consolidated net income available for common stock	$809,337	$367,717	$556,309	$361,294	$702,705
Dividends declared on common stock	$503,328	$682,080	$715,760	$707,382	$645,260
Ratio of earnings to fixed charges:					
Pre-tax	3.0	2.0	2.5	2.0	2.5
After-tax	2.5	1.7	2.0	1.7	2.1
Allowance for funds used during construction as a percent of consolidated net income available for common stock	1.6%	6.0%	4.0%	72.9%	43.3%
Return on average common stock equity	13.6%	6.2%	9.2%	5.9%	11.8%

Certain financial statistics for 1995 were affected by the recording of the impairment of certain assets (see Note 14 to Consolidated Financial Statements), and for the year 1993, were affected by TU Electric recording a regulatory disallowance in a rate order issued by the Public Utility Commission of Texas in Docket 11735 (see Note 13 to Consolidated Financial Statements).

TEXAS UTILITIES ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED OPERATING STATISTICS

	Year Ended December 31,				
	1996	1995	1994	1993	1992
ELECTRIC ENERGY GENERATED AND PURCHASED (MWh)					
Generated — net station output	88,129,637	83,876,565	81,320,922	79,105,495	74,652,339
Purchased and net interchange	12,417,774	10,683,722	11,663,148	12,431,763	11,417,251
Total generated and purchased	100,547,411	94,560,287	92,984,070	91,537,258	86,069,590
Company use, losses and unaccounted for	5,804,526	5,532,031	5,131,173	5,572,916	5,016,596
Total electric energy sales	94,742,885	89,028,256	87,852,897	85,964,342	81,052,994
ELECTRIC ENERGY SALES (MWh)					
Residential	33,038,399	30,716,241	30,065,767	30,278,230	27,524,621
Commercial	26,455,954	25,553,369	24,815,874	24,139,120	23,176,888
Industrial	24,214,960	23,301,933	22,984,218	21,506,547	21,278,889
Government and municipal	5,929,249	5,615,715	5,505,298	5,365,815	5,080,440
Total general business	89,638,562	85,187,258	83,371,157	81,289,712	77,060,838
Other electric utilities	5,104,323	3,840,998	4,481,740	4,674,630	3,992,156
Total electric energy sales	94,742,885	89,028,256	87,852,897	85,964,342	81,052,994
OPERATING REVENUES (thousands)					
Base rate:					
Residential	$1,993,506	$1,875,311	$1,832,557	$1,686,692	$1,478,758
Commercial	1,227,271	1,193,561	1,165,498	1,052,227	972,733
Industrial	590,174	586,146	585,963	532,076	517,896
Government and municipal	291,020	279,803	276,856	241,600	209,426
Total general business	4,101,971	3,934,821	3,860,874	3,512,595	3,178,813
Other electric utilities	165,619	133,359	163,134	157,173	137,051
Total from base rate revenues	4,267,590	4,068,180	4,024,008	3,669,768	3,315,864
Fuel revenues (including over/under-recovered)	1,679,009	1,421,861	1,521,029	1,662,358	1,540,667
Other operating revenues	83,012	70,421	68,138	77,030	50,164
Total operating revenues	$6,029,611	$5,560,462	$5,613,175	$5,409,156	$4,906,695
ELECTRIC CUSTOMERS (end of year)					
Residential	2,109,343	2,061,273	2,019,025	1,986,946	1,952,916
Commercial	230,253	225,183	219,604	215,621	210,185
Industrial	21,002	21,253	21,445	21,716	21,969
Government and municipal	30,062	29,429	28,949	28,555	28,204
Total general business	2,390,660	2,337,138	2,289,023	2,252,838	2,213,274
Other electric utilities	173	177	219	228	243
Total electric customers	2,[illegible]90,833	2,337,315	2,289,242	2,253,066	2,213,517
RESIDENTIAL STATISTICS (excludes master-metered customers, kWh sales and revenues)					
Average annual kWh per customer	15,100	14,336	14,236	14,604	13,463
Average revenue per kWh	7.91¢	8.08¢	8.26¢	7.55¢	7.40¢

Industrial classification includes service to Alcoa-Sandow:

	1996	1995	1994	1993	1992
Electric energy sales (Mwh)	3,841,904	3,764,658	3,886,258	3,166,797	3,157,852
Operating revenues (thousands)	$46,853	$47,739	$54,699	$53,352	$56,043

Certain previously reported operating statistics have been reclassified to conform to current classifications.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

FORWARD-LOOKING STATEMENTS

This report and other presentations made by Texas Utilities Company (Company) or Texas Utilities Electric Company and its subsidiaries (TU Electric) contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Although the Company and TU Electric each believes that in making any such statement its expectations are based on reasonable assumptions, any such statement involves uncertainties and is qualified in its entirety by reference to the following important factors that could cause the actual results of the Company or TU Electric to differ materially from those projected in such forward-looking statement: (i) prevailing governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission, the Public Utility Commission of Texas (PUC), the Nuclear Regulatory Commission, and, in the case of the Company, the Office of the Regulator General of Victoria, Australia, with respect to allowed rates of return, industry and rate structure, purchased power and investment recovery, operations of nuclear generating facilities, acquisitions and disposal of assets and facilities, operation and construction of plant facilities, decommissioning costs, present or prospective wholesale and retail competition, changes in tax laws and policies and changes in and compliance with environmental and safety laws and policies, (ii) weather conditions and other natural phenomena, (iii) unanticipated population growth or decline, and changes in market demand and demographic pattern, (iv) competition for retail and wholesale customers, (v) pricing and transportation of crude oil, natural gas and other commodities, (vi) unanticipated changes in interest rates or in rates of inflation, (vii) unanticipated changes in operating expenses and capital expenditures, (viii) capital market conditions, (ix) competition for new energy development opportunities, and (x) legal and administrative proceedings and settlements.

Any forward-looking statement speaks only as of the date on which such statement is made, and neither the Company nor TU Electric undertakes any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for the Company or TU Electric to predict all of such factors, nor can they assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

Certain comparisons in this Annual Report on Form 10-K have been affected by the December 1995 acquisition of Eastern Energy Limited (Eastern Energy) by Texas Utilities Australia Pty. Ltd. (TU Australia), a wholly-owned subsidiary of the Company. The results of Eastern Energy are included only for the periods subsequent to acquisition.

FINANCIAL CONDITION

Capital Expenditures

The Company and TU Electric

The primary capital expenditures of the Company and all of its majority-owned subsidiaries (System Companies) in 1996 and as estimated for 1997 through 1999 are as follows:

	1996	1997	1998	1999
		Thousands of Dollars		
Cash construction expenditures (excluding allowance for funds used during construction)	$ 427,000	$ 513,000	$ 527,000	$ 556,000
Nuclear fuel (excluding allowance for funds used during construction)	54,000	66,000	78,000	115,000
Non-utility property	3,000	75,000	44,000	78,000
Maturities and redemptions of long-term debt, sinking fund requirements, redemptions of preferred stock and reacquisitions of common stock	1,933,000	381,000	487,000	655,000
Total	$2,417,000	$1,035,000	$1,136,000	$1,404,000

The primary capital expenditures of TU Electric in 1996 and as estimated for 1997 through 1999 are as follows:

	1996	1997	1998	1999
		Thousands of Dollars		
Cash construction expenditures (excluding allowance for funds used during construction)	$ 370,000	$440,000	$ 470,000	$ 497,000
Nuclear fuel (excluding allowance for funds used during construction)	54,000	66,000	78,000	115,000
Maturities and redemptions of long-term debt, sinking fund requirements and redemptions of preferred stock	910,000	363,000	468,000	636,000
Total	$1,334,000	$869,000	$1,016,000	$1,248,000

See Item 2. Properties — Capital Expenditures and Note 15 to Consolidated Financial Statements.

Liquidity and Capital Resources

For 1996, the System Companies generated cash from operations sufficient to meet operating needs, pay dividends on capital stock, pay distributions on preferred securities of trusts and finance capital expenditures. Factors affecting the continued ability of TU Electric to fund its capital requirements from operations include responsive regulatory practices allowing recovery of capital investment through adequate depreciation rates, recovery of the cost of fuel and purchased power and the opportunity to earn competitive rates of return required in the capital markets.

External funds of a permanent or long-term nature are obtained through the sales of common stock, preferred stock, preferred securities and long-term debt by the System Companies. The capitalization ratios of the Company and its subsidiaries at December 31, 1996, consisted of approximately 55% long-term debt, 2% TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric, 5% preferred stock and 38% common stock equity.

The capitalization ratios of TU Electric at December 31, 1996 consisted of approximately 47% long-term debt, 3% TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric, 5% preferred stock and 45% common stock equity.

Financings by System Companies totaled $1,443,904,000 in 1996. Proceeds from such financings were used primarily for the early redemption or reacquisition of debt. The financings consisted of:

Description	Principal Amount	Current Interest Rates	Maturity
Credit Agreement - Facility C (the Company)	$ 300,000,000	5.825%	2001
Senior Notes (TU Australia)	343,389,000	6.75% to 7.25%	2006-2016
Term Credit Facility (TU Australia)	556,290,000	6.33%	2001
Pollution Control Revenue bonds (backed by TU Electric First Mortgage Bonds)	244,225,000	3.25% to 3.40%	2026-2030
Total	$1,443,904,000		

Since December 31, 1995, the System Companies redeemed, reacquired or made principal payments of $2,049,851,000 (including $1,026,697,000 for TU Electric) on long-term debt, preferred stock and common stock, including the Company's June 1996 purchase for $51,636,000, and retirement of, 1,238,480 shares of its issued and outstanding common stock. Early redemptions of long-term debt and preferred stock may occur from time to time in amounts presently undetermined. (See Notes 6 and 8 to Consolidated Financial Statements.)

The System Companies expect to sell additional debt and equity securities as needed including (i) the possible future sale by TU Electric of up to $350,000,000 of First Mortgage Bonds currently registered with the Securities and Exchange Commission (SEC) for offering pursuant to Rule 415 under the Securities Act of 1933 and (ii) the possible future sale by TU Electric of up to 250,000 shares of Cumulative Preferred Stock ($100 liquidation value) similarly registered. In addition, TU Electric has the ability to issue from time to time an additional $98,850,000 of First Mortgage Bonds designated as Medium-Term Notes, Series D.

In April 1996, the Company and TU Electric entered into two new credit agreements (Credit Agreements) with a group of commercial banks. The Credit Agreements, for each of which the Company pays a fee, have three facilities. Borrowings under these facilities are used for working capital and other corporate purposes, including commercial paper backup. Facility A provides for short-term borrowings of up to $375,000,000 at a variable interest rate and terminates April 25, 1997. Facility B provides for short-term borrowings of up to $875,000,000 at a variable interest rate and terminates April 26, 2001. The Company's borrowings under Facilities A and B are limited to an aggregate of $750,000,000 outstanding at any one time. Facility C is a separate five-year, unsecured long-term loan to the Company in the principal amount of $300,000,000 at a variable interest rate.

In January 1997, statutory business trust subsidiaries of TU Electric issued TU Electric obligated, mandatorily redeemable, preferred securities having aggregate liquidation preferences of $500,000,000. Distributions on $100,000,000 in aggregate liquidation preference of such securities are payable quarterly based on an annual floating rate determined quarterly with reference to a 3-month LIBOR plus a margin of 0.80%. Distributions on $400,000,000 aggregate liquidation preference of such securities are payable semi-annually at an annual rate of 8.175%. The proceeds from the issuance of such securities were used by the subsidiaries to purchase Junior Subordinated Debentures of TU Electric. The proceeds of such purchases will be used by TU Electric for general corporate purposes. In February 1997, TU Electric, with respect to its Capital IV Securities, entered into an interest rate swap agreement with a notional principal amount of $100,000,000 expiring 2002 with a fixed interest rate of 7.183% per annum. (See Note 7 to Consolidated Financial Statements.)

In February 1997, the Company announced a tender offer for any and all outstanding shares of 20 series of TU Electric's preferred stock and depositary shares. The Company expects to fund the purchase of shares tendered and accepted pursuant to the tender offer through the use of its general funds and funds borrowed through the issuance of commercial paper, and under its lines of credit.

In addition to the above, the Company and Texas Utilities Fuel Company have separate arrangements for uncommitted lines of credit. For more information regarding short-term financings of the Company and TU Electric, see Note 3 to Consolidated Financial Statements.

The Company's and TU Electric's operations involve managing market risks related to changes in interest rates and, for the Company, foreign exchange and commodity price exposures. Derivative instruments including swaps and forward contracts are used to reduce and manage a portion of those risks. The Company's and TU Electric's participations in derivative transactions have been designed for hedging purposes and are not held or issued for trading purposes. Credit risk relates to the risk of loss that the Company and TU Electric would incur as a result of nonperformance by counterparties to their respective derivative instruments. The Company and TU Electric believe the risk of nonperformance by counterparties is minimal.

Impairment of Assets

The Company and TU Electric are studying alternative uses for their investment in certain assets, including TU Electric's partially completed Twin Oak and Forest Grove lignite-fueled facilities and the New Mexico coal reserves of Chaco Energy Company (Chaco), which, based upon management's current expectations, might include sale of the reserves or facilities or construction outside the traditional regulated business. In September 1995, the Company and TU Electric determined that the partially completed Twin Oak and Forest Grove lignite-fueled facilities were not necessary to satisfy TU Electric's capacity requirements due to continuing changes in load growth patterns and availability of alternative generation. Also, the Company determined that the Chaco coal reserves would no longer be developed through traditional means due to availability of ample alternative fuels at favorable prices. The total impairment of the Company's assets recorded in 1995, including the partially completed Twin Oak and Forest Grove lignite-fueled facilities and Chaco's coal reserves, as well as several minor assets, aggregated $802 million after-tax. (See Note 14 to Consolidated Financial Statements.)

Regulation and Rates

General

Under the current regulatory environment, certain System Companies are subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). This statement applies to utilities which have cost-based rates established by a regulator and charged to and collected from customers. In accordance with this statement, these companies may defer the recognition of certain costs (regulatory assets) and certain obligations (regulatory liabilities) that, as a result of the ratemaking process, have

probable corresponding increases or decreases in future revenues. Future significant changes in regulation or competition could affect these companies' ability to meet the criteria for continued application of SFAS 71, and may affect these companies' ability to recover these regulatory assets from, or refund these regulatory liabilities to customers. These regulatory assets and liabilities, which are being amortized over various periods (5 to 40 years), are currently included in rates, or are expected to be included in future rates. In the event all or a portion of these companies' operations fail to meet the criteria for application of SFAS 71, these companies would be required to write-off all or a portion of their regulatory assets and liabilities. Should significant changes in regulation or competition occur, the affected System Companies would be required to assess the recoverability of certain assets, including plant and regulatory assets, and, if impaired, to write down the assets to reflect their then fair market value. (See Note 1 to Consolidated Financial Statements.) The System Companies cannot predict the timing or extent of changes in the business environment that may require the discontinuation of SFAS 71 application.

Although TU Electric cannot predict future regulatory or legislative actions or any changes in economic and securities market conditions, no changes are expected in trends or commitments, other than those discussed in this Form 10-K, which might significantly alter its basic financial position, results of operation or cash flows. (See Note 13 to Consolidated Financial Statements.)

Docket 9300

The PUC's final order (Order) in connection with TU Electric's January 1990 rate increase request (Docket 9300) was reviewed by the 250th Judicial District Court of Travis County, Texas, and thereafter was appealed to the Court of Appeals for the Third District of Texas and to the Supreme Court of Texas (Supreme Court). As a result of such review and appeals, an aggregate of $909 million of disallowances with respect to TU Electric's reacquisitions of minority owners' interests in Comanche Peak nuclear generating station (Comanche Peak), which had previously been recorded as a charge to the Company's and TU Electric's earnings, has been remanded to the PUC for reconsideration on the basis of a prudent investment standard. On remand, the PUC will also be required to reevaluate the appropriate level of TU Electric's construction work in progress included in rate base in light of its financial condition at the time of the initial hearing. In January 1997, the Supreme Court denied a motion for rehearing on the Comanche Peak minority owners issue filed by the original complainants. TU Electric cannot predict the outcome of the reconsideration of the Order on remand by the PUC.

In its decision, the Supreme Court also affirmed the previous $472 million prudence disallowance related to Comanche Peak. Since the Company and TU Electric each has previously recorded a charge to earnings for this prudence disallowance, the Supreme Court's decision did not have an effect on the Company's or TU Electric's current financial position, results of operation or cash flows.

Docket 11735

In July 1994, TU Electric filed a petition in the 200th Judicial Court of Travis County, Texas to seek judicial review of the final order of the PUC granting a $449 million, or 9.0%, rate increase in connection with TU Electric's January 1993 rate increase request of $760 million, or 15.3% (Docket 11735). Other parties to the PUC proceedings also filed appeals with respect to various portions of the order. TU Electric is unable to predict the outcome of such appeals.

Docket 15638

In May 1996, TU Electric filed with the PUC its transmission cost information and tariffs for open-access wholesale transmission service (Docket 15638) in accordance with PUC rules adopted in February 1996. These tariffs also provide for generation-related ancillary services necessary to support wholesale transactions. Upon final PUC approval and the implementation of transmission rates for each transmission provider within the Electric Reliability Council of Texas (ERCOT), TU Electric's payments for transmission service will exceed its revenues for providing transmission service. The PUC is required by the rules to adopt a rate-moderation plan that will minimize the impact of the new pricing mechanism for the first three years the rules are in effect. As such, the current maximum impact on TU Electric for 1997 is a $4.26 million deficit, which, in the opinion of TU Electric, is not expected to have a material effect on its financial position, results of operation or cash flows. TU Electric expects to have its open-access wholesale transmission tariff in place for service within ERCOT in early 1997. (See Competition below.)

Other

In connection with the PUC's regular earnings monitoring process, the PUC Staff has advised the PUC that it believes TU Electric was earning in excess of a reasonable rate of return and that it was engaged in discussions with TU Electric concerning possible remedies for such perceived over-earnings. The city of Sulphur Springs, Texas, which exercises original jurisdiction over TU Electric's rates within that city's boundaries, has initiated an inquiry into the reasonableness of TU Electric's rates. TU Electric is currently preparing the information required by Sulphur Springs in connection with its inquiry. TU Electric is unable to predict the outcome of either the discussions with the PUC Staff or the inquiry of Sulphur Springs.

Competition

The National Energy Policy Act of 1992 (Energy Policy Act) addresses a wide range of energy issues and is intended to increase competition in electric generation and broaden access to electric transmission systems. In addition, the Public Utility Regulatory Act of 1995, as amended (PURA), impacts the PUC and its regulatory practices and encourages increased competition in some aspects of the electric utility industry in Texas. Although the Company is unable to predict the ultimate impact of the Energy Policy Act, PURA and any related regulations or legislation on the System Companies' operations, it believes that such actions are consistent with the trend toward increased competition in the energy industry.

In order to remain competitive, the System Companies are aggressively managing their operating costs and capital expenditures through streamlined business processes and are developing and implementing strategies to address an increasingly competitive environment. These strategies include initiatives to improve their return on corporate assets and to maximize shareholder value through new marketing programs, creative rate design and new business opportunities. Additional initiatives under consideration include the potential disposition or alternative utilization of existing assets and the restructuring of strategic business units.

While TU Electric has experienced competitive pressures in the wholesale market resulting in a small loss of load since the beginning of 1993, wholesale sales represented a relatively low percentage of TU Electric's consolidated operating revenues in 1996. TU Electric is unable to predict the extent of future competitive developments in either the wholesale or retail markets or what impact, if any, such developments may have on its operations. (See Item 1. Business - Competition.)

Federal legislation such as the Public Utility Regulatory Policy Act of 1978 and, more recently, the Energy Policy Act, as well as initiatives in various states, encourage wholesale competition among electric utility and non-utility power producers. Together with increasing customer demand for lower-priced electricity and other energy services, these measures have accelerated the industry's movement toward a more competitive pricing and cost structure. Competition in the electric utility industry was also addressed in the 1995 session of the Texas legislature. PURA was amended to encourage greater wholesale competition and flexible retail pricing. PURA amendments also require the PUC to report to the legislature, during each legislative session, on competition in electric markets. Accordingly, PUC reports were submitted to the Texas legislature in January 1997, recommending that the legislature continue the process of expanding competition in the Texas electricity markets, leading to expanded retail competition, and authorize the PUC to take numerous steps toward that goal. The PUC further recommended that full competition not occur prior to the year 2000 in order to provide an environment through which both retail customers and utilities in Texas move more smoothly to achieve the perceived benefits of competition. The PUC is seeking guidance from the legislature and authority to address the issue of stranded cost recovery. In advance of the implementation of full retail competition, the PUC is requesting authority to create an Electric Service Reseller, a new entity that purchases power from the incumbent utility, bundles electric service with other services, and resells the power in the retail market. The PUC is also requesting authority to: (i) approve or disapprove mergers and acquisitions of Texas' electric utilities, (ii) allow alternative forms of regulation for transmission and distribution services, (iii) mandate a minimum set of consumer rights with regard to reliability, consumer protection and universal service, (iv) address market power concerns, (v) use alternative fuel recovery mechanisms, (vi) provide the PUC authority over regional reliability groups, and (vii) develop rules for a framework of transitioning to full retail competition.

The PUC reports include estimates of potentially stranded costs (i.e., costs of assets that may not be recoverable from customers as a result of competitive pricing) for all generating utilities in Texas in the event of full retail competition. The estimates are based on, and highly dependent on, various assumptions suggested by the PUC including, but not limited to, the timing of retail access, future market prices of power, and electric power

generation, operation and maintenance expenses. At the total Texas retail level, the PUC estimate of stranded costs ranged from a projected excess of net book value over market value of $22.2 billion to a projected excess of market value over net book value of $2.6 billion. The PUC estimate for TU Electric's potentially stranded retail costs ranged from a projected excess of net book value over market value of $7.7 billion to a projected excess of market value over net book value of $2.1 billion.

The Company and TU Electric do not anticipate any legislation being enacted during the 1997 legislature to authorize competition in the retail market. The Company and TU Electric cannot predict the ultimate outcome of the ongoing efforts that are taking place to restructure the electric utility industry or whether such outcome will have a material effect on their financial position, results of operation or cash flows.

Business Mergers and Acquisitions

__The Company__

In April 1996, the Company announced that it had entered into a merger agreement with Dallas-based ENSERCH Corporation (ENSERCH). Under the terms of the agreement, Lone Star Gas Company (Lone Star Gas) and Lone Star Pipeline Company (Lone Star Pipeline), the local distribution and pipeline divisions of ENSERCH, and other businesses, excluding Enserch Exploration Inc. (EEX), a subsidiary of ENSERCH, will be acquired by a new holding company, which will be named Texas Utilities Company and will own all of the common stock of ENSERCH and the Company. Shares of the Company's common stock will be automatically converted into shares of the new holding company common stock on a one-for-one basis in a tax-free transaction. Lone Star Gas is one of the largest gas distribution companies in the United States and the largest in Texas, serving over 1.3 million customers and providing service through over 23,500 miles of distribution mains. Lone Star Pipeline has one of the largest pipelines in the United States that consists of 9,200 miles of gathering and transmission pipelines in Texas. Also included in the acquisition are ENSERCH's subsidiaries engaged in natural gas processing, natural gas marketing and independent power production. The new holding company is expected to issue approximately $550 million of the new holding company's common stock to ENSERCH shareholders, and approximately $1.15 billion of ENSERCH's debt and preferred stock would remain outstanding after the merger. The transaction is subject to certain conditions which include the approval by the SEC and receipt by ENSERCH of a favorable tax ruling from the Internal Revenue Service (IRS) to the effect that its distribution of EEX stock is a tax-free transaction. ENSERCH received this IRS ruling on March 6, 1997. The transaction was approved at special meetings of the shareholders of ENSERCH, EEX and the Company held separately on November 15, 1996. The Texas Railroad Commission has been notified of the proposed transaction and has indicated no objection to it. On March 7, 1997, the Antitrust Division of the U.S. Department of Justice notified the SEC that it had closed its investigation of the proposed transaction and indicated that no further action would be required. The acquisition of ENSERCH will be accounted for as a purchase business combination.

In December 1995, the Company's newly formed subsidiary, TU Australia, acquired all of the common stock of Eastern Energy, one of five electricity distribution companies operating in Victoria, Australia. Eastern Energy is engaged in the purchase, distribution, marketing and sale of electric energy to approximately 481,000 customers in a 31,000 square mile service area extending from the outer eastern suburbs of the Melbourne metropolitan area to the eastern coastal areas of Victoria and north to the New South Wales border. Eastern Energy generates no electric energy. The acquisition by TU Australia was accounted for as a purchase business combination. Accordingly, a portion of the purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over the fair values of the assets acquired is being amortized over 40 years. Eastern Energy's results of operation subsequent to December 1, 1995, the date of the acquisition, are reflected in the consolidated financial statements. The Company's equity investment is approximately $600 million. The remainder of the acquisition cost was borrowed by Eastern Energy.

RESULTS OF OPERATION

__The Company__

For the year ended December 31, 1996, consolidated net income for the Company increased approximately 14% over the prior period (excluding the after-tax effect of the September 1995 asset impairment). For the Company and TU Electric, from which most of consolidated earnings is derived, the major factors affecting earnings for the year ended December 31, 1996, were increased customer growth and warmer weather.

In September 1995, the Company recorded an impairment of several non-performing assets, including the partially completed Twin Oak and Forest Grove lignite-fueled facilities of TU Electric, and Chaco's coal reserves

in New Mexico, as well as several minor assets. Such impairment, on an after-tax basis, amounted to $802 million. (See Note 14 to Consolidated Financial Statements.)

The Company's statement of consolidated income for the year ended December 31, 1996, is affected by a full year's results of operation of Eastern Energy, which was acquired by TU Australia in December 1995. For 1996, the Company's statement of consolidated income includes operating revenues of $474 million, operating expenses of $379 million and interest expense of $87 million, which represent TU Australia's results of operation.

TU Electric

Operating revenues increased approximately 8% and decreased approximately 1% for the years ended December 31, 1996 and 1995, respectively. The following table details the factors contributing to these changes:

Factors	Increase (Decrease) 1996	Increase (Decrease) 1995
	Thousands of Dollars	
Base rate revenue (including unbilled)	$199,410	$ 44,172
Fuel revenue and power cost recovery factor revenue	257,148	(99,168)
Other revenue	12,591	2,283
Total operating revenues	$469,149	$(52,713)

Energy sales (including unbilled sales) increased approximately 6% and 1% for 1996 and 1995, respectively. The increase in energy sales for 1996 was generally a result of customer growth, increased usage and warmer weather. The 1995 increase in energy sales was generally a result of customer growth and increased usage, partially offset by mild weather conditions. Fuel revenue increased in 1996 due primarily to increases in fuel costs driven by increases in energy sales and spot market gas prices. Fuel revenue decreased in 1995 due primarily to a reduction in gas prices and increased nuclear generation.

Fuel and purchased power expense increased approximately 16% and decreased approximately 6% for 1996 and 1995, respectively. The increase in 1996 was primarily due to increased energy sales and increased spot market gas prices. The decrease in 1995 was due to a reduction in gas prices and purchased power commitments and increased utilization of nuclear fuel. (See Item 1. Business — Fuel Supply and Purchased Power and Item 6. Selected Financial Data — Consolidated Operating Statistics.)

Total operating expenses, excluding fuel and purchased power, increased approximately 4% for 1996 and decreased approximately 1% for 1995. Operation and maintenance expense increased in 1996 due primarily to increases in employee benefit expense and payroll expense. Operation and maintenance expense decreased in 1995 due primarily to a decrease in uncollectible accounts expense and employee benefit expense. Taxes other than income decreased in 1996 as a result of a reduction in TU Electric's ad valorem tax obligation due primarily to a property tax rate reduction, partially offset by an increase in state and local gross receipts tax. Taxes other than income decreased in 1995 as a result of a reduction in TU Electric's ad valorem tax obligation due primarily to a reduction in property valuations.

Allowance for funds used during construction (AFUDC) decreased in 1996 primarily due to a decrease in the AFUDC rate and a reduction in construction work in progress and nuclear fuel in process balances.

Federal income taxes — other income, representing tax benefits for 1996 and 1995, decreased in 1996 and increased in 1995 due primarily to the effect of the recording of tax benefits associated with the September 1995 asset impairment. (See Note 10 to Consolidated Financial Statements.)

Total interest charges, excluding AFUDC and distributions on preferred securities of subsidiary trusts, decreased approximately 5% in each of the years 1996 and 1995. Interest on mortgage bonds decreased over the prior period as a result of reduced interest requirements due to the Company's debt refinancing and reduction efforts. The decrease in interest on other long-term debt for 1996 was affected by the prepayment of TU Electric's promissory note to Brazos Electric Power Cooperative in October 1995. Interest on other long-term debt increased in 1995 due to borrowings on the term credit agreement. Other interest expense increased in 1996 due to an interest payment related to a settlement with the IRS, offset in part, by decreased interest on average short-term borrowings. Other interest expense in 1995 was affected by decreased interest

on bonded rates over the prior period, increased average short-term borrowings, and increased amortization of debt issuance expenses and redemption premiums. The increase in distributions on preferred securities for 1996 and 1995 resulted from the issuance, in December 1995, of TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric. (See Note 7 to Consolidated Financial Statements.)

Preferred stock dividends decreased approximately 37% and 17% for 1996 and 1995, respectively, primarily due to the partial redemption of certain series.

POSSIBLE CHANGES IN ACCOUNTING STANDARDS AND FRANCHISE TAX STATUS

The Company and TU Electric

The Financial Accounting Standards Board (FASB) is currently deliberating a new accounting standard addressing the accounting for liabilities related to closure and removal of long-lived assets, which would include nuclear decommissioning (see Note 15 to Consolidated Financial Statements). Such new standard is not expected to be effective until sometime after calendar year 1997. Based upon FASB's exposure draft, which is subject to change, any new standard would likely prescribe a methodology for measuring and recognizing liabilities related to closure and removal of long-lived assets. Any liability required to be recognized would have a corresponding asset recognized as an addition to plant, and depreciation of the long-lived asset would be revised prospectively. If such new standard were adopted, the application of such statement would increase total assets and liabilities for the Company and TU Electric. Such requirements are not expected to have a material effect on the Company's and TU Electric's financial position, results of operation or cash flows.

TU Electric is projecting that its state franchise tax status will change in 1997 from taxes based on net taxable capital to taxes based on net taxable earned surplus. Net taxable earned surplus is based on the federal tax return. To the extent any portion of the taxes calculated under the new tax status method is considered a state income tax, a deferred tax liability would result under the requirements of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). Certain provisions of SFAS 109 provide that regulated enterprises are permitted to recognize such adjustments as regulatory tax assets if it is probable that such amounts will be recovered from customers in future rates. Accordingly, the requirements of SFAS 109, if applied to any portion of the state franchise tax, will increase both assets and liabilities. The requirements of SFAS 109, if applied, are not expected to have a material effect on the Company's and TU Electric's financial position, results of operation or cash flows.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

TEXAS UTILITIES COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

	Year Ended December 31,		
	1996	1995	1994
		Thousands of Dollars	
OPERATING REVENUES	$6,[illegible]50,928	$5,638,688	$5,663,543
OPERATING EXPENSES			
Fuel and purchased power	2,136,309	1,640,990	1,729,091
Operation and maintenance	1,256,280	1,109,644	1,177,213
Depreciation and amortization	620,505	563,819	549,539
Taxes other than income	534,844	536,608	559,144
Total operating expenses	4,547,938	3,851,061	4,014,987
OPERATING INCOME	2,002,990	1,787,627	1,648,556
OTHER INCOME AND (DEDUCTIONS) — NET	(1,148)	24,583	38,379
TOTAL INCOME	2,001,842	1,812,210	1,686,935
INTEREST AND OTHER CHARGES			
Interest	797,893	706,182	726,876
Allowance for borrowed funds used during construction	(11,248)	(15,327)	(11,261)
Impairment of assets	—	1,233,320	—
Distributions on TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	33,001	1,801	—
Preferred stock dividends of subsidiary	53,358	84,9[illegible]4	101,883
Total interest and other charges	873,0[illegible]4	2,010,890	817,498
INCOME (LOSS) BEFORE INCOME TAXES	1,128,838	(198,680)	869,437
INCOME TAX EXPENSE (BENEFIT)	375,232	(60,035)	326,638
CONSOLIDATED NET INCOME (LOSS)	$ 753,606	$ (138,645)	$ 542,799
Average shares of common stock outstanding (thousands)	225,160	225,841	225,834
Earnings (loss) and dividends per share of common stock:			
Earnings (loss) (on average shares outstanding)	$3.35	$(0.61)	$2.40
Dividends declared per share of common stock	$2.025	$ 2.81	$3.08

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

	Year Ended December 31,		
	1996	1995	1994
		Thousands of Dollars	
BALANCE AT BEGINNING OF YEAR	$ 924,444	$1,691,250	$1,842,413
ADD — Consolidated net income (loss)	753,606	(138,645)	542,799
LESOP dividend deduction tax benefit	4,032	6,452	6,733
DEDUCT — Dividends declared on common stock (for amounts per share, see Statements of Consolidated Income)	456,059	634,613	695,590
Common stock reacquisition and preferred stock redemption costs — net	23,633	—	5,105
BALANCE AT END OF YEAR	$1,202,390	$ 924,444	$1,691,250

See accompanying Notes to Consolidated Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

	Year Ended December 31,		
	1996	1995	1994
		Thousands of Dollars	
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income (loss)	$ 753,606	$ (138,645)	$ 542,799
Adjustments to reconcile consolidated net income (loss) to cash provided by operating activities:			
Depreciation and amortization (including amounts charged to fuel)	788,295	725,646	710,196
Deferred federal income taxes — net	183,953	(204,550)	261,452
Federal investment tax credits — net	(33,075)	(22,774)	(26,427)
Allowance for equity funds used during construction	(1,575)	(6,680)	(10,774)
Impairment of assets	—	1,233,320	—
Changes in operating assets and liabilities:			
Accounts receivable	(6,501)	(22,898)	10,408
Inventories	5,846	18,701	2,673
Accounts payable	36,254	48,079	(43,684)
Interest and taxes accrued	(32,988)	(94,158)	(77,795)
Other working capital	10,576	(25,932)	(131,506)
Over/(under) - recovered fuel revenue — net of deferred taxes	(47,368)	94,717	113,693
Other — net	72,136	5,902	68,549
Cash provided by operating activities	1,729,159	1,610,728	1,419,584
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of securities:			
First mortgage bonds	244,225	535,055	378,340
Other long-term debt	1,199,679	300,000	—
TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	—	381,476	—
Preferred stock of subsidiary	—	—	123
Common stock	—	—	62,102
Retirements of securities:			
First mortgage bonds	(556,847)	(684,385)	(856,677)
Other long-term debt	(1,273,934)	(202,520)	(96,578)
Preferred stock of subsidiary	(50,269)	(504,781)	(222,768)
Common stock	(51,636)	—	—
Change in notes payable	(169,755)	615,929	363,886
Common stock dividends paid	(451,063)	(695,656)	(694,355)
Debt premium, discount, financing and reacquisition expenses	(44,551)	(123,668)	(21,799)
Cash used in financing activities	(1,154,151)	(378,550)	(1,087,726)
CASH FLOWS FROM INVESTING ACTIVITIES			
Construction expenditures	(434,139)	(434,338)	(444,245)
Allowance for equity funds used during construction (excluding amount for nuclear fuel)	892	3,952	4,802
Change in construction receivables/payables — net	(706)	2,140	3,897
Non-utility property — net	(3,683)	(69,949)	(14,967)
Nuclear fuel (excluding allowance for equity funds used during construction)	(58,895)	(55,013)	(62,655)
Acquisition of Eastern Energy	—	(616,865)	—
Other investments	(103,325)	(41,226)	(23,848)
Cash used in investing activities	(599,856)	(1,211,299)	(537,016)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	15,840	(3,452)	—
NET CHANGE IN CASH AND CASH EQUIVALENTS	(9,008)	17,427	(205,158)
CASH AND CASH EQUIVALENTS — BEGINNING BALANCE	24,853	7,426	212,584
CASH AND CASH EQUIVALENTS — ENDING BALANCE	$ 15,845	$ 24,853	$ 7,426

See accompanying Notes to Consolidated Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	1996	1995
	Thousands of Dollars	
UTILITY PLANT		
In service:		
Production	$16,277,151	$16,661,053
Transmission	1,607,925	1,592,610
Distribution	5,655,677	5,333,396
General	503,688	466,474
Total	24,044,441	24,053,533
Less accumulated depreciation	6,127,610	5,562,190
Utility plant in service, less accumulated depreciation	17,916,831	18,491,343
Construction work in progress	240,612	271,033
Nuclear fuel (net of accumulated amortization: 1996 — $369,114,000; 1995 — $295,390,000)	252,589	266,735
Held for future use	24,483	25,096
Utility plant, less accumulated depreciation and amortization	18,434,515	19,054,207
Less reserve for regulatory disallowances	836,005	1,308,460
Net utility plant	17,598,510	17,745,747
INVESTMENTS	1,158,223	1,040,004
CURRENT ASSETS		
Cash and cash equivalents	15,845	24,853
Special deposits	805	19,455
Accounts receivable:		
Customers	290,111	275,275
Other	44,032	51,735
Allowance for uncollectible accounts	(6,262)	(5,965)
Inventories — at average cost:		
Materials and supplies	200,601	200,145
Fuel stock	121,699	128,028
Prepayments	56,324	55,528
Deferred federal income taxes	40,021	84,410
Other current assets	13,279	14,924
Total current assets	776,455	848,388
DEFERRED DEBITS		
Unamortized regulatory assets	1,753,418	1,828,625
Other deferred debits	89,101	73,087
Total deferred debits	1,842,519	1,901,712
Total	$21,375,707	$21,535,851

See accompanying Notes to Consolidated Financial Statements.

TEXAS UTILITIES COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1996	December 31, 1995
	Thousands of Dollars	
CAPITALIZATION		
Common stock without par value — net:		
Authorized shares — 500,000,000		
Outstanding shares : 1996 — 224,602,557; 1995 — 225,841,037	$ 4,787,047	$ 4,806,912
Retained earnings	1,202,390	924,444
Cumulative currency translation adjustment	43,476	397
Total common stock equity	6,032,913	5,731,753
Preferred stock of subsidiary:		
Not subject to mandatory redemption	464,427	489,695
Subject to mandatory redemption	238,391	263,196
TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	381,311	381,476
Long-term debt, less amounts due currently	8,668,111	9,174,575
Total capitalization	15,785,153	16,040,695
CURRENT LIABILITIES		
Notes payable:		
Commercial paper	253,151	321,990
Banks	69,788	275,000
Long-term debt due currently	356,076	61,321
Accounts payable	336,391	300,726
Dividends declared	129,879	125,929
Customers' deposits	80,390	76,963
Taxes accrued	143,424	167,951
Interest accrued	156,758	165,277
Over-recovered fuel revenue	42,984	115,858
Other current liabilities	90,485	101,566
Total current liabilities	1,659,326	1,712,581
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES		
Accumulated deferred federal income taxes	2,801,626	2,669,808
Unamortized federal investment tax credits	589,713	622,786
Other deferred credits and noncurrent liabilities	539,889	489,981
Total deferred credits and other noncurrent liabilities	3,931,228	3,782,575
COMMITMENTS AND CONTINGENCIES		
Total	$21,375,707	$21,535,851

See accompanying Notes to Consolidated Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

	Year Ended December 31,		
	1996	1995	1994
		Thousands of Dollars	
OPERATING REVENUES	$6,029,611	$5,560,462	$5,613,175
OPERATING EXPENSES			
Fuel and purchased power	1,965,756	1,697,091	1,798,493
Operation and maintenance	1,111,911	1,049,034	1,108,815
Depreciation and amortization	561,902	549,611	540,535
Federal income taxes	421,012	382,315	338,465
Taxes other than income	506,432	512,045	534,430
Total operating expenses	4,567,013	4,190,096	4,320,738
OPERATING INCOME	1,462,598	1,370,366	1,292,437
OTHER INCOME (LOSS)			
Allowance for equity funds used during construction	1,549	6,658	10,743
Impairment of assets	—	(486,350)	—
Other income and (deductions) — net	503	8,625	10,160
Federal income taxes	15,513	169,362	(4,222)
Total other income (loss)	17,565	(301,705)	16,681
TOTAL INCOME	1,480,163	1,068,661	1,309,118
INTEREST AND OTHER CHARGES			
Interest on mortgage bonds	486,791	526,977	567,363
Interest on other long-term debt	26,456	44,071	32,183
Other interest	82,459	58,500	62,631
Distributions on TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	33,001	1,801	—
Allowance for borrowed funds used during construction	(11,239)	(15,319)	(11,251)
Total interest and other charges	617,468	616,030	650,926
CONSOLIDATED NET INCOME	862,695	452,631	658,192
PREFERRED STOCK DIVIDENDS	53,358	84,914	101,883
CONSOLIDATED NET INCOME AVAILABLE FOR COMMON STOCK	$ 809,337	$ 367,717	$ 556,309

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

	Year Ended December 31,		
	1996	1995	1994
		Thousands of Dollars	
BALANCE AT BEGINNING OF YEAR	$1,067,593	$ 948,136	$1,112,692
ADD — Consolidated net income	862,695	452,631	658,192
Transfer from common stock	—	433,820	—
DEDUCT — Preferred stock dividends	53,358	84,914	101,883
Common stock dividends (per share: 1996 -$3.21; 1995 - $4.35; 1994 - $4.60)	503,328	682,080	715,760
Preferred stock redemption costs — net	—	—	5,105
BALANCE AT END OF YEAR	$1,373,602	$1,067,593	$ 948,136

See accompanying Notes to Consolidated Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

	Year Ended December 31,		
	1996	1995	1994
		Thousands of Dollars	
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income	$ 862,695	$ 452,631	$ 658,192
Adjustments to reconcile consolidated net income to cash provided by operating activities:			
Depreciation and amortization (including amounts charged to fuel)	684,710	685,693	675,351
Deferred federal income taxes — net	149,851	83,621	280,971
Federal investment tax credits — net	(31,501)	(21,201)	(23,698)
Allowance for equity funds used during construction	(1,549)	(6,658)	(10,743)
Impairment of assets	—	427,478	—
Changes in operating assets and liabilities:			
Accounts receivable	9,190	(24,807)	10,827
Inventories	3,366	612	5,777
Accounts payable	52,126	1,842	(40,009)
Interest and taxes accrued	(18,718)	(110,455)	(60,637)
Other working capital	(1,255)	4,917	(140,210)
Over/(under) - recovered fuel revenue — net of deferred taxes	(47,368)	94,717	113,693
Other — net	39,908	(2,580)	54,877
Cash provided by operating activities	1,701,455	1,585,810	1,524,391
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of securities:			
First mortgage bonds	244,225	535,055	378,340
Other long-term debt	—	300,000	—
TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	—	381,476	—
Preferred stock	—	—	123
Common stock	—	—	249,600
Retirements of securities:			
First mortgage bonds	(556,820)	(684,385)	(856,540)
Other long-term debt	(302,458)	(183,947)	(3,898)
Preferred stock	(50,269)	(504,781)	(222,768)
Change in notes receivable — affiliates	(33,159)	26,238	(28,594)
Change in notes payable — parent	—	—	(88,434)
Change in notes payable — commercial paper	(68,839)	(41,896)	363,886
Preferred stock dividends paid	(54,411)	(95,304)	(105,572)
Common stock dividends paid	(366,912)	(682,080)	(715,760)
Debt premium, discount, financing and reacquisition expenses	(37,898)	(123,393)	(21,931)
Cash used in financing activities	(1,226,541)	(1,073,017)	(1,051,648)
CASH FLOWS FROM INVESTING ACTIVITIES			
Construction expenditures	(377,438)	(407,305)	(415,290)
Allowance for equity funds used during construction (excluding amount for nuclear fuel)	867	3,929	4,771
Change in construction receivables/payables — net	(706)	(1,305)	1,343
Non-utility property — net	199	21	(4)
Nuclear fuel (excluding allowance for equity funds used during construction)	(58,895)	(55,013)	(62,655)
Other investments	(48,569)	(37,186)	(22,138)
Cash used in investing activities	(484,542)	(496,859)	(493,973)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(9,628)	15,934	(21,230)
CASH AND CASH EQUIVALENTS — BEGINNING BALANCE	22,633	6,699	27,929
CASH AND CASH EQUIVALENTS — ENDING BALANCE	$ 13,005	$ 22,633	$ 6,699

See accompanying Notes to Consolidated Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1996	December 31, 1995
	Thousands of Dollars	
ELECTRIC PLANT		
In service:		
Production	$15,330,974	$15,699,488
Transmission	1,601,628	1,586,547
Distribution	4,442,547	4,229,794
General	432,178	407,897
Total	21,807,327	21,923,726
Less accumulated depreciation	5,594,363	5,075,428
Electric plant in service, less accumulated depreciation	16,212,964	16,848,298
Construction work in progress	210,573	236,913
Nuclear fuel (net of accumulated amortization: 1996 — $369,114,000; 1995 — $295,390,000)	252,589	266,735
Held for future use	24,483	25,096
Electric plant, less accumulated depreciation and amortization	16,700,609	17,377,042
Less reserve for regulatory disallowances	836,005	1,308,460
Net electric plant	15,864,604	16,068,582
INVESTMENTS	508,437	436,122
CURRENT ASSETS		
Cash and cash equivalents	13,005	22,633
Special deposits	552	527
Notes receivable — affiliates	35,515	2,356
Accounts receivable:		
Customers	215,706	212,165
Other	23,282	34,906
Allowance for uncollectible accounts	(5,021)	(3,914)
Inventories — at average cost:		
Materials and supplies	181,405	179,001
Fuel stock	77,119	82,889
Prepayments	31,758	31,225
Deferred federal income taxes	50,882	79,629
Other current assets	2,694	1,455
Total current assets	626,897	642,872
DEFERRED DEBITS		
Unamortized regulatory assets	1,735,306	1,806,684
Other deferred debits	59,695	49,114
Total deferred debits	1,795,001	1,855,798
Total	$18,794,939	$19,003,374

See accompanying Notes to Consolidated Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1996	December 31, 1995
	Thousands of Dollars	
CAPITALIZATION		
Common stock without par value:		
Authorized shares — 180,000,000		
Outstanding shares — 156,800,000	$ 4,732,305	$ 4,732,305
Retained earnings	1,373,602	1,067,593
Total common stock equity	6,105,907	5,799,898
Preferred stock:		
Not subject to mandatory redemption	464,427	489,695
Subject to mandatory redemption	238,391	263,196
TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	381,311	381,476
Long-term debt, less amounts due currently	6,310,594	7,212,070
Total capitalization	13,500,630	14,146,335
CURRENT LIABILITIES		
Notes payable — commercial paper	253,151	321,990
Long-term debt due currently	338,213	43,458
Accounts payable:		
Affiliates	126,143	101,722
Other	136,401	109,402
Dividends declared	148,379	13,210
Customers' deposits	70,141	63,564
Taxes accrued	132,514	142,364
Interest accrued	132,947	141,815
Over-recovered fuel revenue	42,984	115,858
Other current liabilities	57,681	63,716
Total current liabilities	1,438,554	1,117,099
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES		
Accumulated deferred federal income taxes	2,989,612	2,869,049
Unamortized federal investment tax credits	577,965	609,466
Other deferred credits and noncurrent liabilities	288,178	261,425
Total deferred credits and other noncurrent liabilities	3,855,755	3,739,940
COMMITMENTS AND CONTINGENCIES		
Total	$18,794,939	$19,003,374

See accompanying Notes to Consolidated Financial Statements.

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TEXAS UTILITIES COMPANY AND SUBSIDIARIES
TEXAS UTILITIES ELECTRIC COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The Company

General — Texas Utilities Company (Company) is a holding company which owns all of the outstanding common stock of Texas Utilities Electric Company and its subsidiaries (TU Electric), Southwestern Electric Service Company (SESCO), Texas Utilities Australia Pty. Ltd. (TU Australia) and seven other wholly-owned subsidiaries which perform specialized functions within the Texas Utilities Company system. TU Electric, the largest subsidiary of the Company, representing 88% of the total assets, is engaged in the generation, purchase, transmission, distribution and sale of electric energy wholly within Texas.

Consolidation — The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries (System Companies). All significant intercompany items and transactions have been eliminated in consolidation. Investments in significant unconsolidated affiliates are accounted for by the equity method. Certain previously reported amounts have been reclassified to conform to current classifications.

Business Mergers and Acquisitions — In April 1996, the Company announced that it had entered into a merger agreement with Dallas-based ENSERCH Corporation (ENSERCH). Under the terms of the agreement, Lone Star Gas Company (Lone Star Gas) and Lone Star Pipeline Company (Lone Star Pipeline), the local distribution and pipeline divisions of ENSERCH, and other businesses, excluding Enserch Exploration Inc. (EEX), a subsidiary of ENSERCH, will be acquired by a new holding company, which will be named Texas Utilities Company and will own all of the common stock of ENSERCH and the Company. Shares of the Company's common stock will be automatically converted into shares of the new holding company common stock on a one-for-one basis in a tax-free transaction. Lone Star Gas is one of the largest gas distribution companies in the United States and the largest in Texas, serving over 1.3 million customers and providing service through over 23,500 miles of distribution mains. Lone Star Pipeline has one of the largest pipelines in the United States that consists of 9,200 miles of gathering and transmission pipelines in Texas. Also included in the acquisition are ENSERCH's subsidiaries engaged in natural gas processing, natural gas marketing and independent power production. The new holding company is expected to issue approximately $550 million of the new holding company's common stock to ENSERCH shareholders, and approximately $1.15 billion of ENSERCH's debt and preferred stock would remain outstanding after the merger. The transaction is subject to certain conditions which include the approval by the Securities and Exchange Commission (SEC) and receipt by ENSERCH of a favorable tax ruling from the Internal Revenue Service (IRS) to the effect that its distribution of EEX stock is a tax-free transaction. ENSERCH received this IRS ruling on March 6, 1997. The transaction was approved at special meetings of the shareholders of ENSERCH, EEX and the Company held separately on November 15, 1996. The Texas Railroad Commission has been notified of the proposed transaction and has indicated no objection to it. On March 7, 1997, the Antitrust Division of the U.S. Department of Justice notified the SEC that it had closed its investigation of the proposed transaction and indicated that no further action would be required. The acquisition of ENSERCH will be accounted for as a purchase business combination.

In December 1995, the Company's newly formed subsidiary, TU Australia, acquired all of the common stock of Eastern Energy Limited (Eastern Energy), one of five electricity distribution companies operating in Victoria, Australia. Eastern Energy is engaged in the purchase, distribution, marketing and sale of electric energy to approximately 481,000 customers in a 31,000 square mile service area extending from the outer eastern suburbs of the Melbourne metropolitan area to the eastern coastal areas of Victoria and north to the New South Wales border. Eastern Energy generates no electric energy. The acquisition by TU Australia was accounted for as a purchase business combination. Accordingly, a portion of the purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over the fair values of the assets acquired is being amortized over 40 years. Eastern Energy's results of operation subsequent to December 1, 1995, the date of acquisition, are reflected in the consolidated financial statements.

Income Taxes on Undistributed Earnings of Foreign Subsidiary — The Company intends to invest the undistributed earnings of its foreign subsidiary back into the foreign subsidiary's business. Accordingly, no provision has been made for taxes which would be payable if such earnings were repatriated to the United States.

Other Investments — The difference of $371,379,000 between the amount at which the investments in subsidiaries is carried by the Company and the underlying book equity of such subsidiaries at the respective dates of acquisition is included in other investments.

Foreign Currency Translation — The assets and liabilities of TU Australia's operations denominated in the Australian dollar are translated at rates in effect at year end. Revenues and expenses have been translated at average rates for the applicable periods. Local currencies are considered to be the functional currency, and adjustments resulting from such translation are included in the cumulative currency translation adjustment, a separate component of common stock equity.

TU Electric

System of Accounts — The accounting records of TU Electric are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts as adopted by the Public Utility Commission of Texas (PUC).

Consolidation — The consolidated financial statements of TU Electric include all of its business trusts. All significant intercompany items and transactions have been eliminated in consolidation. Certain previously reported amounts have been reclassified to conform to current classifications.

Amortization of Nuclear Fuel and Refueling Outage Costs — The amortization of nuclear fuel in the reactors (net of regulatory disallowances) is calculated on the units of production method and, subsequent to commercial operation, is included in nuclear fuel expense. TU Electric accrues a provision for costs anticipated to be incurred during the next scheduled Comanche Peak nuclear generating station (Comanche Peak) refueling outage.

The Company and TU Electric

Use of Estimates — The preparation of the Company's and TU Electric's consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions about future events that affect the reporting and disclosure of assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense during the periods covered by the consolidated financial statements. In the event estimates and/or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. No material adjustments were made to previous estimates during the current year.

Utility Plant — Utility plant is stated at original cost less certain regulatory disallowances. The cost of property additions to utility plant includes labor and materials, applicable overhead and payroll-related costs and an allowance for funds used during construction (AFUDC).

Allowance For Funds Used During Construction — AFUDC is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on equity capital used to finance construction are added to utility plant. The accrual of AFUDC is in accordance with generally accepted accounting principles for the industry, but does not represent current cash income.

TU Electric is capitalizing AFUDC, compounded semi-annually, on expenditures for ongoing construction work in progress (CWIP) and nuclear fuel in process not otherwise allowed in rate base by regulatory authorities. For 1996, 1995 and 1994, TU Electric used rates of 7.4%, 7.7% and 8.6%, respectively.

Derivative Instruments — The Company and TU Electric enter into interest rate swaps to reduce their exposure to interest rate fluctuations. Amounts paid or received under interest rate swap agreements are accrued as interest rates change and are recognized over the life of the agreements as adjustments to interest expense. The Company enters into currency swaps to reduce its foreign currency exposure. Gains and losses on currency swap agreements are deferred and offset against the deferred currency losses and gains of the underlying asset or liability. Net deferred gains and losses associated with these currency swaps at December 31, 1996 were not material. The Company also enters into derivative contracts in connection with the wholesale purchases of electric energy by its foreign subsidiary and defers

the impact of changes in the market value of the contracts, which serve as hedges, until the related transaction is completed. (See Note 9.)

Depreciation of Utility Plant — Depreciation is generally based upon an amortization of the original cost of depreciable properties (net of regulatory disallowances) on a straight-line basis over the estimated service lives of the properties. Depreciation as a percent of average depreciable property for the Company and System Companies approximated 2.7% for 1996 and 2.6% for each of the years 1995 and 1994. For TU Electric, depreciation as a percent of average depreciable property approximated 2.6% for each of the years 1996, 1995 and 1994. Depreciation also includes an amount for TU Electric's Comanche Peak decommissioning costs which is being accrued over the lives of the units and deposited to external trust funds. (See Note 15.)

Revenues — Revenues include billings under approved rates (including a fixed fuel factor) applied to meter readings each month on a cycle basis and an accrual of base rate revenue for energy provided after cycle billing but not billed through the end of each month. Revenues also include an amount for under- or over-recovery of fuel revenue representing the difference between actual fuel cost and billings under the approved fixed fuel factor and a provision that generally allows recovery through a Power Cost Recovery Factor, on a monthly basis, of the capacity portion of purchased power cost and wheeling cost from qualifying facilities not included in base rates. The fuel portion of purchased power cost is included in the fixed fuel factor. A utility's fuel factor can be revised upward or downward every six months, according to a specified schedule. A utility is required to petition to make either surcharges or refunds to ratepayers, together with interest based on a twelve month average of prime commercial rates, for any material cumulative under- or over-recovery of fuel costs. If the cumulative difference of the under- or over-recovery, plus interest, is in excess of 4% of the annual estimated fuel costs most recently approved by the PUC, it will be deemed to be material. A procedure exists for an expedited change in fuel factors in the event of an emergency. Final reconciliation of fuel costs must be made either in a reconciliation proceeding, which may cover no more than three years and no less than one year, or in a general rate case. In December 1995, TU Electric filed for a fuel reconciliation proceeding for the reconciliation period of July 1992 through June 1995. (See Note 13.)

Federal Income Taxes — The Company and System Companies, excluding TU Australia, file a consolidated federal income tax return and federal income taxes are allocated to System Companies based upon their respective taxable income or loss. Investment tax credits are normally amortized to income over the estimated service lives of the properties. Deferred federal income taxes are currently provided for temporary differences between the book and tax basis of assets and liabilities (including the provision for regulatory disallowances). The Company and TU Electric have adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). Certain provisions of SFAS 109 provide that regulated enterprises are permitted to recognize such adjustments as regulatory tax assets or tax liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. Accordingly, at December 31, 1996, the consolidated balance sheets include a regulatory tax asset of approximately $1.2 billion net of an approximate $600 million regulatory tax liability.

Consolidated Cash Flows — For purposes of reporting cash flows, temporary cash investments purchased with a remaining maturity of three months or less are considered to be cash equivalents.

The supplemental schedule below details the Company's cash payments and noncash investing and financing activities:

	Year Ended December 31,		
	1996	1995	1994
		Thousands of Dollars	
CASH PAYMENTS			
Interest (net of amounts capitalized)	$757,092	$677,415	$678,682
Income taxes	246,556	208,326	220,316
NON–CASH INVESTING AND FINANCING ACTIVITIES			
Acquisition of Eastern Energy:			
Book value of assets acquired	$ —	$1,329,158	$ —
Goodwill acquired	—	302,497	—
Less: Liabilities incurred	—	8,503	—
Liabilities assumed	—	1,006,848	—
Cash paid	—	616,304	—
Less: Cash acquired	—	7,943	—
Currency translation adjustment	—	53	—
Net cash	$ —	$ 608,414	$ —

The supplemental schedule below details TU Electric's cash payments:

	Year Ended December 31,		
	1996	1995	1994
CASH PAYMENTS	Thousands of Dollars		
Interest (net of amounts capitalized)	$558,039	$602,524	$616,254
Income taxes	303,204	213,690	198,267

Regulatory Assets and Liabilities — Under the current regulatory environment, certain System Companies are subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). This statement applies to utilities which have cost-based rates established by a regulator and charged to and collected from customers. In accordance with this statement, these companies may defer the recognition of certain costs (regulatory assets) and certain obligations (regulatory liabilities) that, as a result of the rate making process, have probable corresponding increases or decreases in future revenues. Future significant changes in regulation or competition could affect these companies' ability to meet the criteria for continued application of SFAS 71, and may affect these companies' ability to recover these regulatory assets from, or refund these regulatory liabilities to customers. These regulatory assets and liabilities, which are being amortized over various periods (5 to 40 years), are currently included in rates, or are expected to be included in future rates. In the event all or a portion of these companies' operations fail to meet the criteria for application of SFAS 71, these companies would be required to write-off all or a portion of their regulatory assets and liabilities.

Significant net regulatory assets are as follows:

	The Company		TU Electric	
	December 31,		December 31,	
Item	1996	1995	1996	1995
	Thousands of Dollars			
Securities reacquisition costs	$ 396,335	$ 387,493	$ 394,733	$ 385,287
Cancelled lignite unit costs	12,322	15,266	12,322	15,266
Rate case costs	59,444	62,211	59,444	62,211
Litigation and settlement costs	72,685	72,685	72,685	72,685
Voluntary retirement/severance program	128,337	156,339	108,884	132,641
Recoverable deferred federal income taxes – net	1,167,922	1,192,959	1,173,413	1,199,552
Other regulatory assets (liabilities)	(10,942)	14,357	(13,490)	11,727
Unamortized regulatory assets	1,826,103	1,901,310	1,807,991	1,879,369
Less: Reserve for regulatory disallowances	72,685	72,685	72,685	72,685
Unamortized federal investment tax credits	589,713	622,786	577,965	609,466
Unamortized regulatory assets — net	$1,163,705	$1,205,839	$1,157,341	$1,197,218

Should significant changes in regulation or competition occur, the affected System Companies would be required to assess the recoverability of certain assets, including plant and regulatory assets, and, if impaired, to write down the assets to reflect their then fair market value.

The Company and TU Electric do not anticipate any legislation being enacted during the 1997 legislature to authorize competition in the retail market. The Company and TU Electric cannot predict the ultimate outcome of the ongoing efforts that are taking place to restructure the electric utility industry or whether such outcome will have a material effect on their financial position, results of operation or cash flows.

2. AFFILIATES

TU Electric

The Company provides common stock capital and partial requirements for short-term financing to TU Electric. The Company has other subsidiaries which perform specialized services for the System Companies, including TU Electric; Texas Utilities Services Inc. (TU Services) which provides financial, accounting, information technology, environmental services, customer services, procurement, personnel, shareholder services and other administrative services at cost; Texas Utilities Fuel Company (Fuel Company) which owns a natural gas pipeline system, acquires, stores and delivers fuel gas and provides other fuel services at cost for the generation of electric energy by TU Electric; and Texas Utilities Mining Company (Mining Company) which owns, leases and operates fuel production facilities for the surface mining and recovery of lignite at cost for use at TU Electric's generating stations. TU Electric provided

services such as energy sales, wheeling and scheduling to SESCO which is engaged in the purchase, transmission, distribution and sale of electric energy in ten counties in the eastern and central parts of Texas with a population estimated at 125,000. SESCO generates no electric energy.

TU Electric has entered into agreements with Fuel Company for the procurement of certain fuels and related services and with Mining Company for the procurement and production of lignite. Payments are at cost for the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Mining Company. TU Electric is, in effect, obligated for the principal, $396,428,000 at December 31, 1996, and interest on long-term notes of Mining Company through payments described above. Such notes mature at various dates through 2005 and have interest rates ranging from 6.50% to 9.42%. At December 31, 1996, TU Electric had recorded as a note receivable on its balance sheet, $35,515,000 representing operating funds extended to the Fuel Company.

The schedule below details TU Electric's significant billings to and from affiliates for services rendered and interest on short-term financings:

	Year Ended December 31,		
	1996	1995	1994
	Thousands of Dollars		
Billings from:			
TU Services	$263,869	$182,334	$184,537
Fuel Company	922,200	763,346	850,825
Mining Company	368,937	327,856	329,108
Billings to:			
SESCO	$29,171	$20,657	$21,869
Fuel Company	1,619	5,669	3,205

3. SHORT-TERM FINANCING

The Company

The Company's and System Companies' amounts outstanding to banks for short-term borrowings at December 31, 1996 consisted of the following :

	Thousands of Dollars
Credit facility agreements (the Company)	$520,000
Uncommitted bank lines (Fuel Company)	15,000
Total	$535,000

Interest rates on such bank borrowings ranged from 5.81% to 5.99% at December 31, 1996. During the years 1996, 1995 and 1994, the Company's average amounts outstanding to banks for short-term borrowings were $593,660,000, $149,806,000 and $66,042,000, respectively. Weighted average interest rates to banks for short-term borrowings during such periods were 5.94%, 6.33% and 4.92%, respectively. At December 31, 1996, the total amount of short-term borrowings authorized by the Board of Directors of the Company from banks or other lenders was $1,250,000,000.

At December 31, 1996, the Company and TU Electric had joint lines of credit under two credit agreements (Credit Agreements) with a group of commercial banks. The Credit Agreements, for each of which the Company pays a fee, have three facilities. Borrowings under these facilities will be used for working capital and other corporate purposes, including commercial paper backup. Facility A provides for short-term borrowings of up to $375,000,000 at a variable interest rate and terminates April 25, 1997. Facility B provides for short-term borrowings of up to $875,000,000 at a variable interest rate and terminates April 26, 2001. The Company's borrowings under Facilities A and B are limited to an aggregate of $750,000,000 outstanding at any one time. Facility C is a separate five-year, unsecured long-term loan to the Company in the principal amount of $300,000,000. For more information regarding long-term financings of the Company and TU Electric, see Note 8 to Consolidated Financial Statements. In addition to the above, the Company and Fuel Company have separate arrangements for uncommitted lines of credit.

The Company intends to refinance up to $525,000,000 of its current $535,000,000 short-term borrowings from banks beyond one year of the balance sheet date of December 31, 1996. As a result, such amount has been reclassified from notes payable – banks to long-term debt on the Company's 1996 Balance Sheet (see Note 8). If necessary, the Company would draw upon Facility B if such amounts were not refinanced in the normal course of business.

TU Electric

At December 31, 1996, TU Electric had $253,151,000 of commercial paper outstanding with interest rates ranging from 5.48% to 7.30%. TU Electric had no borrowings from banks in 1996. During the years 1995 and 1994, average amounts outstanding to banks for borrowings were $11,667,000 and $32,292,000, respectively and to holders of commercial paper were $254,027,000, $340,579,000 and $238,401,000 for 1996, 1995 and 1994, respectively. During such periods, weighted average interest rates to banks for borrowings were 6.51% and 4.60%, respectively, and to holders of commercial paper were 5.53%, 6.10% and 4.94%, respectively.

4. COMMON STOCK

The Company

During 1994, the Company issued a total of 1,495,615 shares of its authorized but unissued common stock for $62,102,000. The total issuance was comprised of 1,364,690 shares pursuant to the Company's Automatic Dividend Reinvestment and Common Stock Purchase Plan (DRIP) for $56,671,000 and 130,925 shares pursuant to the Employees' Thrift Plan of the Texas Utilities Company System (Thrift Plan) for $5,431,000. Since March 1994, requirements under the DRIP and Thrift Plan have been met through open market purchases of the Company's common stock. As a result, no shares of the authorized but unissued common stock of the Company were issued in 1995 or 1996.

At December 31, 1996, 1,997,005 shares of the authorized but unissued common stock of the Company were reserved for issuance and sale pursuant to the above plans.

In 1990, the Thrift Plan borrowed $250,000,000 in the form of a note payable from an outside lender and purchased 7,142,857 shares of common stock (LESOP Shares) from the Company in connection with the leveraged employee stock ownership provision of the Thrift Plan. LESOP Shares are held by the trustee until allocated to Thrift Plan participants when required to meet the System Companies' obligations under terms of the Thrift Plan. The Company has purchased the note from the outside lender, which has been recorded as a reduction to common stock equity. The Thrift Plan uses dividends on the LESOP Shares purchased and contributions from the System Companies, if required, to repay interest and principal on the note. Common stock equity increases at such time as LESOP Shares are allocated to participants' accounts even though shares of common stock outstanding include unallocated LESOP Shares held by the trustee. Allocations to participants' accounts in each of the years 1996, 1995 and 1994 increased common stock equity by $8,115,000.

In June 1996, the Company purchased for $51,636,000, and retired, 1,238,480 shares of its issued and outstanding common stock.

The Company has 50,000,000 authorized shares of serial preference stock having a par value of $25 a share, none of which has been issued.

TU Electric

In March 1994, TU Electric issued 4,800,000 shares of its authorized but unissued common stock to the Company for $249,600,000. No such shares were issued in 1995 or 1996.

No shares of TU Electric's common stock are held by or for its own account, nor are any shares of such capital stock reserved for its officers and employees or for options, warrants, conversions and other rights in connection therewith.

5. Retained Earnings

The Company and TU Electric

The articles of incorporation and the mortgages, as supplemented, of TU Electric and SESCO, contain provisions which, under certain conditions, restrict distributions on or acquisitions of their common stock. At December 31, 1996, $69,438,000 of retained earnings of TU Electric and $13,969,000 of retained earnings of SESCO were thus restricted as a result of such provisions.

In 1995, TU Electric transferred approximately $433,820,000 from its common stock account to retained earnings. Such amount represented the Company's equity in undistributed earnings, since acquisition, included in previous transfers by TU Electric.

6. Preferred Stock of TU Electric (cumulative, without par value, entitled upon liquidation to $100 a share; authorized 17,000,000 shares)

Dividend Rate	Shares Outstanding December 31, 1996	Shares Outstanding December 31, 1995	Amount December 31, 1996 (Thousands of Dollars)	Amount December 31, 1995 (Thousands of Dollars)	Redemption Price Per Share (Before Adding Accumulated Dividends) December 31,1996	Redemption Price Per Share (Before Adding Accumulated Dividends) Eventual Minimum
Not Subject to Mandatory Redemption						
$ 4.50 series	74,367	74,367	$ 7,440	$ 7,440	$110.00	$110.00
4.00 series (Dallas Power)	70,000	70,000	7,049	7,049	103.56	103.56
4.56 series (Texas Power)	133,628	133,628	13,371	13,371	112.00	112.00
4.00 series (Texas Electric)	110,000	110,000	11,000	11,000	102.00	102.00
4.56 series (Texas Electric)	64,947	64,947	6,560	6,560	112.00	112.00
4.24 series	100,000	100,000	10,081	10,081	103.50	103.50
4.64 series	100,000	100,000	10,016	10,016	103.25	103.25
4.84 series	70,000	70,000	7,000	7,000	101.79	101.79
4.00 series (Texas Power)	70,000	70,000	7,000	7,000	102.00	102.00
4.76 series	100,000	100,000	10,000	10,000	102.00	102.00
5.08 series	80,000	80,000	8,004	8,004	103.60	103.60
4.80 series	100,000	100,000	10,009	10,009	102.79	102.79
4.44 series	150,000	150,000	15,061	15,061	102.61	102.61
7.20 series	200,000	200,000	20,044	20,044	103.21	103.21
6.84 series	200,000	200,000	20,023	20,023	103.05	103.05
7.24 series	247,862	247,862	24,905	24,905	103.42	103.42
8.20 series (a)	338,872	338,872	32,704	32,704	(b)	100.00
7.98 series	474,000	500,000	46,794	49,361	(b)	100.00
7.50 series (a)	392,234	392,234	38,062	38,062	(b)	100.00
7.22 series (a)	301,132	308,632	29,182	29,909	(b)	100.00
Adjustable rate series A (c)	884,700	1,000,000	86,878	98,200	100.00	100.00
Adjustable rate series B (c)	440,137	548,561	43,244	53,896	100.00	100.00
Total	4,701,879	4,959,103	$464,427	$489,695		
Subject to Mandatory Redemption (d)						
$ 9.64 series (e)	400,000	650,000	$ 39,981	$ 64,950	(f)	(f)
6.98 series	1,000,000	1,000,000	99,199	99,123	(b)	100.00
6.375 series	1,000,000	1,000,000	99,211	99,123	(b)	100.00
Total	2,400,000	2,650,000	$238,391	$263,196		

(a) The preferred stock series is the underlying preferred stock for depositary shares that were issued to the public. Each depositary share represents one quarter of a share of underlying preferred stock.

(b) Preferred stock series is not redeemable at December 31, 1996.

(c) Adjustable rate series A bears a dividend rate for the period ended January 31, 1997, of $6.50 per annum and adjustable rate series B bears a dividend rate for the period ended December 31, 1996, of $7.00 per annum.

(d) TU Electric is required to redeem at a price of $100 per share plus accumulated dividends a specified minimum number of shares annually or semi-annually on the initial/next dates shown below. These redeemable shares may be called, purchased or otherwise acquired. Certain issues may not be redeemed at the option of TU Electric prior to 2003. TU Electric may annually call for redemption, at its option, an aggregate of up to twice the number of shares shown below for each series at a price of $100 per share plus accumulated dividends, except for the $9.64 series which may be redeemed in a minimum amount of 10,000 shares at any time at a price of $100 per share plus accumulated dividends plus a component at a variable price per share which is designed to maintain the expected yield at issuance:

Series	Minimum Redeemable Shares	Initial/Next Date of Mandatory Redemption
$ 9.64	125,000 semi-annually	5/1/97
6.98	50,000 annually	7/1/03
6.375	50,000 annually	10/1/03

Preferred stock mandatory redemption requirements for the next five years are $25 million in 1997, $15 million in 1998 and none thereafter. The carrying value of preferred stock subject to mandatory redemption is being increased periodically to equal the redemption amounts at the mandatory redemption dates with a corresponding increase in preferred stock dividends.

(e) Under certain circumstances relating to a change in federal tax law governing the dividends received deduction applicable to eligible corporations, the dividend rate of the $9.64 series may increase to a maximum of $10.74.

(f) The redemption price is calculated on the business day next preceding the settlement date at a price of $100 per share plus accumulated dividends plus a component which is designed to maintain the expected yield at issuance.

In February 1997, the Company announced a tender offer for any and all outstanding shares of 20 series of TU Electric's preferred stock and depositary shares. The Company expects to fund the purchase of shares tendered and accepted pursuant to the tender offer through the use of its general funds and funds borrowed through the issuance of commercial paper, and under its lines of credit.

7. TU Electric Obligated, Mandatorily Redeemable, Preferred Securities of Subsidiary Trusts Holding Solely Debentures of TU Electric

Three statutory business trusts, TU Electric Capital I, TU Electric Capital II and TU Electric Capital III (each a TU Electric Trust), were established in 1995 as financing subsidiaries of TU Electric for the purposes, in each case, of issuing common and preferred trust securities, with a liquidation preference of $25 per unit, and holding Junior Subordinated Debentures issued by TU Electric (Debentures). The Debentures held by each TU Electric Trust are its only assets. Each TU Electric Trust will use interest payments received on the Debentures it holds to make cash distributions on the trust securities.

At December 31, 1996 and 1995, the following Trust Originated Preferred Securities of TU Electric Capital I and II and Quarterly Income Preferred Securities of TU Electric Capital III were outstanding:

	Units Outstanding December 31,		Amount December 31,	
	1996	1995	1996	1995
Company			Thousands of Dollars	
TU Electric Capital I (8.25% Series) (a)	5,871,044	5,871,044	$140,671	$140,880
TU Electric Capital II (9.00% Series)(b)	1,991,253	1,991,253	47,301	47,374
TU Electric Capital III (8.00% Series)(c)	8,000,000	8,000,000	193,339	193,222
Total	15,862,297	15,862,297	$381,311	$381,476

(a) Trust assets are $154,869,150 principal amount, Junior Subordinated Debentures Series A, 8.25% due 9/30/30.
(b) Trust assets are $51,418,575 principal amount, Junior Subordinated Debentures Series B, 9.00% due 9/30/30.
(c) Trust assets are $206,185,575 principal amount, Junior Subordinated Debentures Series C, 8.00% due 12/31/35.

The preferred trust securities are subject to mandatory redemption upon payment of the Debentures at maturity or upon redemption. The Debentures are subject to redemption, in whole or in part at the option of TU Electric, at 100% of their principal amount plus accrued interest, after an initial period during which they may not be redeemed and at any time upon the occurrence of certain events. The carrying value of preferred securities subject to mandatory redemption is being increased periodically to equal the redemption amounts at the mandatory redemption dates with a corresponding increase in preferred securities distributions.

In January 1997, two statutory business trusts, TU Electric Capital IV and TU Electric Capital V were established for the purpose of issuing common and preferred trust securities, with a liquidation preference of $1,000 per unit (Capital Securities), and holding Debentures. TU Electric Capital IV issued floating rate Capital Securities having an aggregate liquidation preference of $100,000,000. Distributions on Capital Securities of TU Electric Capital IV are payable quarterly based on an annual floating rate determined quarterly with reference to a 3-month LIBOR plus a margin of 0.80%. TU Electric Capital V issued fixed rate Capital Securities having an aggregate liquidation preference of $400,000,000. Distributions on Capital Securities of TU Electric Capital V are payable semi-annually at an annual rate of 8.175%. Except for certain differences with respect to redemption rights, the Capital Securities and the related Debentures have terms substantially similar to those of the TU Electric Trusts described above. In February 1997, TU Electric, with respect to its Capital IV securities, entered into an interest rate swap agreement with a notional principal amount of $100,000,000 expiring 2002 with a fixed interest rate of 7.183% per annum.

The Debentures held by each of these trusts are its only assets. Each of these trusts will use interest payments received on the Debentures it holds to make cash distributions on the trust securities. The trust assets of TU Electric Capital IV are $103,093,000 principal amount of floating rate Junior Subordinated Debentures, Series D, due January 30, 2037. The trust assets of TU Electric Capital V are $412,372,000 principal amount of 8.175% Junior Subordinated Debentures, Series E, due January 30, 2037.

The combination of the obligations of TU Electric pursuant to agreements to pay the expenses of each of TU Electric Capital I, II, III, IV and V and TU Electric's guarantees of distributions with respect to trust securities, to the extent the issuing trust has funds available therefor, constitutes a full and unconditional guarantee by TU Electric of the obligations of each trust under the trust securities it has issued. TU Electric is the owner of all the common trust securities of each trust, which, in each case, constitutes 3% or more of the liquidation amount of all the trust securities issued by such trust.

8. LONG-TERM DEBT, less amounts due currently

Interest Rate / Series Due	The Company December 31, 1996	The Company December 31, 1995	TU Electric December 31, 1996	TU Electric December 31, 1995
	Thousands of Dollars			
First mortgage bonds:				
6-3/8% series due 1997	$ —	$ 175,000	$ —	$ 175,000
7-1/8% series due 1997	—	150,000	—	150,000
5-1/2% series due 1998	125,000	125,000	125,000	125,000
5-3/4% series due 1998	150,000	150,000	150,000	150,000
5-7/8% series due 1998	175,000	175,000	175,000	175,000
6-1/2% series due 1998	1,065	1,080	—	—
7-3/8% series due 1999	100,000	100,000	100,000	100,000
Floating rate series due 1999 (a)	300,000	300,000	300,000	300,000
9-1/2% series due 1999	200,000	200,000	200,000	200,000
7-3/8% series due 2001	150,000	150,000	150,000	150,000
7.95 % series due 2002	900	912	—	—
8 % series due 2002	147,000	147,000	147,000	147,000
8-1/8% series due 2002	150,000	150,000	150,000	150,000
6-3/4% series due 2003	200,000	200,000	200,000	200,000
6-3/4% series due 2003	100,000	100,000	100,000	100,000
6-1/4% series due 2004	125,000	125,000	125,000	125,000
8-1/4% series due 2004	100,000	100,000	100,000	100,000
6-3/4% series due 2005	100,000	100,000	100,000	100,000
10.44% series due 2008	3,000	150,000	3,000	150,000
9-3/4% series due 2021	280,855	300,000	280,855	300,000
8-7/8% series due 2022	175,000	175,000	175,000	175,000
9 % series due 2022	100,000	100,000	100,000	100,000
7-7/8% series due 2023	300,000	300,000	300,000	300,000
8-3/4% series due 2023	195,550	200,000	195,550	200,000
7-7/8% series due 2024	225,000	225,000	225,000	225,000
8-1/2% series due 2024	163,000	175,000	163,000	175,000
7-3/8% series due 2025	208,000	300,000	208,000	300,000
7-5/8% series due 2025	250,000	250,000	250,000	250,000
Pollution control series:				
Brazos River Authority				
8-1/4% series due 2016	—	111,215	—	111,215
7-7/8% series due 2017	81,305	81,305	81,305	81,305
9-7/8% series due 2017	28,765	28,765	28,765	28,765
9-1/4% series due 2018	54,005	54,005	54,005	54,005
8-1/4% series due 2019	100,000	100,000	100,000	100,000
8-1/8% series due 2020	50,000	50,000	50,000	50,000
7-7/8% series due 2021	100,000	100,000	100,000	100,000
Taxable series due 2021 (b)	65,940	91,000	65,940	91,000
5-1/2% series due 2022	50,000	50,000	50,000	50,000
6-5/8% series due 2022	33,000	33,000	33,000	33,000
6.70 % series due 2022	16,935	16,935	16,935	16,935
6-3/4% series due 2022	50,000	50,000	50,000	50,000
Taxable series due 2023 (b)	100,000	100,000	100,000	100,000
6.05 % series due 2025	90,000	90,000	90,000	90,000
Series 1996A due 2026 (d)	25,060	—	25,060	—
6-1/2% series due 2027	46,660	46,660	46,660	46,660
6.10 % series due 2028	50,000	50,000	50,000	50,000
Series 1994A due 2029 (c)	39,170	39,170	39,170	39,170
Series 1994B due 2029 (c)	39,170	39,170	39,170	39,170
Series 1995A due 2030 (d)	50,670	50,670	50,670	50,670
Series 1995B due 2030 (d)	118,355	118,355	118,355	118,355
Series 1995C due 2030 (d)	118,355	118,355	118,355	118,355
Series 1996B due 2030 (d)	61,215	—	61,215	—
Series 1996C due 2030 (d)	50,000	—	50,000	—
Sabine River Authority of Texas				
9 % series due 2007	51,525	51,525	51,525	51,525
7-3/4% series due 2016	—	57,950	—	57,950
8-1/8% series due 2020	40,000	40,000	40,000	40,000
8-1/4% series due 2020	11,000	11,000	11,000	11,000

Interest Rate	Series Due	The Company December 31, 1996	The Company December 31, 1995	TU Electric December 31, 1996	TU Electric December 31, 1995
		Thousands of Dollars			
Sabine River Authority of Texas (continued)					
5.55 %	series due 2022	$ 75,000	$ 75,000	$ 75,000	$ 75,000
6.55 %	series due 2022	40,000	40,000	40,000	40,000
5.85 %	series due 2022	33,465	33,465	33,465	33,465
Series 1996A	due 2026 (d)	57,950	—	57,950	—
Series 1996B	due 2026 (d)	25,000	—	25,000	—
Series 1995A	due 2030 (d)	16,000	16,000	16,000	16,000
Series 1995B	due 2030 (d)	12,050	12,050	12,050	12,050
Series 1995C	due 2030 (d)	18,475	18,475	18,475	18,475
Trinity River Authority of Texas					
9 %	series due 2007	12,000	12,000	12,000	12,000
Series 1996A	due 2026 (d)	25,000	—	25,000	—
Secured medium-term notes, series A		30,000	30,000	30,000	30,000
Secured medium-term notes, series B		114,200	125,000	114,200	125,000
Secured medium-term notes, series C		—	47,000	—	47,000
Secured medium-term notes, series D		201,150	201,150	201,150	201,150
Total first mortgage bonds		6,205,790	6,813,212	6,203,825	6,811,220
General obligation bonds		10,000	10,000	—	—
Debt assumed for purchase of utility plant (e)		156,182	158,595	156,182	158,595
Senior notes (f)		964,881	639,328	—	—
Term credit facilities (g)		1,381,290	1,612,200	—	300,000
Unamortized premium and discount		(50,032)	(58,760)	(49,413)	(57,745)
Total long-term debt, less amounts due currently		$8,668,111	$9,174,575	$6,310,594	$7,212,070

(a) Floating rate series due May 1, 1999 bears an interest rate for the period November 1, 1996 to January 31, 1997 of 5.8906%. Such interest rate is reset on a quarterly basis.

(b) Taxable pollution control series consist of two series: $65,940,000 of flexible rate series 1991D due 2021 with interest rates on December 31, 1996 ranging from 5.43% to 5.45% and $100,000,000 of flexible rate series 1993 due 2023 at 5.45% on December 31, 1996. Series 1991D bonds were remarketed on June 1, 1995 in a flexible mode for rate periods up to 180 days and are secured by an irrevocable letter of credit with maturities in excess of one year. Series 1993 bonds are in a flexible mode and, while in such mode, will be remarketed for periods of less than 270 days and are secured by an irrevocable letter of credit with maturities in excess of one year.

(c) Series 1994A and Series 1994B due 2029 are in a flexible mode with interest rates on December 31, 1996 ranging from 3.45% to 3.65% and, while in such mode, will be remarketed for periods of less than 270 days and are secured by an irrevocable letter of credit with maturities in excess of one year.

(d) Series 1996A, Series 1996B and Series 1996C due 2026 and Series 1995A, Series 1995B and Series 1995C due 2030 are in a daily mode with interest rates on December 31, 1996 ranging from 4.70% to 5.30%. The 1996 Series are supported by municipal bond insurance policies and standby bond purchase agreements. The 1995 Series are secured by irrevocable letters of credit with maturities in excess of one year.

(e) In 1990, TU Electric purchased the ownership interest in Comanche Peak of Tex-La Electric Cooperative of Texas, Inc. (Tex-La) and assumed debt of Tex-La payable over approximately 32 years. The assumption is secured by a mortgage on the acquired interest. The Company has guaranteed these payments.

(f) Consists of the Company's $239,350,000 aggregate principal amount maturing on various dates through 2010 with interest rates ranging from 10.20% to 10.58%, Mining Company's $382,142,000 aggregate principal amount maturing on various dates through 2005 with interest rates ranging from 6.50% to 9.42% and Eastern Energy's $343,389,000 aggregate principal amount maturing on various dates through 2016 with fixed interest rates ranging from 6.75% to 7.25%. The Eastern Energy debt is covered under cross-currency and interest rate swap agreements, each with an aggregate notional principal amount of $343,389,000 expiring on concurrent dates with the underlying fixed rate debt through 2016. Such agreements effectively convert these fixed rate U.S. Dollar-denominated Senior Notes to a floating rate Australian Dollar liability based on the Australian Bank Bill Swap rate plus a margin. At December 31, 1996, such floating rates ranged from 6.8% to 7.0%.

(g) Includes the Company's $300,000,000 Credit Agreement-Facility C due 2001 with an interest rate on December 31, 1996 of 5.95%, the Company's $525,000,000 reclassified short-term debt (see Note 3) and Eastern Energy's $556,290,000 Term Credit Facility due 2001 with a floating interest rate of 6.3386% on December 31, 1996 (all of which is included under an interest rate swap agreement with a notional principal amount of $572,184,000 expiring 2002 with a fixed interest rate of 8.4475% per annum).

Long-term debt of the Company and TU Electric does not include Junior Subordinated Debentures held by each TU Electric Trust. (See Note 7.)

Sinking fund and maturity requirements for the years 1997 through 2001 under long-term debt instruments in effect at December 31, 1996, were as follows:

	The Company			TU Electric		
Year	Sinking Fund	Maturity	Minimum Cash Requirement	Sinking Fund	Maturity	Minimum Cash Requirement
			Thousands of Dollars			
1997	$ 20,276	$335,800	$356,076	$2,413	$335,800	$338,213
1998	21,216	451,065	472,281	2,645	450,000	452,645
1999	24,540	630,000	654,540	5,906	630,000	635,906
2000	260,900	576,150	837,050	3,199	156,150	159,349
2001	22,275	778,290	800,565	3,502	222,000	225,502

In February 1997, the Brazos River Authority issued $106,350,000 aggregate principal amount of Pollution Control Revenue Bonds collateralized by TU Electric's First Mortgage Bonds. All such bonds mature on February 1, 2032, have variable interest rates and are subject to mandatory tender and remarketing from time to time. The remarketing of the bonds is supported by standby bond purchase agreements. Scheduled payments of interest and of principal at maturity or on mandatory redemption, upon the occurrence of certain events, is supported by municipal bond insurance policies. Interest rates on all the bonds are determined daily. Such rates currently range from 3.25% to 3.40%.

TU Electric's first mortgage bonds are secured by the Mortgage and Deed of Trust dated as of December 1, 1983, as supplemented, between TU Electric and Irving Trust Company (now The Bank of New York), Trustee. SESCO's first mortgage bonds are secured by the Mortgage and Deed of Trust dated as of May 1, 1945, as supplemented, between SESCO and BankOne, Texas, NA, successor Trustee. Electric plant of TU Electric and SESCO is generally subject to the liens of their respective mortgages.

9. Derivative Instruments

The Company and TU Electric

The Company's and TU Electric's operations involve managing market risks related to changes in interest rates and, for the Company, foreign exchange and commodity price exposures. Derivative instruments including swaps and forward contracts are used to reduce and manage a portion of those risks. The Company's and TU Electric's participations in derivative transactions have been designed for hedging purposes and are not held or issued for trading purposes.

Interest Rate Risk Management

At December 31, 1996, Eastern Energy had interest rate swaps outstanding with an aggregate notional amount of $915,573,000. These swap agreements establish a mix of fixed and variable interest rates on the outstanding debt and have remaining terms between 6 and 20 years. (See Note 8.)

In February 1997, TU Electric entered into an interest rate swap agreement with a notional principal amount of $100,000,000 expiring 2002 with a fixed interest rate of 7.183% per annum. (See Note 7.)

Foreign Exchange Risk Management

The Company's foreign exchange exposures result from transactions denominated in currencies other than the local currency of its foreign subsidiary. At December 31, 1996, Eastern Energy had cross-currency swap agreements outstanding with an aggregate notional amount of $343,389,000 expiring on various dates through 2016. (See Note 8.)

Electricity Price Risk Management

Eastern Energy and the other distribution companies in Victoria purchase their power from a competitive power pool operated by a statutory, independent corporation. Eastern Energy purchases about 95% of its energy from this pool, the cost of which is based on spot market prices. Eastern Energy has entered into wholesale market contracts to cover a substantial majority of its forecasted load through the end of 2000. These contracts fix the price of energy within a certain range for the purpose of hedging or protecting against fluctuations in the spot market price. During 1996, the average spot price for electric energy from the pool approximated $15 per

megawatt-hour (MWh) as compared to the average fixed price of Eastern Energy's electric energy under its contracts of approximately $31 per MWh. At December 31, 1996, Eastern Energy's contracts related to its forecasted contestable and franchise load cover a notional volume of approximately 18 million MWh's for 1997 through 2000. Under these contracts, payments are made between Eastern Energy and the generators representing the difference between the wholesale electricity market price and the contract price. The net payable or receivable is recognized in earnings as adjustments to purchased power expense in the period the related transactions are completed.

Credit Risk

Credit risk relates to the risk of loss that the Company and TU Electric would incur as a result of nonperformance by counterparties to their respective derivative instruments. The Company and TU Electric believe the risk of nonperformance by counterparties is minimal.

10. Federal Income Taxes

The components of the Company's and TU Electric's federal income taxes are as follows:

	The Company Year Ended December 31,		
	1996	1995	1994
	Thousands of Dollars		
Charged (credited) to consolidated net income (loss):			
Current	$198,522	$222,358	$152,833
Deferred — Domestic	196,957	(259,445)	200,232
Foreign	12,828	(174)	—
Investment tax credits	(33,075)	(22,774)	(26,427)
Total to consolidated net income (loss)	375,232	(60,035)	326,638
Charged (credited) to consolidated retained earnings	(4,032)	(6,452)	(6,733)
Total federal income taxes	$371,200	$ (66,487)	$319,905

	TU Electric Year Ended December 31,		
	1996	1995	1994
	Thousands of Dollars		
Charged (credited) to operating expenses:			
Current	$291,807	$260,988	$182,107
Deferred:			
Depreciation differences and capitalized construction costs	151,391	205,280	222,762
Over/under-recovered fuel revenue	25,506	(49,798)	(59,224)
Alternative minimum tax	15,000	(30,937)	(121,948)
Other	(32,024)	17,983	138,466
Total deferred - net	159,873	142,528	180,056
Investment tax credits	(30,668)	(21,201)	(23,698)
Total to operating expenses	421,012	382,315	338,465
Charged (credited) to other income:			
Current	(30,164)	(59,454)	(35,474)
Deferred:			
Impairment of assets	—	(149,617)	—
Regulatory disallowance	13,623	—	—
Other	1,861	39,709	39,696
Total deferred - net	15,484	(109,908)	39,696
Investment tax credits	(833)	—	—
Total to other income	(15,513)	(169,362)	4,222
Total federal income taxes	$405,499	$212,953	$342,687

The significant components of deferred federal income tax assets and liabilities reflected net in the balance sheets are as follows:

	The Company December 31,		TU Electric December 31,	
	1996	1995	1996	1995
	Thousands of Dollars			
CURRENT				
Deferred tax assets:				
Unbilled revenues	$ 28,521	$ 27,323	$ 28,521	$ 27,323
Over-recovered fuel revenue	15,045	40,550	15,045	40,550
Foreign operations	2,994	4,832	—	—
Other	7,406	11,705	7,316	11,756
Total current deferred tax assets	53,966	84,410	50,882	79,629
Deferred tax liabilities:				
Foreign operations	13,945	—	—	—
Total current deferred tax liabilities	13,945	—	—	—
NET CURRENT DEFERRED TAX ASSETS	$ 40,021	$ 84,410	$ 50,882	$ 79,629
NON-CURRENT				
Deferred tax assets:				
Unamortized ITC	$ 312,665	$ 329,994	$ 307,153	$ 323,685
Impairment of assets	143,210	174,003	71,791	71,968
Regulatory disallowances	222,428	237,521	222,428	237,521
Alternative minimum tax	587,052	611,934	431,277	454,222
Tax rate difference	78,141	83,111	77,248	82,108
Employee benefits	100,397	38,611	76,060	22,341
Foreign operations	66,547	—	—	—
Other	27,910	20,993	12,348	11,641
Total non-current deferred tax assets	1,538,350	1,496,167	1,198,305	1,203,486
Deferred tax liabilities:				
Depreciation differences and capitalized construction costs	4,010,105	3,920,888	3,938,325	3,850,545
Foreign operations	55,550	593	—	—
Redemption of long-term debt	125,601	120,290	125,123	119,608
Other	148,720	124,204	124,469	102,382
Total non-current deferred tax liabilities	4,339,976	4,165,975	4,187,917	4,072,535
NET NON-CURRENT DEFERRED TAX LIABILITY	$2,801,626	$2,669,808	$2,989,612	$2,869,049

Federal income taxes were less than the amount computed by applying the federal statutory rate to pre-tax book income (loss) as follows:

	The Company Year Ended December 31,			TU Electric Year Ended December 31,		
	1996	1995	1994	1996	1995	1994
	Thousands of Dollars					
Federal income taxes at statutory rate (35%)	$413,769	$(39,188)	$339,962	$443,868	$233,585	$350,308
Increases (decreases) in federal income taxes resulting from:						
Allowance for funds used during construction	(542)	(2,330)	(3,760)	(542)	(2,330)	(3,760)
Depletion allowance	(25,657)	(23,56[illegible]	(23,361)	(25,657)	(23,564)	(23,361)
Amortization of investment tax credits	(23,203)	(23,036)	(24,213)	(21,629)	(21,463)	(21,484)
LESOP dividend deduction	(5,000)	(7,700)	(7,700)	—	—	—
Amortization of tax rate differences	(9,084)	(9,648)	(9,732)	(8,740)	(9,288)	(9,143)
Reversal of prior book/tax differences	35,128	38,974	43,157	34,896	38,630	42,899
Foreign operations	5,670	283	—	—	—	—
Prior year adjustments	(25,250)	(4,136)	233	(21,813)	(5,669)	2,902
Other	5,369	3,858	5,319	5,116	3,052	4,326
Total increase (decrease)	(42,569)	(27,299)	(20,057)	(38,369)	(20,632)	(7,621)
Total federal income taxes	$371,200	$(66,487)	$319,905	$405,499	$212,953	$342,687
Effective tax rate	31.4%	59.4%	32.9%	32.0%	31.9%	34.2%

The System Companies and TU Electric have approximately $587 million and $431 million, respectively, of alternative minimum tax credit carryforwards which are available to offset future taxes.

As a part of its ongoing large case audit program, the IRS has audited the consolidated Federal income tax returns of the System Companies for the years 1987 through 1990. During the course of the audit, the IRS proposed a number of adjustments to the returns as filed, the most significant of which related to a proposed reclassification of certain costs incurred in connection with the construction of Comanche Peak Unit 1 as costs incurred to procure a nuclear operating license. In accordance with an agreement reached by both parties in May 1996, the Company made an additional tax payment to the IRS which resolved all issues proposed in the audit. The additional payment did not have a material effect on the Company's financial position, results of operation or cash flows.

11. Retirement Plans and Other Postretirement Benefits

The System Companies and TU Electric have defined benefit pension plans covering substantially all employees. Generally, plan benefits are based on years of accredited service and average annual earnings received during the three years of highest earnings. Contributions to the domestic plans were determined using the frozen attained age method which is one of several actuarial methods allowed by the Employee Retirement Income Security Act of 1974. The costs of the plans were determined by independent actuaries. For financial reporting purposes, pension cost has been determined using the projected unit credit actuarial method. The cumulative difference between pension cost as determined for financial reporting purposes and contributions to the plans is recorded either as prepaid pension cost or as accrued pension liability.

Total pension cost, including amounts charged to fuel cost, deferred and capitalized, were comprised of the following components:

	The Company Year Ended December 31,			TU Electric Year Ended December 31,		
	1996	1995	1994	1996	1995	1994
	Thousands of Dollars					
Service cost — benefits earned during the period	$ 36,779	$ 23,515	$ 27,185	$ 21,731	$ 16,047	$ 18,667
Interest cost on projected benefit obligation	75,501	65,675	64,142	55,999	53,684	52,907
Actual return on plan assets	(183,390)	(241,887)	5,641	(143,416)	(199,436)	4,772
Net amortization and deferral	97,988	160,198	(72,700)	79,261	132,147	(60,560)
Net periodic pension cost	$ 26,878	$ 7,501	$ 24,268	$ 13,575	$ 2,442	$ 15,786

The table below details the plans' funded status and amount recognized in the balance sheets:

	The Company December 31,		TU Electric December 31,	
	1996	1995	1996	1995
	Thousands of Dollars			
Actuarial present value of accumulated benefits:				
Accumulated benefit obligation (including vested benefits for the System Companies of $823,918,000 for 1996 and $809,869,000 for 1995; and for TU Electric of $638,162,000 for 1996 and $629,679,000 for 1995)	$ (889,057)	$ (874,345)	$(685,419)	$(676,236)
Projected benefit obligation for service rendered to date	$(1,065,396)	$(1,062,619)	$(797,044)	$(803,815)
Plan assets at fair value — primarily equity investments, government bonds and corporate bonds	1,296,025	1,139,688	994,370	881,014
Plan assets in excess of projected benefit obligation	230,629	77,069	197,326	77,199
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	(350,295)	(180,444)	(309,042)	(168,104)
Prior service cost not yet recognized in net periodic pension expense	41,566	17,061	39,226	17,015
Unrecognized plan assets in excess of projected benefit obligation at initial application	(5,708)	(6,375)	(3,327)	(3,765)
Accrued pension cost	$ (83,808)	$ (92,689)	$ (75,817)	$ (77,655)

Assumptions used in determination of the projected benefit obligation for System Companies (excluding Eastern Energy) include a discount rate of 7.75% for 1996 and 7.25% for 1995 and an increase in compensation levels of 4.3% for 1996 and 1995. The assumed long-term rate of return on plan assets was 9.0% for 1996, 1995 and 1994.

Eastern Energy's employees participate in the Victorian Electricity Industry Superannuation Fund (Eastern Plan). The Eastern Plan meets the definition of a single-employer defined benefit pension plan and is included above in the Company's plan as the economic assumptions of the Eastern Plan are similar to those of the other System Companies. The Company's net periodic pension cost and accrued pension cost for 1996 include $2,371,000 and $2,525,000 respectively, representing Eastern Energy's 1996 pension costs. The Company's net periodic pension cost and accrued pension cost for 1995 include $175,000 and $3,018,000, respectively, representing Eastern Energy's December 1995 pension costs. Assumptions for the Eastern Plan used in the determination of the projected benefit obligation include a discount rate of 6.50% for 1996 and 7.50% for 1995 and an increase in compensation levels of 5.0% for 1996 and 6.0% for 1995. The assumed long-term rate of return on plan assets for the Eastern Plan was 7.5% for 1996 and 8.5% for 1995.

In addition to the retirement plans, the System Companies, excluding Eastern Energy, offer certain health care and life insurance benefits to substantially all its employees and their eligible dependents at retirement which normally is age 65 but may be as early as age 55 with 15 years of service. Retirees currently pay a portion of the cost of providing such benefits and are expected to continue to do so in the future. In January 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", which requires a change in the accounting for a company's obligation to provide health care and certain other benefits to its retirees from the "pay-as-you-go" method to an accrual method and requires the cost of the obligation to be recognized in the period from employment date until full eligibility for benefits.

Net periodic postretirement benefits cost other than pensions, including amounts charged to fuel cost, deferred and capitalized, were comprised of the following components:

	The Company Year Ended December 31,			TU Electric Year Ended December 31,		
	1996	1995	1994	1996	1995	1994
	Thousands of Dollars					
Service cost — benefits earned during the period	$13,513	$ 9,771	$ 11,525	$ 8,437	$ 6,559	$ 7,669
Interest cost on the accumulated postretirement benefit obligation	40,809	38,842	33,120	31,394	31,109	26,063
Amortization of the transition obligation	16,978	16,978	16,900	13,633	13,633	13,557
Actual return on plan assets	(7,079)	(6,096)	44	(4,816)	(4,520)	34
Net amortization and deferral	8,303	4,646	1,313	5,746	3,662	977
Net postretirement benefits cost	$72,524	$64,141	$62,902	$54,394	$50,443	$48,300

The table below details the funded status for other postretirement benefits and amount recognized by the System Companies (excluding Eastern Energy) and TU Electric:

	The Company Year Ended December 31,		TU Electric Year Ended December 31,	
	1996	1995	1996	1995
	Thousands of Dollars			
Accumulated postretirement benefit obligation (APBO):				
Retirees	$(325,672)	$(344,045)	$(280,541)	$(296,996)
Fully eligible active employees	(38,320)	(27,779)	(22,701)	(17,241)
Other active employees	(187,451)	(193,407)	(120,452)	(133,783)
Total APBO	(551,443)	(565,231)	(423,694)	(448,020)
Plan assets at fair value	81,480	56,786	60,862	43,969
APBO in excess of plan assets	(469,963)	(508,445)	(362,832)	(404,051)
Unrecognized net loss	92,589	144,833	68,977	119,216
Unrecognized prior service cost	819	902	—	—
Unrecognized transition obligation	271,649	288,627	218,126	231,759
Accrued postretirement benefits cost	$(104,906)	$ (74,083)	$ (75,729)	$ (53,076)

The expected increase in costs of future benefits covered by the plan is projected using a health care cost trend rate of 5.0% in 1997 and thereafter. A one percentage point increase in the assumed health care cost trend rate in each future year would increase the APBO at December 31, 1996 by approximately $73.7 million for the System Companies and $56.6 million for TU Electric, and other postretirement benefits cost for 1996 by approximately $9.4 million for System Companies and $6.9 million for TU Electric. The assumed discount rate used to measure the APBO is 7.75% for 1996 and 7.25% for 1995.

12. Sales of Accounts Receivable

TU Electric

TU Electric has a facility with financial institutions whereby it is entitled to sell and such financial institutions may purchase, on an ongoing basis, undivided interests in customer accounts receivable representing up to an aggregate of $350,000,000. Additional receivables are continually sold to replace those collected. At December 31, 1996 and 1995, accounts receivable was reduced by $300,000,000 to reflect the sales of such receivables to financial institutions under such agreements.

In June 1996, the Financial Accounting Standards Board issued Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 125). Its provisions relating to sales of receivables are effective for transactions occurring after December 31, 1996. SFAS 125 requires that in order for a transfer of receivables to be treated as a sale, the transferor must surrender control over the receivables. This requirement of SFAS 125 is not expected to have a material effect on the Company's and TU Electric's financial position, results of operation or cash flows.

13. Regulation and Rates

TU Electric

Docket 9300

The PUC's final order (Order) in connection with TU Electric's January 1990 rate increase request (Docket 9300) was reviewed by the 250th Judicial District Court of Travis County, Texas, and thereafter was appealed to the Court of Appeals for the Third District of Texas and to the Supreme Court of Texas (Supreme Court). As a result of such review and appeals, an aggregate of $909 million of disallowances with respect to TU Electric's reacquisitions of minority owners' interests in Comanche Peak, which had previously been recorded as a charge to the Company's and TU Electric's earnings, has been remanded to the PUC for reconsideration on the basis of a prudent investment standard. On remand, the PUC will also be required to reevaluate the appropriate level of TU Electric's CWIP included in rate base in light of its financial condition at the time of the initial hearing. In January 1997, the Supreme Court denied a motion for rehearing on the Comanche Peak minority owners issue filed by the original complainants. TU Electric cannot predict the outcome of the reconsideration of the Order on remand by the PUC.

In its decision, the Supreme Court also affirmed the previous $472 million prudence disallowance related to Comanche Peak. Since the Company and TU Electric each has previously recorded a charge to earnings for this prudence disallowance, the Supreme Court's decision did not have an effect on the Company's or TU Electric's current financial position, results of operation or cash flows.

Docket 11735

In July 1994, TU Electric filed a petition in the 200th Judicial District Court of Travis County, Texas to seek judicial review of the final order of the PUC granting a $449 million, or 9.0%, rate increase in connection with TU Electric's January 1993 rate increase request of $760 million, or 15.3% (Docket 11735). Other parties to the PUC proceedings also filed appeals with respect to various portions of the order. TU Electric is unable to predict the outcome of such appeals.

Docket 15638

In May 1996, TU Electric filed with the PUC its transmission cost information and tariffs for open-access wholesale transmission service (Docket 15638) in accordance with PUC rules adopted in February 1996. These tariffs also provide for generation-related ancillary services necessary to support wholesale transactions. Upon final PUC approval and the implementation of transmission rates for each transmission provider within the Electric Reliability Council of Texas (ERCOT), TU Electric's payments for transmission service will exceed its revenues for providing transmission service. The PUC is required by the rules to adopt a rate-moderation plan that will minimize the impact of the new pricing mechanism for the first three years the rules are in effect. As such, the current maximum impact on TU Electric for 1997 is a $4.26 million deficit, which, in the opinion of TU Electric, is not expected to have a material effect on its results of operation or cash flows. TU Electric expects to have its open-access wholesale transmission tariff in place for service within ERCOT in early 1997.

Other

In connection with the PUC's regular earnings monitoring process, the PUC Staff has advised the PUC that it believes TU Electric was earning in excess of a reasonable rate of return and that it was engaged in discussions with TU Electric concerning possible remedies for such perceived over-earnings. The city of Sulphur Springs, Texas which exercises original jurisdiction over TU Electric's rates within that city's boundaries, has initiated an inquiry into the reasonableness of TU Electric's rates. TU Electric is currently preparing the information required by Sulphur Springs in connection with its inquiry. TU Electric is unable to predict the outcome of either the discussions with the PUC Staff or the inquiry of Sulphur Springs.

Fuel Cost Recovery Rule

In accordance with PUC approvals, TU Electric has refunded to customers an aggregate of approximately $154 million, including interest, in over-collected fuel costs for the period June 1994 through September 1995. These over-collections were primarily due to lower natural gas prices than previously anticipated. In August 1994, TU Electric petitioned the PUC for a recovery of approximately $93 million, including interest, in under-collected fuel costs for the period July 1993 through June 1994. The PUC approved the recovery of this amount through a surcharge to customers over a six-month period beginning in January 1995. The PUC's approval of this surcharge and a previously approved $147.5 million surcharge for fuel cost recovery for a prior period have been appealed by certain intervenors to the district courts of Travis County, Texas. In those appeals, those parties are contending that the PUC is without authority to allow a fuel cost surcharge without a hearing and resultant findings that the costs are reasonable and necessary and that the prices charged to TU Electric by supplying affiliates are no higher than the prices charged by those affiliates to others for the same item or class of items. TU Electric is vigorously defending its position in these appeals but is unable to predict their outcome.

Fuel Reconciliation Proceeding

On December 29, 1995, in accordance with PUC rules, TU Electric filed a petition with the PUC seeking final reconciliation of all eligible fuel and purchased power expenses incurred during the reconciliation period of July 1, 1992 through June 30, 1995, amounting to a total of $4.7 billion. In hearings completed in December 1996, the PUC Staff recommended a disallowance of $71.9 million. TU Electric believes that all of its eligible fuel and purchased power expenses have been prudently incurred and no amounts have been accrued for any disallowance. A final decision is expected by mid-1997. TU Electric is unable to predict the outcome of such proceeding; however, a disallowance, if any, will result in a future loss, which could possibly have a material effect on TU Electric's results of operation or cash flows.

In addition, and as permitted by the PUC rules, TU Electric is also seeking an accounting order from the PUC that will allow certain costs incurred, and to be incurred, to facilitate the use of coal as a supplemental fuel at its Monticello lignite-fueled generating station (Monticello) to be treated as eligible fuel costs and billed pursuant to TU Electric's fuel cost factor. By incurring these expenses, TU Electric believes that it can significantly improve the reliability of the supply of fuel to Monticello and can, at the same time, lower the fuel cost that would be incurred in the absence of these expenditures.

Flexible Rate Initiatives

TU Electric continues to offer flexible rates in over 160 cities with original regulatory jurisdiction within its service territory (including the cities of Dallas and Fort Worth) to existing non-residential retail and wholesale customers that have viable alternative sources of supply and would otherwise leave the system. TU Electric also continues to offer an economic development rider to attract new businesses and to encourage existing customers to expand their facilities as well as an environmental technology rider to encourage qualifying customers to convert to technologies that conserve energy or improve the environment. TU Electric will continue to pursue the expanded use of flexible rates when such rates are necessary to be price-competitive.

Integrated Resource Plan

In October 1994, TU Electric filed an application for approval by the PUC of certain aspects of its Integrated Resource Plan (IRP) for the ten-year period 1995-2004. The IRP, developed as an experimental pilot project in conjunction with regulatory and customer groups, included the acquisition of electric energy through a competitive bidding process of third party-supplied demand-side management resources and renewable resources. In August 1995, the PUC remanded the case to an Administrative Law Judge for development of a solicitation plan and to more closely conform the TU Electric 1995 IRP to new state legislation that required the PUC to adopt a statewide integrated resource planning rule by September 1, 1996. In January 1996, TU Electric filed an updated IRP with the PUC along with a proposed plan for the solicitation of resources through a competitive bidding process. The PUC issued its final order on TU Electric's IRP in October 1996, and modified the order in an Order on Rehearing on December 20, 1996. The modified order approved a flexible solicitation plan that will allow TU Electric to conduct up to three optional resource solicitations for a total of 2,074 MW of demand-side and supply-side resources prior to the filing of its next IRP in June 1999. TU Electric is currently reviewing the need and timing for conducting the first of these resource solicitations.

In addition to its solicitation plan in the IRP docket, TU Electric requested and received approval from the PUC to expand its Power Cost Recovery tariff to provide current cost recovery of resource acquisition costs for demand-side management resources acquired in the solicitations to the extent such costs are not currently reflected in TU Electric's base rates. The PUC also approved cost recovery for eight previously approved demand-side management contracts entered into by TU Electric.

The Company and TU Electric

Open-Access Transmission

In February 1996, pursuant to the Public Utility Regulatory Act of 1995, as amended, the PUC adopted rules requiring each electric utility in ERCOT to provide wholesale transmission and related services to other utilities and non-utility power suppliers at rates, terms and conditions that are comparable to those applicable to such utility's use of its own transmission facilities.

Under the rules, the PUC established a transmission pricing mechanism consisting of an ERCOT system-wide component and a distance-sensitive component. The ERCOT system-wide component provides that each load-serving entity in ERCOT will pay a share of the ERCOT-wide transmission cost of service based on the entity's load. The distance-sensitive component provides that a distance-sensitive rate will be paid to utilities that own transmission facilities, based on the impact of transmitting generation resources to loads. The rates charged for using the transmission system are designed to ensure that all market participants pay on a comparable basis to use the system. While all users of the transmission grid pay rates that are comparably designed, the impact on individual users will differ.

14. Impairment of Assets

The Company and TU Electric

In September 1995, the Company and TU Electric recorded the impairment of several non-performing assets based on the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" which prescribes a methodology for assessing and measuring impairments in the carrying value of certain assets.

The Company

The September 1995 impairment of the Company's assets, including the partially completed Twin Oak and Forest Grove lignite-fueled facilities of TU Electric, and Chaco Energy Company's (Chaco's) coal reserves in New Mexico, as well as several minor assets, aggregated $802 million after tax. The Company has determined that the Twin Oak and Forest Grove lignite-fueled facilities are not necessary to satisfy TU Electric's capacity requirements as currently projected due to changes in load growth patterns and availability of alternative generation. The impairment of TU Electric's lignite-fueled facilities has been measured based on management's current expectations that these assets will either be sold or constructed outside the traditional regulated utility business. The Company has determined that the Chaco coal reserves will no longer be developed through traditional means due to ample availability of alternative fuels at favorable prices. Chaco's impairment has been measured based on a significant decrease in the market value of the coal reserves as determined by an external study performed and completed in the quarter ended September 30, 1995. The external study was precipitated by a third party inquiry regarding the possible sale of the coal reserves. A variety of options are being considered with respect to the Chaco coal reserves. (See Note 15.) The impairment of these assets involved a write-down to their estimated fair values using a valuation study based on the discounted expected future cash flows from the respective assets' use. With respect to the other assets impaired, fair values were determined based on current market values of similar assets.

TU Electric

The September 1995 impairment of TU Electric's assets, including its partially completed Twin Oak and Forest Grove lignite-fueled facilities, as well as several minor assets, aggregated $316 million after tax. TU Electric has determined that the Twin Oak and Forest Grove lignite-fueled facilities are not necessary to satisfy its capacity requirements as currently projected due to changes in load growth patterns and availability of alternative generation. Such impairment has been measured based on management's current expectations that these assets will either be sold or constructed outside the traditional regulated utility business. The impairment of these assets involved a write-down to their estimated fair values using a valuation study based on the discounted expected future cash flows from the respective assets' use. With respect to the other assets impaired, fair values were determined based on current market values of similar assets.

15. COMMITMENTS AND CONTINGENCIES

Capital Expenditures

The Company

The Company's construction expenditures for utility related activities, excluding AFUDC, are presently estimated at $513 million, $527 million and $556 million for 1997, 1998 and 1999, respectively. Expenditures for non-utility property are presently estimated at $75 million for 1997, $44 million for 1998 and $78 million for 1999. Expenditures for nuclear fuel are presently estimated at $66 million for 1997, $78 million for 1998 and $115 million for 1999.

TU Electric

TU Electric's construction expenditures for utility related activities, excluding AFUDC, are presently estimated at $440 million, $470 million and $497 million for 1997, 1998 and 1999, respectively. Expenditures for nuclear fuel are presently estimated at $66 million for 1997, $78 million for 1998 and $115 million for 1999.

The Company and TU Electric

The re-evaluation of growth expectations, the effects of inflation, additional regulatory requirements and the availability of fuel, labor, materials and capital may result in changes in estimated construction costs and dates of completion. Commitments in connection with the construction program are generally revocable subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties.

The Company and TU Electric each plans to seek new investment opportunities from time to time when it concludes that such investments are consistent with its business strategies and will likely enhance the long-term returns to shareholders. The timing and amounts of any specific new business investment opportunities are presently undetermined.

Clean Air Act

TU Electric

The federal Clean Air Act, as amended (Clean Air Act) includes provisions which, among other things, place limits on the sulfur dioxide emissions produced by generating units. To meet these sulfur dioxide requirements, the Clean Air Act provides for the annual allocation of sulfur dioxide emission allowances to utilities. Under the Clean Air Act, utilities are permitted to transfer allowances within their own systems and to buy or sell allowances from or to other utilities. The Environmental Protection Agency grants a maximum number of allowances annually to TU Electric based on the amount of emissions from units in operation during the period 1985 through 1987. TU Electric's capital requirements have not been significantly affected by the requirements of the Clean Air Act. Although TU Electric is unable to fully determine the cost of compliance with the Clean Air Act, it is not expected to have a significant impact on the Company. Any additional capital expenditures, as well as any increased operating costs, associated with these new requirements are expected to be recoverable through rates, as similar costs have been recovered in the past.

Purchased Power Contracts

The Company and TU Electric

The System Companies have entered into purchased power contracts to purchase portions of the generating output of certain qualifying cogenerators and qualifying small power producers through the year 2005. These contracts provide for capacity payments subject to a facility meeting certain operating standards and energy payments based on the actual power taken under the contracts. The cost of these and other purchased power contracts is recovered currently through base rates and power cost and fuel recovery factors applied to customer billings. Capacity payments under these contracts for the years ended December 31, 1996, 1995 and 1994 were $232,915,000, $229,340,000 and $236,991,000, respectively, for the Company, and $228,336,000, $223,910,000 and $231,081,000, respectively, for TU Electric.

Assuming operating standards are achieved, future capacity payments under the agreements are estimated as follows:

Years	The Company	TU Electric
	Thousands of Dollars	
1997	$ 240,588	$ 237,014
1998	246,311	244,796
1999	199,963	199,963
2000	134,784	134,784
2001	104,330	104,330
Thereafter	215,565	215,565
Total capacity payments	$1,141,541	$1,136,452

Leases

The Company and TU Electric

The System Companies have entered into operating leases covering various facilities and properties including combustion turbines, transportation, mining and data processing equipment, and office space. Lease costs charged to operation expense for the years ended December 31, 1996, 1995 and 1994 were $144,553,000, $141,775,000 and $140,370,000, respectively, for the Company, and $56,376,000, $60,156,000 and $62,704,000, respectively, for TU Electric.

Future minimum lease commitments under such operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 1996, were as follows:

Years	The Company	TU Electric
	Thousands of Dollars	
1997	$ 72,273	$ 31,145
1998	59,895	30,396
1999	54,830	30,522
2000	52,098	30,265
2001	99,937	41,189
Thereafter	568,633	471,696
Total minimum lease commitments	$907,666	$635,213

Cooling Water Contracts

TU Electric

TU Electric has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy. In connection with certain contracts, TU Electric has agreed, in effect, to guarantee the principal, $32,365,000 at December 31, 1996, and interest on bonds issued to finance the reservoirs from which the water is supplied. The bonds mature at various dates through 2011 and have interest rates ranging from 5-1/2% to 7%. TU Electric is required to make periodic payments equal to such principal and interest, including amounts assumed by a third party and reimbursed to TU Electric, for the years 1997 through 2001 as follows: $4,435,000 for each of the years 1997, 1998 and 1999, $4,419,000 for 2000 and $4,422,000 for 2001. Payments made by TU Electric, net of amounts assumed by a third party under such contracts, for 1996, 1995 and 1994 were $3,548,000, $3,628,000 and $3,615,000, respectively. In addition, TU Electric is obligated to pay certain variable costs of operating and maintaining the reservoirs. TU Electric has assigned to a municipality all contract rights and obligations of TU Electric in connection with $74,780,000 remaining principal amount of bonds at December 31, 1996, issued for similar purposes which had previously been guaranteed by TU Electric. TU Electric is, however, contingently liable in the unlikely event of default by the municipality.

Chaco Coal Properties

The Company

Chaco has a coal lease agreement for the rights to certain surface mineable coal reserves located in New Mexico. The agreement encompasses a minimum of 228 million tons of coal with provisions for minimum advance royalty payments of approximately $16 million per year through 2017. The Company has entered into a surety agreement to assure the performance by Chaco with respect to this agreement. During 1996, certain state and federal leases covering approximately 120 million tons of coal were terminated. Because of the present ample availability of western coal at favorable prices from other mines, Chaco has delayed plans to commence mining operations, and accordingly, is reassessing its alternatives with respect to its coal properties, including seeking purchasers thereof. (See Note 14.)

Nuclear Insurance

TU Electric

With regard to liability coverage, the Price-Anderson Act (Act) provides financial protection for the public in the event of a significant nuclear power plant incident. The Act sets the statutory limit of public liability for a single nuclear incident currently at $8.9 billion and requires nuclear power plant operators to provide financial protection for this amount. As required, TU Electric provides this financial protection for a nuclear incident at Comanche Peak resulting in public bodily injury and property damage through a combination of private insurance and industry-wide retrospective payment plans. As the first layer of financial protection, TU Electric has purchased $200 million of liability insurance from American Nuclear Insurers (ANI), which provides such insurance on behalf of two major stock and mutual insurance pools, Nuclear Energy Liability Insurance Association and Mutual Atomic Energy Liability Underwriters (MAELU). The second layer of financial protection is provided under an industry-wide retrospective payment program called Secondary Financial Protection (SFP).

Under the SFP, each operating licensed reactor in the United States is subject to an assessment of up to $79.275 million, subject to increases for inflation every five years, in the event of a nuclear incident at any nuclear plant in the United States. Assessments are limited to $10 million per operating licensed reactor per year per incident. All assessments under the SFP are subject to a 3% insurance premium tax which is not included in the amounts above.

With respect to nuclear decontamination and property damage insurance, Nuclear Regulatory Commission (NRC) regulations require that nuclear plant license-holders maintain not less than $1.06 billion of such insurance and require the proceeds thereof to be used to place a plant in a safe and stable condition, to decontaminate it pursuant to a plan submitted to and approved by the NRC before the proceeds can be used for plant repair or restoration or to provide for premature decommissioning. TU Electric maintains nuclear decontamination and property damage insurance for Comanche Peak in the amount of $3.85 billion, above which TU Electric is self-insured. The primary layer of coverage of $500 million is provided by Nuclear Mutual Limited (NML), a nuclear

electric utility industry mutual insurance company. The remaining coverage includes premature decommissioning coverage and is provided by ANI and MAELU in the amount of $1.1 billion and Nuclear Electric Insurance Limited (NEIL), another nuclear electric utility industry mutual insurance company, in the amount of $2.25 billion. TU Electric is subject to a maximum annual assessment from NML of $14 million and NEIL of $18 million in the event NML's and/or NEIL's losses under this type of insurance for major incidents at nuclear plants participating in these programs exceed the respective mutual's accumulated funds and reinsurance.

TU Electric maintains Extra Expense Insurance through NEIL to cover the additional costs of obtaining replacement power from another source if one or both of the units at Comanche Peak are out of service for more than twenty-one weeks as a result of covered direct physical damage. The coverage provides for weekly payments of $3.5 million for the first and $2.8 million for the second and third fifty-two week periods of each outage, respectively, after the initial twenty-one week period. The total maximum coverage is $473 million per unit. The coverage amounts applicable to each unit will be reduced to 80% if both units are out of service at the same time as a result of the same accident. Under this coverage, TU Electric is subject to a maximum assessment of $9 million per year.

Gas Purchase Contracts

The Company

Fuel Company buys gas under long-term intrastate contracts in order to assure reliable supply to its customers. Many of these contracts require minimum purchases ("take-or-pay") of gas. Based on Fuel Company's estimated gas demand, which assumes normal weather conditions, requisite gas purchases are expected to substantially satisfy purchase obligations for the year 1997 and thereafter.

Nuclear Decommissioning and Disposal of Spent Fuel

TU Electric

TU Electric has established a reserve, charged to depreciation expense and included in accumulated depreciation, for the decommissioning of Comanche Peak, whereby decommissioning costs are being recovered from customers over the life of the plant and deposited in external trust funds (included in other investments). At December 31, 1996, such reserve totaled $97,114,000 which includes an accrual of $18,179,000 for the year ended December 31, 1996. As of December 31, 1996, the market value of deposits in the external trust for decommissioning of Comanche Peak was $117,441,000. Any difference between the market value of the external trust fund and the decommissioning reserve, that represents unrealized gains or losses of the trust fund, is treated as a regulatory asset or a regulatory liability. Realized earnings on funds deposited in the external trust are recognized in the reserve. Based on a site-specific study during 1992 using the prompt dismantlement method and then-current dollars, decommissioning costs for Comanche Peak Unit 1, and Unit 2 and common facilities were estimated to be $255,000,000 and $344,000,000, respectively. Decommissioning activities are projected to begin in 2030 and 2033 for Comanche Peak Unit 1, and Unit 2 and common facilities, respectively. TU Electric is recovering such costs based upon the 1992 study through rates placed in effect under Docket 11735 (see Note 13). An updated site-specific study will be performed and completed by the end of 1997. Actual decommissioning costs are expected to differ from estimates due to changes in the assumed dates of decommissioning activities, regulatory requirements, technology and costs of labor, materials and equipment.

TU Electric has a contract with the United States Department of Energy (DOE) for the future disposal of spent nuclear fuel. In December 1996, the DOE notified TU Electric that it did not expect to meet its obligation to begin acceptance of spent nuclear fuel by 1998. TU Electric is unable to predict what impact, if any, the DOE delay will have on TU Electric's future operations. The disposal fee is at a cost to TU Electric of one mill per kilowatt-hour of Comanche Peak net generation and is included in nuclear fuel expense.

General

The Company and TU Electric

In addition to the above, the Company and TU Electric are involved in various legal and administrative proceedings which, in the opinion of each, should not have a material effect upon its financial position, results of operation or cash flows.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company and TU Electric

The carrying amounts and related estimated fair values of the Company and System Companies' and TU Electric's significant financial instruments at December 31, 1996 and 1995, are as follows:

The Company

	December 31, 1996		December 31, 1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Thousands of Dollars			
Long-term debt	$8,668,111	$9,050,868	$9,174,575	$9,875,881
TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	381,311	395,091	381,476	405,729
Preferred stock of subsidiary subject to mandatory redemption	238,391	250,098	263,196	280,106
LESOP note receivable	250,000	262,175	250,000	280,713
Interest rate and currency swaps	—	(33,859)	—	—
Other investments	194,652	191,435	118,526	134,949

TU Electric

	December 31, 1996		December 31, 1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Thousands of Dollars			
Long-term debt	$6,310,594	$6,657,126	$7,212,070	$7,836,861
TU Electric obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely debentures of TU Electric	381,311	395,091	381,476	405,729
Preferred stock subject to mandatory redemption	238,391	250,098	263,196	280,106
Other investments	172,779	169,820	103,888	118,415

The fair values of long-term debt and preferred stock subject to mandatory redemption are estimated at the lesser of the call price or the present value of future cash flows discounted at rates consistent with comparable maturities adjusted for credit risk. The fair values of preferred securities are based on quoted market prices. The carrying amounts reflected in the Consolidated Balance Sheets for financial assets classified as current assets, and the carrying amounts for financial liabilities classified as current liabilities, approximate fair value due to the short maturity of such instruments. The fair values of other financial instruments for which carrying amounts and fair values have not been presented are not materially different than their related carrying amounts.

Other investments includes deposits in an external trust fund for nuclear decommissioning of Comanche Peak. The trust funds are invested primarily in equity securities which are classified as available-for-sale. Any unrealized gains or losses are treated as regulatory assets or regulatory liabilities, respectively.

The Company

Common stock — net has been reduced by the note receivable from the trustee of the leveraged employee stock ownership provision of the Thrift Plan. The fair value of such note is estimated at the lesser of the Company's call price or the present value of future cash flows discounted at rates consistent with comparable maturities adjusted for credit risk. Fair values for the System Companies' off-balance-sheet instruments (interest rate and currency swaps) are based either on quotes or the cost to terminate the agreements.

TU Electric

TU Electric has agreed, in effect, to guarantee the principal and interest on bonds used to finance the reservoirs from which TU Electric uses cooling water for certain generating units. TU Electric is also the guarantor for the principal amount of certain bonds issued for similar purposes which were assigned to a municipality. The outstanding principal at December 31, 1996 and 1995 of the bonds for which TU Electric is contingently liable is approximately $107,000,000 and $114,000,000, respectively. The fair value of the bonds, approximately

$111,000,000 and $121,000,000 for December 31, 1996 and 1995, respectively, is based on the present value of the instruments' approximate cash flows discounted at the year-end risk free rate for issues of comparable maturities adjusted for credit risk.

17. SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

The Company and TU Electric

In the opinion of the Company and TU Electric, respectively, the information below includes all adjustments (constituting only normal recurring accruals) necessary to a fair statement of such amounts. Quarterly results are not necessarily indicative of expectations for a full year's operations because of seasonal and other factors, including rate changes, variations in maintenance and other operating expense patterns, the impact of the change in AFUDC accruals (see Note 1) and the charges for regulatory disallowances. Certain quarterly information has been reclassified to conform to the current year presentation. For additional information regarding the charges for regulatory disallowances, see Note 13.

The Company

Quarter Ended	Operating Revenues 1996	Operating Revenues 1995	Operating Income 1996	Operating Income 1995	Consolidated Net Income (Loss) 1996	Consolidated Net Income (Loss) 1995	Earnings (Loss) Per Share of Common Stock* 1996	Earnings (Loss) Per Share of Common Stock* 1995
	Thousands of Dollars (except per share amounts)							
March 31	$1,463,900	$1,244,265	$ 414,938	$ 311,344	$126,074	$ 75,411	$0.56	$0.33
June 30	1,691,313	1,353,998	535,047	422,305	202,957	148,432	0.90	0.66
September 30	1,930,097	1,775,669	743,610	742,699	357,983	(441,716)	1.59	(1.96)
December 31	1,465,618	1,264,756	309,395	311,279	66,592	79,228	0.30	0.35
	$6,550,928	$5,638,688	$2,002,990	$1,787,627	$753,606	$(138,645)		

* The sum of the quarters may not equal annual earnings per share due to rounding.

TU Electric

Quarter Ended	Operating Revenues 1996	Operating Revenues 1995	Operating Income 1996	Operating Income 1995	Consolidated Net Income 1996	Consolidated Net Income 1995
	Thousands of Dollars					
March 31	$1,348,330	$1,233,772	$ 305,057	$ 255,391	$152,785	$101,758
June 30	1,558,778	1,341,245	391,019	328,621	227,869	174,219
September 30	1,787,412	1,761,378	522,270	534,167	379,438	68,172
December 31	1,335,091	1,224,067	244,252	252,187	102,603	108,482
	$6,079,611	$5,560,462	$1,462,598	$1,370,366	$862,695	$452,631

TEXAS UTILITIES COMPANY AND SUBSIDIARIES

STATEMENT OF RESPONSIBILITY

The management of Texas Utilities Company is responsible for the preparation, integrity and objectivity of the consolidated financial statements of the Company and its subsidiaries and other information included in this report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. As appropriate, the statements include amounts based on informed estimates and judgments of management.

The management of the Company has established and maintains a system of internal control designed to provide reasonable assurance, on a cost-effective basis, that assets are safeguarded, transactions are executed in accordance with management's authorization and financial records are reliable for preparing consolidated financial statements. Management believes that the system of control provides reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected within a timely period. Key elements in this system include the effective communication of established written policies and procedures, selection and training of qualified personnel and organizational arrangements that provide an appropriate division of responsibility. This system of control is augmented by an ongoing internal audit program designed to evaluate its adequacy and effectiveness. Management considers the recommendations of the internal auditors and independent certified public accountants concerning the Company's system of internal control and takes appropriate actions which are cost-effective in the circumstances. Management believes that, as of December 31, 1996, the Company's system of internal control was adequate to accomplish the objectives discussed herein.

The Board of Directors of the Company addresses its oversight responsibility for the consolidated financial statements through its Audit Committee, which is composed of directors who are not employees of the Company. The Audit Committee meets regularly with the Company's management, internal auditors and independent certified public accountants to review matters relating to financial reporting, auditing and internal control. To ensure auditor independence, both the internal auditors and independent certified public accountants have full and free access to the Audit Committee.

The independent certified public accounting firm of Deloitte & Touche LLP is engaged to audit, in accordance with generally accepted auditing standards, the consolidated financial statements of the Company and its subsidiaries and to issue their report thereon.

/s/ J. S. FARRINGTON

J. S. Farrington, Chairman of the Board

/s/ ERLE NYE

Erle Nye, President and Chief Executive

/s/ PETER B. TINKHAM

Peter B. Tinkham, Treasurer and Assistant Secretary and Principal Financial Officer

/s/ MARC D. MOSELEY

Marc D. Moseley, Acting Controller and Principal Accounting Officer

TEXAS UTILITIES ELECTRIC COMPANY AND SUBSIDIARIES

STATEMENT OF RESPONSIBILITY

The management of Texas Utilities Electric Company is responsible for the preparation, integrity and objectivity of the financial statements of TU Electric and its subsidiaries and other information included in this report. The financial statements have been prepared in conformity with generally accepted accounting principles. As appropriate, the statements include amounts based on informed estimates and judgments of management.

The management of TU Electric has established and maintains a system of internal control designed to provide reasonable assurance, on a cost-effective basis, that assets are safeguarded, transactions are executed in accordance with management's authorization and financial records are reliable for preparing financial statements. Management believes that the system of control provides reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period. Key elements in this system include the effective communication of established written policies and procedures, selection and training of qualified personnel and organizational arrangements that provide an appropriate division of responsibility. This system of control is augmented by an ongoing internal audit program designed to evaluate its adequacy and effectiveness. Management considers the recommendations of the internal auditors and independent certified public accountants concerning TU Electric's system of internal control and takes appropriate actions which are cost-effective in the circumstances. Management believes that, as of December 31, 1996, TU Electric's system of internal control was adequate to accomplish the objectives discussed herein.

The independent certified public accounting firm of Deloitte & Touche LLP is engaged to audit, in accordance with generally accepted auditing standards, the financial statements of TU Electric and to issue their report thereon.

/s/ ERLE NYE

Erle Nye, Chairman of the Board
and Chief Executive

/s/ ROBERT S. SHAPARD

Robert S. Shapard, Treasurer and Assistant
Secretary and Principal Financial Officer

/s/ MARC D. MOSELEY

Marc D. Moseley, Acting Controller
and Principal Accounting Officer

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheets of Texas Utilities Company and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 14 to the consolidated financial statements, in 1995, the Company changed its method of accounting for the impairment of long-lived assets and for long-lived assets to be disposed of to conform with Statement of Financial Accounting Standards No. 121.

DELOITTE & TOUCHE LLP

Dallas, Texas
March 12, 1997

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheets of Texas Utilities Electric Company and subsidiaries (TU Electric) as of December 31, 1996 and 1995, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of TU Electric's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of TU Electric at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 14 to the consolidated financial statements, in 1995, TU Electric changed its method of accounting for the impairment of long-lived assets and for long-lived assets to be disposed of to conform with Statement of Financial Accounting Standards No. 121.

DELOITTE & TOUCHE LLP

Dallas, Texas
March 12, 1997

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company and TU Electric

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF EACH REGISTRANT

The Company

Information with respect to this item is found under the heading Election of Directors in the definitive proxy statement to be filed by the Company with the Commission on or about April 1, 1997.

TU Electric

Identification of Directors, business experience and other directorships:

Name of Director	Age	Other Positions and Offices Presently Held With TU Electric (Current Term Expires May 23, 1997)	Date First Elected as Director (Current Term Expires May 23, 1997)	Present Principal Occupation or Employment and Principal Business (Preceeding Five Years), Other Directorships
T. L. Baker	51	President, Electric Service Division	February 20, 1987	President, Electric Service Division of TU Electric; prior thereto, Executive Vice President of TU Electric; prior thereto, Senior Vice President of TU Electric.
J. S. Farrington	62	None	September 17, 1982	Chairman of the Board of the Company; prior thereto, Chairman of the Board and Chief Executive of the Company; other directorships: the Company.
H. Jarrell Gibbs	59	President	May 24, 1989	President of TU Electric; prior thereto, Vice President and Principal Financial Officer of the Company and President of TU Services; prior thereto, Executive Vice President of TU Electric; prior thereto, Executive Vice President of Texas Electric Service Division of TU Electric.
Michael J. McNally	42	President, Transmission Division	February 16, 1996	President, Transmission Division of TU Electric; prior thereto, Executive Vice President of TU Electric; prior thereto, Principal of Enron Development Corporation; prior thereto, Managing Director of Industrial Services (Enron Capital and Trade Resources); President of Houston Pipe Line; President of Enron Gas Liquids, Inc; Vice President of Marketing for Houston Pipe Line Company.
Erle Nye	59	Chairman and Chief Executive	September 17, 1982	President and Chief Executive of the Company, other directorships: the Company.
W. M. Taylor	54	President, Generation Division	May 20, 1986	President, Generation Division of TU Electric; prior thereto, Executive Vice President of TU Electric; prior thereto, President of Dallas Power Division of TU Electric.
E. L. Watson	62	Vice Chairman	February 20, 1987	Vice Chairman of TU Electric; prior thereto, Executive Vice President of TU Electric; prior thereto, Senior Vice President of TU Electric.

Directors of TU Electric receive no compensation in their capacity as Directors of TU Electric.

Identification of Executive Officers and business experience:

Name of Officer	Age	Positions and Offices Presently Held (Current Term Expires May 23, 1997)	Date First Elected to Present Offices	Business Experience (Preceeding Five Years)
Erle Nye	59	Chairman and Chief Executive	February 20, 1987	Same and President and Chief Executive of the Company.
H. Jarrell Gibbs	59	President	February 16, 1996	President of TU Electric; prior thereto, Vice President and Principal Financial Officer of the Company and President of TU Services; prior thereto, Executive Vice President of TU Electric; prior thereto, Executive Vice President of Texas Electric Service Division of TU Electric.
T. L. Baker	51	President, Electric Service Division	February 16, 1996	President, Electric Service Division of TU Electric; prior thereto, Executive Vice President of TU Electric; prior thereto, Senior Vice President of TU Electric.
Michael J. McNally	42	President, Transmission Division	February 16, 1996	President, Transmission Division of TU Electric; prior thereto, Executive Vice President of TU Electric; prior thereto, Principal of Enron Development Corporation; prior thereto, Managing Director of Industrial Services (Enron Capital and Trade Resources); President of Houston Pipe Line; President of Enron Gas Liquids, Inc.; Vice President of Marketing for Houston Pipe Line Company.
W. M. Taylor	54	President, Generation Division	February 16, 1996	President, Generation Division of TU Electric; prior thereto, Executive Vice President of TU Electric; prior thereto, President of Dallas Power Division of TU Electric.
E. L. Watson	62	Vice Chairman	November 1, 1992	Vice Chairman of TU Electric; prior thereto, Executive Vice President of TU Electric; prior thereto, Senior Vice President of TU Electric.

There is no family relationship between any of the above named Directors or Executive Officers.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

All required reports relating to changes in beneficial ownership have been timely filed except that, as a result of an administrative oversight, a Form 3 was not filed with the Securities and Exchange Commission on a timely basis for Robert S. Shapard, Treasurer and Assistant Secretary of TU Electric regarding his election as TU Electric's principal financial officer. Mr. Shapard owns none of TU Electric's equity securities.

Item 11. EXECUTIVE COMPENSATION

The Company

Information with respect to this item is found under the heading Executive Compensation of the Company in the definitive proxy statement to be filed by the Company with the Commission on or about April 1, 1997.

TU Electric

TU Electric and its affiliates have paid or awarded compensation during the last three calendar years to the following Executive Officers for services in all capacities:

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation (3)		
					Awards	Payouts	
Name and Principal Position	Year	Salary ($)	Bonus($)(2)	Other Annual Compensation ($)	Restricted Stock Awards ($)	LTIP Payouts ($)	All Other Compensation ($) (4)
Erle Nye, Chairman of the Board and Chief Executive of TU Electric (1)	1996	723,333	185,000	-	351,500	0	117,908
	1995	679,167	140,000	-	266,000	25,602	87,810
	1994	618,750	0	-	217,000	0	67,275
H. Jarrell Gibbs, President of TU Electric	1996	321,250	113,000	-	189,500	0	53,203
	1995	282,917	67,200	-	120,300	9,102	38,702
	1994	245,167	40,000	-	97,880	0	29,017
W. M. Taylor, President, Generation Division-TU Electric	1996	312,500	83,500	-	156,625	0	49,530
	1995	282,917	64,700	-	117,800	10,809	38,278
	1994	249,333	40,000	-	97,880	0	30,333
T. L. Baker, President, Electric Service Division-TU Electric	1996	275,833	60,500	-	123,500	0	46,319
	1995	261,667	44,900	-	93,500	11,947	34,465
	1994	245,833	25,000	-	80,000	0	28,183
Michael J. McNally, President, Transmission Division-TU Electric	1996	229,166	75,000	-	131,250	0	22,399
	1995	170,833	0	-	0	0	0
	1994	0	0	-	0	0	0

(1) Amounts reported in the table for Mr. Nye consist entirely of compensation paid by the Company.

(2) Amounts reported as Bonus in the Summary Compensation Table are attributable, beginning in 1995, to the named officer's participation in the Annual Incentive Plan (AIP). Officers of the Company and its subsidiaries with a title of Vice President or above are eligible to participate in the AIP. Under the terms of the AIP, target incentive awards ranging from 35% to 50% of base salary, and a maximum award of 100% of base salary, are established. The percentage of the target or the maximum actually awarded, if any, is dependent upon the attainment of per share net income goals established in advance by the Organization and Compensation Committee (Committee) as well as the Committee's evaluation of the participant's and the Company's performance. One-half of each such award is paid in cash and is reflected as Bonus in the Summary Compensation Table. Payment of the remainder of the award is deferred under the Deferred and Incentive Compensation Plan (DICP) discussed below.

(3) Amounts reported as Long-Term Compensation are attributable to the named officer's participation in the DICP. Officers of the Company and its subsidiaries with the title of Vice President or above are eligible to participate in the DICP. Participants in the DICP may defer a percentage of their base salary not to exceed a maximum percentage determined by the Committee for each Plan year and in any event not to exceed 15% of the participant's base salary. The Company makes a matching award (Matching Award) equal to 150% of the participant's deferred

salary. In addition, one-half of any AIP award (Incentive Award) is deferred and invested under the DICP. The Matching Awards and Incentive Awards are subject to forfeiture under certain circumstances. Under the DICP, a trustee purchases Company common stock with an amount of cash equal to each participant's deferred salary, Matching Award and Incentive Award and accounts are established for each participant containing performance units (Units) equal to such number of common shares. DICP investments, including reinvested dividends, are restricted to Company common stock. On the expiration of the applicable maturity period (three years for the Incentive Awards and five years for deferred salary and Matching Awards) the values of the participant's accounts are paid in cash based upon the then current value of the Units; provided, however, that in no event will a participant's account be deemed to have a cash value which is less than the sum of such participant's deferred salary together with a 6% per annum (compounded annually) interest equivalent thereon. The maturity period is waived if the participant dies or becomes totally and permanently disabled and may be extended under certain circumstances.

Salary deferred under the DICP is included in amounts reported as Salary in the Summary Compensation Table. Amounts shown in the table below represent the number of shares purchased under the DICP with such deferred salaries for 1996:

Long-Term Incentive Plan - Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights (#)	Performance or Other Period Until Maturation or Payout
Erle Nye	2,620	5 Years
H. Jarrell Gibbs	1,203	5 Years
W. M. Taylor	1,150	5 Years
T. L. Baker	991	5 Years
Michael J. McNally	885	5 Years

Incentive Awards and Matching Awards that have been made under the DICP are included under Restricted Stock Awards in the Summary Compensation Table. As a result of these awards, undistributed Incentive Awards and Matching Awards made under the Plan in prior years, and dividends reinvested thereon, the number and market value of such units at December 31, 1996 (each of which is equal to one share of common stock) held in the DICP accounts for Messrs. Nye, Gibbs, Taylor, Baker and McNally were 30,816 ($1,255,786), 14,113 ($575,142), 13,423 ($546,997), 11,455 ($466,831) and 3,136 ($127,828), respectively.

Amounts reported as LTIP Payouts in the Summary Compensation Table represent payouts maturing during such years of earnings on salary deferred under the DICP in prior years.

(4) Amounts reported as All Other Compensation are attributable to the named officer's participation in certain plans described hereinafter in this footnote:

Under the Employees' Thrift Plan of the Texas Utilities Company System (Thrift Plan) all employees with at least six months of eligible service with the Company or any of its subsidiaries may invest up to 16% of their regular salary or wages in common stock of the Company, or in a variety of selected mutual funds. Under the Thrift Plan, the Company matches a portion of an employee's savings in an amount equal to 40%, 50% or 60% (depending on the employee's length of service) of the first 6% of such employee's savings. All matching amounts are invested in common stock of the Company. The amounts reported under All Other Compensation in the Summary Compensation Table includes these matching amounts which, for Messrs. Nye, Gibbs, Taylor, Baker and McNally totaled $5,400, $4,500, $5,400, $5,400 and $3,240, respectively, during 1996.

The Company has a Salary Deferral Program (Program) under which each employee of the Company and its subsidiaries whose annual salary is equal to or greater than amount established under the Program ($91,740 for the Program Year beginning April 1996) may elect to defer a percentage of annual salary for a period of seven years, a period ending with the retirement of such employee, or for a combination thereof. Such deferrals may not exceed in the aggregate 10% of the employee's annual salary. Salary deferred under the program is included in amounts reported under Salary in the Summary Compensation Table. The Company makes a matching award,

subject to forfeiture under certain circumstances, equal to 100% of the salary deferred under the Program. The trustee for the Program distributes, at the end of the applicable maturity period, cash equal to the greater of the actual earnings of Program assets, or the average yield during the applicable maturity period of U.S. Treasury Notes with a maturity of ten years. The distribution of the amounts due under the Program are in a lump sum if the maturity period is seven years or, if the retirement option is elected, in twenty annual installments. The Company is financing the retirement portion of the Program through the purchase of corporate-owned life insurance on the lives of the participants. The proceeds from such insurance are expected to allow the Company to fully recover the cost of the retirement option. During 1996, matching awards, which are included under All Other Compensation in the Summary Compensation Table, were made for Messrs. Nye, Gibbs, Taylor, Baker and McNally in the amounts of $72,333, $32,125, $31,250, $27,583 and $17,083, respectively.

Under the Split-Dollar Life Insurance Program of the Texas Utilities Company System (Insurance Program), split-dollar life insurance policies are purchased for officers of the Company and its subsidiaries with a title of Vice President or above, with a death benefit equal to four times their annual compensation. Effective in October 1996, new participants vest in the policies issued under the Insurance Program over a 5 year period. The Company pays the premiums for these policies and has received a collateral assignment of the policies equal in value to the sum of all of its insurance premium payments. Although the Insurance Program is terminable at any time, it is designed so that if it is continued, the Company will fully recover all of the insurance premium payments it has made either upon the death of the participant or, if the assumptions made as to policy yield are realized, upon the later of fifteen years of participation or the participant's attainment of age sixty-five. During 1996, the economic benefit derived by Messrs. Nye, Gibbs, Taylor, Baker and McNally from the term insurance coverage provided and the interest foregone on the remainder of the insurance premiums paid by the Company amounted to $40,175, $16,578, $12,880, $13,336 and $2,076, respectively.

PENSION PLAN TABLE

	Years of Service				
Remuneration	20	25	30	35	40
$ 100,000	$ 29,688	$ 37,110	$ 44,532	$ 51,954	$ 59,376
200,000	59,688	74,610	89,532	104,454	119,376
400,000	119,688	149,610	179,532	209,454	239,376
800,000	239,688	299,610	359,532	419,454	479,376
1,000,000	299,688	374,610	449,532	524,454	599,376
1,400,000	419,688	524,610	629,532	734,454	839,376

The Company and its subsidiaries maintain retirement plans (Plans) which are qualified under applicable provisions of the Internal Revenue Code of 1986, as amended (Code). Annual retirement benefits are computed as follows: for each year of accredited service up to a total of 40 years of service, 1.3% of the first $7,800, plus 1.5% of the excess over $7,800 of the participant's average annual earnings during his or her three years of highest earnings. Amounts reported under Salary for the named officers in the Summary Compensation Table approximate earnings as defined by the Plans. Benefits paid under the Plans are not subject to any reduction for Social Security payments but are limited by provisions of the Code. The Company maintains a Supplemental Retirement Plan (Supplemental Plan) which provides for the payment of retirement benefits which would otherwise be limited by the Code or by the definition of earnings in the Plans. Under the Supplemental Plan, retirement benefits are calculated in accordance with the same formula used under the Plans, except that earnings also include AIP awards. (50% of the AIP award is reported under Bonus for the named officers in the Summary Compensation Table). As of February 28, 1997, years of accredited service under the plans for Messrs. Nye, Gibbs, Taylor, Baker and McNally were 34, 34, 29, 26 and 5 months, respectively. The above table illustrates the total annual benefit payable at retirement under the Plans and Supplemental Plan prior to any reduction for a contingent beneficiary option which may be selected by the participant.

The following report and performance graph are presented herein for informational purposes only. This information is not required to be included herein and shall not be deemed to form a part of this report or be "filed" with the Securities and Exchange Commission. The report set forth hereinafter is the report of the Organization and Compensation Committee of the Board of Directors of the Company and is illustrative of the methodology utilized in establishing the compensation of executive officers of the Company and TU Electric.

ORGANIZATION AND COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Organization and Compensation Committee of the Board of Directors is responsible for reviewing and establishing the compensation of the executive officers of the Company. The Committee consists of all of the nonemployee directors of the Company and is chaired by James A. Middleton. The Committee has directed the preparation of this report and has approved its contents and submission to the shareholders.

As a matter of policy, the Committee believes that levels of executive compensation should be based upon an evaluation of the performance of the Company and its officers generally, as well as in comparison to persons with comparable responsibilities in similar business enterprises. Compensation plans should align executive compensation with returns to shareholders with due consideration accorded to balancing both long-term and short-term objectives. The Committee has determined that, as a matter of policy to be implemented over time, the base salaries of the officers will be established at the median, or 50th percentile, of the top ten electric utilities in the United States and that opportunities for total direct compensation to reach the 75th percentile, or above, of such utilities will be provided through performance-based compensation plans. Such compensation principles and practices have allowed, and should continue to allow, the Company to attract, retain and motivate its key executives.

In furtherance of these policies, a nationally recognized compensation consultant has been retained since 1994 to assist the Committee in its periodic reviews of compensation and benefits provided to officers. The consultant's prior recommendations, including the Annual Incentive Plan (referred to as AIP and described hereinafter and in footnote 2 to the Summary Compensation Table), as well as changes in life insurance coverage and retirement benefits, have generally been implemented. The consultant has recommended, and assisted the Committee in the development of, the Long-Term Incentive Compensation Plan (the Long-Term Plan) which has been approved by the Committee and the Board and which is being recommended to the shareholders for their approval.

The compensation of the officers of the Company has consisted principally of base salaries, the opportunity to participate in the Deferred and Incentive Compensation Plan (referred to as the DICP and described in footnote 3 to the Summary Compensation Table) and the opportunity to earn an incentive award under the AIP. Benefits provided under the DICP and the AIP represent a substantial portion of officers' compensation, and the value of future payments under the DICP, as well as the value of the deferred portion of any award under the AIP, is directly related to the future performance of the Company's common stock. It is anticipated that performance-based incentive awards under the AIP, and, if it is approved by the Company's shareholders, the Long-Term Plan, will, in future years, constitute an increasing percentage of the officers' total compensation.

The AIP is administered by the Committee and provides an objective framework within which annual Company and individual performance can be evaluated by the Committee. Depending on the results of such performance evaluations, and the attainment of the per share net income goals established in advance, the Committee may provide annual incentive compensation awards to eligible officers. The evaluation of each individual participant's performance is based upon the attainment of individual and business unit objectives. The Company's performance is evaluated, compared to the ten largest electric utilities and/or the electric utility industry, based upon its total return to shareholders and return on invested capital as well as other measures relating to competitiveness, service quality and employee safety. The combination of individual and Company performance results, together with the Committee's evaluation of the competitive level of compensation which is appropriate for such results, determines the amount, if any, actually awarded.

As previously noted, the Committee and the Board have adopted, subject to shareholder approval, the Long-Term Plan. The Long-Term Plan is a comprehensive, stock-based incentive compensation plan under which all awards will be made in, or based on the value of the Company's common stock. The Committee believes that the Long-Term Plan is necessary in order to continue to be able to attract, motivate and retain officers and other key employees through stock-based compensation. The Long-Term Plan is designed such that the value of awards will be directly related to long-term returns to shareholders and the Plan will, thereby, constitute an appropriate component of the Company's overall compensation program.

In establishing levels of executive compensation at its May 1996 meeting, the Committee reviewed various performance and compensation data including the performance measures under the AIP and the report of its compensation consultant. Information was also gathered from industry sources and other published and private materials which provided a basis for comparing the largest electric and gas utilities and other survey groups representing a large variety of business organizations. Included in the data considered was that in 1995, TU Electric, the Company's principal subsidiary, was the second largest electric utility in the United States as measured by megawatt hour sales and, compared to other electric utilities in the United States, was seventh in electric revenues, sixth in total assets, fourth in net generating capability, eighth in number of customers and eleventh in number of employees. This information provided a basis for comparing the Company with the largest electric and gas utilities, including companies generally comparable in size represented in the Moody's 24 utilities whose comparative investment return is depicted in the graph herein. Compensation amounts were established by the Committee based upon its subjective evaluation of Company and individual performance at levels consistent with the Committee's policy relating to total direct compensation.

In May 1996, the Committee increased Mr. Nye's base salary as Chief Executive to an annual rate of $740,000, representing a $40,000, or 5.7%, increase over the amount established for Mr. Nye in May 1995. Based upon the Committee's evaluation of individual and Company performance, as called for by the AIP, the Committee also provided Mr. Nye with an AIP award of $370,000 compared to the prior year's award of $280,000. This level of compensation was established based upon the Committee's subjective evaluation of the information described in this report.

In discharging its responsibilities with respect to establishing executive compensation, the Committee normally considers such matters at its May meeting held in conjunction with the Annual Meeting of Shareholders. Although Company management may be present during Committee discussions of officers' compensation, Committee decisions with respect to the compensation of the President and Chief Executive and the Chairman of the Board are reached in private session without the presence of any member of Company management.

Section 162(m) of the Code limits the deductibility of compensation which a publicly traded corporation provides to its most highly compensated officers. As a general policy, the Company does not intend to provide compensation which is not deductible for federal income tax purposes. Awards under the AIP in 1996 and subsequent years, as well as awards under the Long-Term Plan, are expected to be fully deductible, and the DICP and the Salary Deferral Program have been amended to require the deferral of distributions of amounts earned in 1995 and subsequent years until the time when such amounts would be deductible. Awards provided under the AIP in 1995 and distributions under the DICP and the Salary Deferral Program which were earned in plan years prior to 1995, may not be fully deductible but such amounts are not expected to be material.

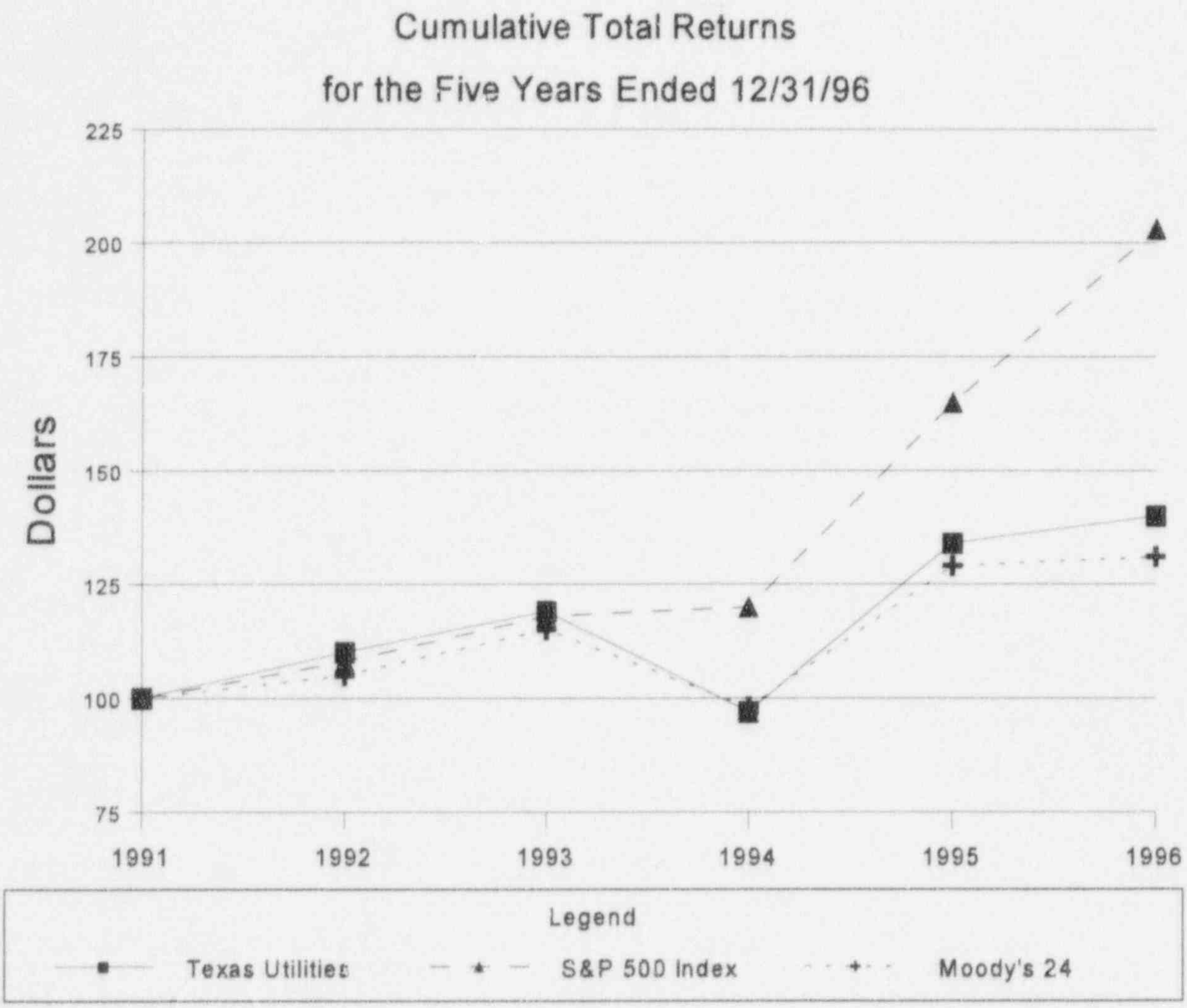
Shareholder comments to the Committee are welcomed and should be addressed to the Corporate Secretary of the Company at the Company's offices.

Organization and Compensation Committee

James A. Middleton, Chair	***Margaret N. Maxey***
Bayard H. Friedman	***J. E. Oesterreicher***
William M. Griffin	***Charles R. Perry***
Kerney Laday	***Herbert H. Richardson***

PERFORMANCE GRAPH

The following graph compares the performance of the Company's common stock to the S&P 500 Index and to the Moody's 24 Utilities for the last five years. The graph assumes the investment of $100 at December 31, 1991 and that all dividends were reinvested. The amount of the investment at the end of each year is shown in the graph and in the table which follows.



	1991	1992	1993	1994	1995	1996
Texas Utilities	100	110	119	97	134	140
S&P 500 Index	100	108	118	120	165	203
Moody's 24 Utilities	100	105	115	98	129	131

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Company

Information with respect to this item is found under the headings Beneficial Ownership of Common Stock of the Company in the definitive proxy statement to be filed by the Company with the Commission on or about April 1, 1997. Additional information with respect to Executive Officers of the Registrant is found at the end of Part I.

TU Electric

Security ownership of certain beneficial owners at February 28, 1997:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock, without par value, of TU Electric	Texas Utilities Company Energy Plaza, 1601 Bryan Street Dallas, Texas 75201	156,800,000 shares sole voting and investment power	100.0%

Security ownership of management at February 28 ,1997:

The following lists the common stock of the Company owned by the Directors and Executive Officers of TU Electric. The named individuals have sole voting and investment power for the shares of common stock reported. Ownership of such common stock by the Directors and Executive Officers, individually and as a group, constituted less than 1% of the outstanding shares at February 28, 1997. None of the named individuals own any of the preferred stock of TU Electric or the preferred securities of any subsidiaries of TU Electric.

	Number of Shares		
Officer	Benefically Owned	Deferred Plan *	Totals
T. L. Baker	3,012	16,544	19,556
J. S. Farrington	19,365	50,961	70,326
H. Jarrell Gibbs	7,032	19,340	26,372
Michael J. McNally	5,462	4,084	9,546
Erle Nye	20,114	43,594	63,708
W. M. Taylor	8,304	18,703	27,007
E. L. Watson	6,225	15,333	21,558
All Directors and Executive Officers as a group (7)	69,514	168,559	238,073

* Share units held in deferred compensation accounts under the Deferred and Incentive Compensation Plan. Although this plan allows such units to be paid only in the form of cash, investments in such units create essentially the same investment stake in the performance of the Company's common stock as do investments in actual shares of common stock.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company

Information with respect to this item is found under the heading Beneficial Ownership of Common Stock of the Company in the definitive proxy statement to be filed by the Company with the Commission on or about April 1, 1997. Additional information with respect to Executive Officers of the Registrant is found at the end of Part I.

TU Electric

None.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

All financial statement schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the Consolidated Financial Statements or notes thereto.

(b) Reports on Form 8-K:

Reports on Form 8-K filed since September 30, 1996, are as follows:

The Company

Date of Report	Item Reported
None.	

TU Electric

Date of Report	Item Reported
None.	

(c) Exhibits:

The Company and TU Electric

	Previously Filed*				
Exhibits	**With File Number**	**As Exhibit**		**Number**	**Dated**
2(a)	333-12391	2(a)	-	Amended and Restated Agreement and Plan of Merger, dated as of April 13, 1996, among the Company, ENSERCH Corporation and TUC Holding Company.	
3(a)	33-48880	4(a)	-	Restated Articles of Incorporation of the Company.	
3(b)	33-48880	4(b)	-	Bylaws, as amended, of the Company.	
3(c)	0-11442 Form 10-K (1993)	3(a)	-	Restated Articles of Incorporation of TU Electric.	
3(d)	33-64694	4(c)	-	Bylaws of TU Electric, as amended.	
4(a)	2-90185	4(a)	-	Mortgage and Deed of Trust, dated as of December 1, 1983, between TU Electric and Irving Trust Company (now The Bank of New York), Trustee.	
4(a)(1)			-	Supplemental Indentures to Mortgage and Deed of Trust:	
	2-90185	4(b)	First		April 1, 1984
	2-92738	4(a)-1	Second		September 1, 1984
	2-97185	4(a)-1	Third		April 1, 1985
	2-99940	4(a)-1	Fourth		August 1, 1985
	2-99940	4(a)-2	Fifth		September 1, 1985
	33-01774	4(a)-2	Sixth		December 1, 1985
	33-9583	4(a)-1	Seventh		March 1, 1986
	33-9583	4(a)-2	Eighth		May 1, 1986
	33-11376	4(a)-1	Ninth		October 1, 1986
	33-11376	4(a)-2	Tenth		December 1, 1986
	33-11376	4(a)-3	Eleventh		December 1, 1986
	33-14584	4(a)-1	Twelfth		February 1, 1987
	33-14584	4(a)-2	Thirteenth		March 1, 1987
	33-14584	4(a)-3	Fourteenth		April 1, 1987
	33-24089	4(a)-1	Fifteenth		July 1, 1987
	33-24089	4(a)-2	Sixteenth		September 1, 1987
	33-24089	4(a)-3	Seventeenth		October 1, 1987
	33-24089	4(a)-4	Eighteenth		March 1, 1988
	33-24089	4(a)-5	Nineteenth		May 1, 1988
	33-30141	4(a)-1	Twentieth		September 1, 1988
	33-30141	4(a)-2	Twenty-first		November 1, 1988

	Previously Filed*			
Exhibits	With File Number	As Exhibit	Number	Dated
	33-30141	4(a)-3	Twenty-second	January 1, 1989
	33-35614	4(a)-1	Twenty-third	August 1, 1989
	33-35614	4(a)-2	Twenty-fourth	November 1, 1989
	33-35614	4(a)-3	Twenty-fifth	December 1, 1989
	33-35614	4(a)-4	Twenty-six	February 1, 1990
	33-39493	4(a)-1	Twenty-seventh	September 1, 1990
	33-39493	4(a)-2	Twenty-eighth	October 1, 1990
	33-39493	4(a)-3	Twenty-ninth	October 1, 1990
	33-39493	4(a)-4	Thirtieth	March 1, 1991
	33-45104	4(a)-1	Thirty-first	May 1, 1991
	33-45104	4(a)-2	Thirty-second	July 1, 1991
	33-46293	4(a)-1	Thirty-third	February 1, 1992
	33-49710	4(a)-1	Thrity-fourth	April 1, 1992
	33-49710	4(a)-2	Thirty-fifth	April 1, 1992
	33-49710	4(a)-3	Thirty-sixth	June 1, 1992
	33-49710	4(a)-4	Thirty-seventh	June 1, 1992
	33-57576	4(a)-1	Thirty-eighth	August 1, 1992
	33-57576	4(a)-2	Thirty-ninth	October 1, 1992
	33-57576	4(a)-3	Fortieth	November 1, 1992
	33-57576	4(a)-4	Forty-first	December 1, 1992
	33-60528	4(a)-1	Forty-second	March 1, 1993
	33-64692	4(a)-1	Forty-third	April 1, 1993
	33-64692	4(a)-2	Forty-fourth	April 1, 1993
	33-64692	4(a)-3	Forty-fifth	May 1, 1993
	33-68100	4(a)-1	Forty-sixth	July 1, 1993
	33-68100	4(a)-3	Forty-seventh	October 1, 1993
	33-68100	4(a)-4	Forty-eighth	November 1, 1993
	33-68100	4(a)-5	Forty-ninth	May 1, 1994
	33-68100	4(a)-6	Fiftieth	May 1, 1994
	33-68100	4(a)-7	Fifty-first	August 1, 1994
	0-11442 Form 10-Q (Quarter ended March 31, 1995)	99	Fifty-second	April 1, 1995
	0-11442 Form 10-Q (Quarter ended June 30, 1995)	99	Fifty-third	June 1, 1995
	0-11442 Form 8-K (Dated September 26, 1995)	4	Fifty-fourth	October 1, 1995
	0-11442 Form 10-Q (Quarter ended March 31, 1996)	4(a)	Fifty-fifth	March 1, 1996
	0-11442 Form 10-Q (Quarter ended September 30, 1996)	4(a)	Fifty-sixth	September 1, 1996
4(a)(2)			Fifty-seventh	February 1, 1997
4(b)(1)			- Agreement to furnish certain debt instruments (the Company).	
4(b)(2)			- Agreement to furnish certain debt instruments (TU Electric).	

	Previously Filed*				
Exhibits	With File Number	As Exhibit		Number	Dated
4(c)	33-68104	4(b)-16	-	Deposit Agreement between TU Electric and Chemical Bank, dated as of January 11, 1993.	
4(d)	33-68104	4(b)-17	-	Deposit Agreement between TU Electric and Chemical Bank, dated as of August 4, 1993.	
4(e)	0-11442 Form 10-K (1993)	4(e)	-	Deposit Agreement between TU Electric and Chemical Bank, dated as of October 14, 1993.	
4(f)	0-11442 Form 10-K (1995)	4(f)	-	Indenture (For Unsecured Subordinated Debt Securities relating to Trust Securities), dated as of December 1, 1995, between TU Electric and The Bank of New York, as Trustee.	
4(g)	0-11442 Form 10-K (1995)	4(g)	-	Amended and Restated Trust Agreement, dated as of December 12, 1995, between TU Electric, as Depositor, and The Bank of New York, The Bank of New York (Delaware) and the Administrative Trustees thereunder, as Trustees for TU Electric Capital I.	
4(h)	0-11442 Form 10-K (1995)	4(h)	-	Guarantee Agreement with respect to TU Electric Capital I, dated as of December 12, 1995, between TU Electric, as Guarantor, and The Bank of New York, as Trustee.	
4(i)	0-11442 Form 10-K (1995)	4(i)	-	Agreement as to Expenses and Liabilities, dated as of December 12, 1995, between TU Electric and TU Electric Capital I.	
4(j)			-	Officer's Certificate, dated as of December 12, 1995, establishing the terms of the Junior Subordinated Debentures issued in connection with the preferred securities of TU Electric Capital I.	
4(k)	0-11442 Form 10-K (1995)	4(j)	-	Amended and Restated Trust Agreement, dated as of December 12, 1995, between TU Electric, as Depositor, and The Bank of New York, The Bank of New York (Delaware) and the Administrative Trustees thereunder, as Trustees for TU Electric Capital II.	
4(l)	0-11442 Form 10-K (1995)	4(k)	-	Guarantee Agreement with respect to TU Electric Capital II, dated as of December 12, 1995, between TU Electric, as Guarantor, and The Bank of New York, as Trustee.	
4(m)	0-11442 Form 10-K (1995)	4(l)	-	Agreement as to Expenses and Liabilities, dated as of December 12, 1995, between TU Electric and TU Electric Capital II.	
4(n)			-	Officer's Certificate, dated as of December 12, 1995, establishing the terms of the Junior Subordinated Debentures issued in connection with the preferred securities of TU Electric Capital II.	
4(o)	0-11442 Form 10-K (1995)	4(m)	-	Amended and Restated Trust Agreement, dated as of December 13, 1995, between TU Electric, as Depositor, and The Bank of New York, The Bank of New York (Delaware), and the Administrative Trustees thereunder, as Trustees for TU Electric Capital III.	
4(p)	0-11442 Form 10-K (1995)	4(n)	-	Guarantee Agreement with respect to TU Electric Capital III, dated as of December 13, 1995, between TU Electric, as Guarantor, and The Bank of New York, as Trustee.	
4(q)	0-11442 Form 10-K (1995)	4(o)	-	Agreement as to Expenses and Liabilities, dated as of December 13, 1995, between TU Electric and TU Electric Capital III.	
4(r)			-	Officer's Certificate, dated as of December 13, 1995, establishing the terms of the Junior Subordinated Debentures issued used in connection with the preferred securities of TU Electric Capital III.	
4(s)			-	Amended and Restated Trust Agreement, dated as of January 30, 1997, between TU Electric, as Depositor, and The Bank of New York (Delaware), and the Administrative Trustee thereunder, as Trustees for TU Electric Capital IV.	

	Previously Filed*			
Exhibits	With File Number	As Exhibit		Number Dated
4(t)			-	Guarantee Agreement with respect to TU Electric Capital IV, dated as of January 30, 1997, between TU Electric, as Guarantor, and The Bank of New York, as Trustee.
4(u)			-	Agreement as to Expenses and Liabilities, dated as of January 30, 1997, between TU Electric and TU Electric Capital IV.
4(v)			-	Officer's Certificate, dated as of January 30, 1997, establishing the terms of the Junior Subordinated Debentures issued used in connection with the preferred securities of TU Electric Capital IV.
4(w)			-	Amended and Restated Trust Agreement, dated as of January 30, 1997, between TU Electric, as Depositor, and The Bank of New York (Delaware), and the Administrative Trustee thereunder, as Trustees for TU Electric Capital V.
4(x)			-	Guarantee Agreement with respect to TU Electric Capital V, dated as of January 30, 1997, between TU Electric, as Guarantor, and The Bank of New York, as Trustee.
4(y)			-	Agreement as to Expenses and Liabilities, dated as of January 30, 1997, between TU Electric and TU Electric Capital V.
4(z)			-	Officer's Certificate, dated as of January 30, 1997, establishing the terms of the Junior Subordinated Debentures issued in connection with the preferred securities of TU Electric Capital V.
10(a)**	1-3591 Form 10-Q (Quarter ended June 30, 1995)	10(a)	-	Deferred and Incentive Compensation Plan of the Texas Utilities Company System, as amended January 1, 1995.
10(b)**	1-3591 Form 10-Q (Quarter ended June 30, 1995)	10(f)	-	Salary Deferral Program of the Texas Utilities Company System as amended January 1, 1995.
10(c)**	1-3591 Form 10-Q (Quarter ended June 30, 1995)	10(c)	-	Restated Supplemental Retirement Plan for Employees of the Texas Utilities Company System, as restated effective January 1, 1995.
10(d)**	1-3591 Form 10-Q (Quarter ended June 30, 1995)	10(b)	-	Deferred Compensation Plan for Outside Directors of the Company, effective as of July 1, 1995.
10(e)**	1-3591 Form 10-Q (Quarter ended June 30, 1995)	10(d)	-	Annual Incentive Plan of the Texas Utilities Company System, dated as of May 19, 1995.
10(f)**	1-3591 Form 10-Q (Quarter ended June 30, 1995)	10(e)	-	Management Transition Agreement, dated as of May 19, 1995 between the Company and J.S. Farrington.
12(a)			-	Computation of Ratio of Earnings to Fixed Charges for the Company.
12(b)			-	Computation of Ratio of Earnings to Fixed Charges. and to Fixed Charges and Preferred Dividends for TU Electric.
21			-	Subsidiaries of the Company.
23(a)			-	Consent of Counsel to the Company.
23(b)			-	Consent of Counsel to TU Electric.
23(c)			-	Independent Auditor's Consent for the Company.

	Previously Filed*			
Exhibits	With File Number	As Exhibit		Number Dated
23(d)			-	Independent Auditor's Consent for TU Electric.
27(a)			-	Financial Data Schedule for the Company.
27(b)			-	Financial Data Schedule for TU Electric.
99(a)	1-3591 Form 10-K (1987)	28(b)	-	Agreement, dated as of February 12, 1988, between TU Electric and Texas Municipal Power Agency.
99(b)	33-55408	99(a)	-	Agreement, dated as of July 5, 1988, between TU Electric and Electric and Tex-La Electric Cooperative of Texas, Inc.
99(d)	33-59988	2	-	Agreement and plan of merger, dated as of January 25, 1993, by and among the Company, TUA, Inc., and Southwestern Electric Service Company.
99(e)	33-23532	4(c)(i)	-	Trust Indenture, Security Agreement and Mortgage, dated as of December 1, 1987, as supplemented by Supplement No. 1 thereto dated as of May 1, 1988 among the Lessor, TU Electric and the Trustee.
99(f)	33-24089	4(c)-1	-	Supplement No. 2 to Trust Indenture, Security Agreement and Mortgage, dated as of August 1, 1988.
99(g)	33-24089	4(e)-1	-	Supplement No. 3 to Trust Indenture, Security Agreement and Mortgage, dated as of August 1, 1988.
99(h)	0-11442 Form 10-Q (Quarter ended June 30, 1993)	99(c)	-	Supplement No. 4 to Trust Indenture, Security Agreement and Mortgage, including form of Secured Facility Bond, 1993 Series.
99(i)	33-23532	4(d)	-	Lease Agreement, dated as of December 1, 1987 between the Lessor and TU Electric as supplemented by Supplement No. 1 thereto dated as of May 20, 1988 between the Lessor and TU Electric.
99(j)	33-24089	4(f)	-	Lease Agreement Supplement No. 2, dated as of August 18, 1988.
99(k)	33-24089	4(f)-1	-	Lease Agreement Supplement No. 3, dated as of August 25, 1988.
99(l)	33-63434	4(d)(iv)	-	Lease Agreement Supplement No. 4, dated as of December 1, 1988.
99(m)	33-63434	4(d)(v)	-	Lease Agreement Supplement No. 5, dated as of June 1, 1989.
99(n)	0-11442 Form 10-Q (Quarter ended June 30, 1993)	99(d)	-	Lease Agreement Supplement No. 6, dated as of July 1, 1993.
99(o)	33-23532	4(e)	-	Participation Agreement dated as of December 1, 1987, as amended by a Consent to Amendment of the Participation Agreement, dated as of May 20, 1988, each among the Lessor, the Trustee, the Owner Participant, certain banking institutions, Capcorp, Inc. and TU Electric.
99(p)	33-24089	4(g)	-	Consent to Amendment of the Participation Agreement, dated as of August 18, 1988.
99(q)	33-24089	4(g)-1	-	Supplement No. 1 to the Participation Agreement, dated as of August 18, 1988.
99(r)	33-24089	4(g)-2	-	Supplement No. 2 to the Participation Agreement, dated as of August 18, 1988.
99(s)	33-63434	4(e)(v)	-	Supplement No. 3 to the Participation Agreement, dated as of December 1, 1988.

	Previously Filed*			
Exhibits	With File Number	As Exhibit	Number	Dated
99(t)	0-11442 Form 10-Q (Quarter ended June 30, 1993)	99(e)	-	Supplement No. 4 to the Participation Agreement, dated as of June 17, 1993.
99(u)	0-11442 Form 10-Q (Quarter ended September 31, 1994)	99(t)	-	Competitive Advance and Revolving Credit Facility Agreement, "Facility A", dated as of April 29, 1994, among the Company, TU Electric, certain banks and Chemical Bank, Agent (Facility A).
99(v)	0-11442 (Form 10-Q Quarter ended March 31, 1995)	99(a)	-	Amendment, dated as of April 28, 1995, to Facility A.
99(w)	0-11442 Form 10-K (1995)	99(w)	-	Second Amendment, dated as of November 24, 1995, to Facility A.
99(x)	0-11442 Form 10-Q (Quarter ended September 31, 1994)	99(u)	-	Competitive Advance and Revolving Credit Facility Agreement, "Facility B", dated as of April 29, 1994, among the Company, TU Electric, certain banks and Chemical Bank, Agent (Facility B)
99(y)	0-11442 Form 10-Q (Quarter ended March 31, 1995)	99(b)	-	Amendment, dated as of April 28, 1995, to Facility B.
99(z)	0-11442 Form 10-K (1995)	99(z)	-	Second Amendment, dated as of November 24, 1995, to Facility B.
99(aa)	0-11442 Form 10-K (1994)	99(v)	-	Credit Agreement, dated as of February 24, 1995, among TU Electric, Bank of America and The Bank of New York.
99(bb)	0-11442 Form 10-K (1995)	99(bb)	-	Competitive Advance and Revolving Credit Facility Agreement, dated as of November 22, 1995, among the Company and Chemical Bank and Texas Commerce Bank National Association, as Agents.
99(cc)	0-11442 Form 10-Q (Quarter ended March 31, 1996)	99(a)	-	Amended and Restated Competitive Advance and Revolving Credit Facility Agreement, Facility A, dated as of April 26, 1996, among the Company, TU Electric, certain banks, Chemical Bank and Texas Commerce Bank National Association, as Agents.
99(dd)	0-11442 Form 10-Q (Quarter ended March 31, 1996)	99(b)	-	Amended and Restated Term Loan and Competitive Advance and Revolving Credit Facility Agreement, Facilities B and C, dated as of April 26, 1996, among the Company, TU Electric, certain Banks, and Chemical Bank and Texas Commerce Bank National Association, as Agents.
99(ee)	0-11442 (Form 10-Q Quarter ended March 31, 1996)	4(b)	-	Supplement No. 1, dated October 25, 1995, to Trust Indenture, Security Agreement and Mortgage, dated as of December 1, 1989, among the Owner Trustee, TU Electric and the Indenture Trustee.
99(ff)	0-11442 (Form 10-Q Quarter ended March 31, 1996)	4(c)	-	Supplement No. 1, dated October 19, 1995, to Amended and Restated Participation Agreement, dated as of November 28, 1989, among the Owner Trustee, The First National Bank of Chicago, As Original Indenture Trustee, the Indenture Trustee, the Owner Participant, Mesquite Power Corporation and TU Electric.

* Incorporated herein by reference.

** Management contract or compensation plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) of Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Texas Utilities Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS UTILITIES COMPANY

Date: March 12, 1997

By: /s/ J. S. FARRINGTON
(J. S. Farrington, Chairman of the Board)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following perons on behalf of Texas Utilities Company and in the capacities and on the date indicated.

Signature	Title	Date
/s/ J. S. FARRINGTON (J. S. Farrington, Chairman of the Board)	Chairman of the Board	March 12, 1997
/s/ ERLE NYE (Erle Nye, President and Chief Executive)	Principal Executive Officer and Director	
/s/ PETER B. TINKHAM (Peter B. Tinkham, Treasurer and Assistant Secretary)	Principal Financial Officer	
/s/ MARC D. MOSELEY (Marc D. Moseley, Acting Controller)	Principal Accounting Officer	
/s/ BAYARD H. FRIEDMAN (Bayard H. Friedman)	Director	
/s/ WILLIAM M. GRIFFIN (William M. Griffin)	Director	
/s/ KERNEY LADAY (Kerney Laday)	Director	
/s/ MARGARET N. MAXEY (Margaret N. Maxey)	Director	
/s/ JAMES A. MIDDLETON (James A. Middleton)	Director	
/s/ J. E. OESTERREICHER (J. E. Oesterreicher)	Director	
/s/ CHARLES R. PERRY (Charles R. Perry)	Director	
/s/ HERBERT H. RICHARDSON (Herbert H. Richardson)	Director	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Texas Utilities Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS UTILITIES ELECTRIC COMPANY

Date: March 12, 1997

By: /s/ ERLE NYE
(Erle Nye, Chairman of the Board and Chief Executive)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following perons on behalf of Texas Utilities Electric Company and in the capacities and on the date indicated.

Signature	Title	Date
/s/ ERLE NYE **(Erle Nye, Chairman of the Board and Chief Executive)**	Principal Executive Officer and Director	
/s/ ROBERT S. SHAPARD **(Robert S. Shapard, Treasurer and Assistant Secretary)**	Principal Financial Officer	
/s/ MARC D. MOSELEY **(Marc D. Moseley, Acting Controller)**	Principal Accounting Officer	
/s/ T. L. BAKER **(T. L. Baker)**	Director	
/s/ J. S. FARRINGTON **(J.S. Farrington)**	Director	March 12, 1997
/s/ H. JARRELL GIBBS **(H. Jarrell Gibbs)**	Director	
/s/ MICHAEL J. MCNALLY **(Michael J. McNally)**	Director	
/s/ W. M. TAYLOR **(W. M. Taylor)**	Director	
/s/ E. L. WATSON **(E. L. Watson)**	Director	

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