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City Public Service
San Antonio, Texas

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Doc 1 of 2

1982-83 Annual Report
Fiscal Year Ended January 31, 1983

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Summary of Application of Revenue and Source of Funds for Improvements

Gross revenue for 1982-83		$ 687,693,000
Application of Revenue:		
Purchase of gas, electricity and fuel		$ 379,470,000
Other operating and general expenses		49,085,000
Maintenance of the systems		25,423,000
Operating fund		0
For debt requirements	$125,417,000	
Less interest charged to construction	40,871,000	84,546,000
Benefits to the City of San Antonio		78,822,000
Balance from operations available for construction		70,347,000
Total		$ 687,693,000
Amount spent for replacements, improvements and expansion of gas and electric systems		$ 184,712,000
Amount provided for future construction		726,000
		185,438,000
Funds obtained from:		
Bond Funds		$ 111,496,000
Operations		70,347,000
Contributions and advances in aid of construction		3,370,000
Improvements and Contingencies Fund		0
Sale of property		225,000
Total		$ 185,438,000

Highlights of the Year

• Assets increased by **$198,162,000** to	$ 1,986,610,000
• City equity increased **$78,255,000** to	$ 716,416,000
• City payments were up **$16,934,000** to	$ 78,822,000
• Gross revenues increased **$161,916,000** to	$ 687,693,000
• Maximum electric system load increased **73,000 KW** to	1,984,000
• **16,938** electric customers were added to total	372,235
• **3,676** gas customers were added to total	272,331
• **94** miles of electric lines were added to total	7,795
• **40** miles of gas mains were added to total	3,442
• Amount of gas (cubic feet) saved through use of coal for generation	53,609,653,000
• Total MWH generated increased **4.8%** to total	8,913,765

The Cover

City Public Service, the municipally-owned natural gas and electric utility serving the Greater San Antonio, Tex., area, constantly strives to save its customers money. One way is by offering home energy efficiency audits at no charge. During such an audit, a CPS energy surveyor explains the importance of the customers reading their own meters as part of an effective home energy management program. Other photos in this report depict additional ways CPS seeks to provide reliable service at the lowest possible cost. (Cover photo by Al Rendon)

Contents

Progress Report, 1982-83

(Left) Repairing its own rail cars used in hauling Wyoming coal to San Antonio's coal-fired power plant is one way CPS saves on maintenance costs. (Right) The utility also recoups $1 million yearly through its Salvage Section, which refurbishes reusable materials and sells unusable items.

Fiscal Year 1982-83 was a year of anniversary and assessment for City Public Service (CPS), San Antonio's municipally-owned natural gas and electric utility.

CPS looked back 100 years to the advent of electricity in the Alamo City and 40 years to the purchase of the utility systems by the City of San Antonio. CPS also looked to the future through an in-depth review of its energy forecasting and planning procedures. The study, which is being conducted by a consultant who was jointly engaged by the City and CPS, was in its final stages at year's end. The purpose is to review San Antonio's current energy strategy and provide direction for future energy decisions.

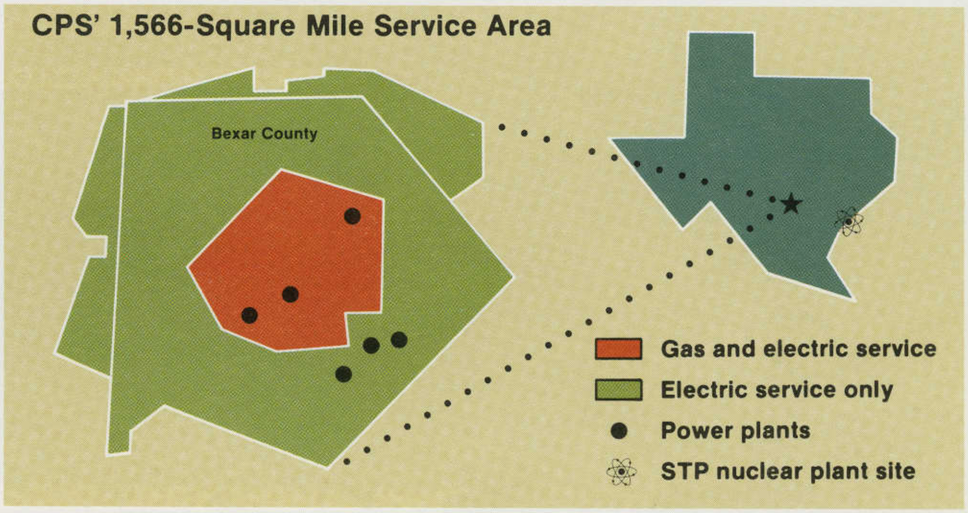
Meanwhile, CPS continued to meet the energy needs of the nation's 10th largest city with rates which remain among the lowest in comparison with other major metropolitan areas statewide and nationwide. For many reasons, including an adequate supply of energy, San Antonio is one of the fastest-developing communities in the Sun Belt. Commercial construction — office structures, hotels, multi-family dwellings and retail outlets — remained strong throughout the year, while residential construction was showing signs of a definite rebound after remaining in a depressed condition because of high interest rates and an unpredictable national economy throughout much of 1982.

New Customer Growth

As an indicator of San Antonio's growth, CPS added 16,938 electric customers during FY 82-83, pushing the total to 372,235, while the number of natural gas customers rose by 3,676 to a total of 272,331. These totals are more than quadruple the number of customers served by CPS on Oct. 24, 1942, when the City purchased the local gas and electric systems with funds from a $33.95 million bond issue.

Starting with an equity of zero and a $34 million debt, the City has seen its investment grow to $716.4 million, while CPS payments to the City (as prescribed in a bond indenture) over the past 40 years have amounted to more than $555.8 million. Combining the growth in the City's equity with CPS payments to the City means that total benefits to the City of San Antonio have exceeded $1.2 billion.

In addition to observing four decades of City ownership, CPS marked the 100th year of electric service in San Antonio. The first forerunner of CPS, the San Antonio Electric Co., was chartered on Feb. 9, 1881, but it actually began operations in March, 1882. Central station electric generation began in San Antonio six months before Thomas A. Edison opened his famed Pearl Street generating station in New York City in September, 1882. Three years earlier, Edison had perfected the first effective incandescent electric lamp.



San Antonio Electric's generating equipment consisted of a 15-horsepower steam engine belted to a dynamo, capable of operating 10 large arc lights on Alamo Plaza. According to newspaper accounts, the first electric lights went into service on March 8, 1882. Two weeks later, another newspaper reported that new generating equipment would be needed soon because of the instant popularity of electric lights.

continued

Progress Report, 1982-83

(Left) Most construction work such as the installation of new high-voltage power lines can be accomplished with CPS resources at a savings. (Right) The South Texas Project nuclear power plant under construction near Bay City is being built to satisfy a growing demand for electricity and to save on fuel costs.

Fuels Diversification Program

That requirement for additional energy continued throughout the past century, and today, the requirement for electricity in San Antonio grows at an above-average rate of 5% per year, a sign of the area's economic vitality despite the nationwide economic slowdown. To keep up with the growing need, CPS is moving ahead with its fuels diversification program to assure an adequate supply of electricity and to drastically reduce dependence on expensive natural gas in electric generation.

As a result of the completion of two coal-fired generating units in 1977-78 at a cost of $250 million, CPS ratepayers have already saved almost $350 million in fuel costs. In other words, utility bills would have been $350 million higher over the past five years if CPS had continued to use natural gas instead of changing to coal to produce more than 60% of San Antonio's electricity. This is in spite of continuous efforts by the railroads to increase the cost of hauling coal from Wyoming to San Antonio. CPS is currently paying $26.42 per ton for rail transport, more than three times the price per ton of coal itself, while the cost of the coal has remained fairly constant.

Of concern to CPS is a Dec. 13 U.S. Supreme Court decision which indicated CPS may have to pay more than $19 million in disputed billings to the Southern Pacific and Burlington Northern railroads. Following a favorable ruling in July, 1980, by the U.S. Court of Appeals for the Washington, D.C., Circuit, CPS reflected a lower rate for coal transportation in customer billings. However, the railroads continued to bill at a higher rate. The difference amounted to more than $19 million, and the railroads subsequently appealed to the Supreme Court. In any event, CPS is dedicated to continuing the fight against excessive freight rates before the Interstate Commerce Commission and the federal courts. CPS finds it incredible that it should cost almost $300,000 to deliver one trainload of coal which costs about $88,000 to San Antonio in CPS' own rail cars.

South Texas Project Progress

Another phase of CPS' fuels diversification program — the South Texas Project (STP) nuclear power plant — is again moving ahead near Bay City in association with Houston Lighting & Power, Central Power and Light and the City of Austin. Construction resumed in June following a period of transition in which Bechtel Energy Co. took over architect/engineer and construction management responsibilities from Brown & Root Inc. Ebasco Services Inc. was named constructor after Brown & Root decided not to continue in that capacity.

According to a new STP forecast prepared in August, 1982, by Bechtel, the Project is estimated to cost $5.495 billion. Bechtel reaffirmed earlier estimates that the first of the STP's two 1,250-megawatt units should go on line in June, 1987, while the second unit should be operational two years later. San Antonio's 28% share of the Project, totaling 700 MW and costing $1.54 billion, will satisfy approximately a third of the city's electric needs.

CPS' assessment of the Bechtel report indicates that the STP continues to be San Antonio's most cost-effective option for a future supply of electricity.

Following completion of the STP, CPS will look to lignite as the next step in its fuels diversification program. Lignite-fired electric generating plants are being considered for commercial operation in the early- to mid-1990s. Meanwhile, CPS is seeking to add to the 150 million tons of lignite reserves it already has acquired in the Bastrop-Elgin area northeast of San Antonio. Information is now being collected in advance of submitting a bid to the Federal Bureau of Land Management for 90 million tons of lignite underlying the Camp Swift military reservation.

Gas Supply Situation

In another important energy matter at the end of the year, the CPS Board of Trustees — the five-member policy-making body for the utilities — and the San Antonio City Council were studying a proposal to purchase up to half of

continued

Progress Report, 1982-83

(Left) Annual benefits of $1 million accrue to CPS through sales of fly ash, a coal-fired electrical generation byproduct now widely used in the concrete products industry. Tank trucks remove the ash from power plant silos. (Right) "Instant information" from computer terminals enables CPS representatives to accomplish most customer transactions in time-saving fashion by telephone.

San Antonio's natural gas from an alternate supplier. Currently, all gas purchases for resale to customers and for use as power plant fuel come from Valero Energy Corp., which was created in an out-of-court settlement of a gas contract dispute with Coastal States/LoVaca.

While working to assure energy availability for the future, CPS is also endeavoring to assist customers in using energy wisely. In 1982, a new phase of CPS' consumer information program was introduced — "Low Cost/No Cost Energy Conservation Tips" — stressing the use of common sense and simple, inexpensive procedures to reduce energy consumption. Because of concern over the significant annual increase in the cost of natural gas, CPS conducted a "Winterize Now!" campaign as a followup to the "Low Cost/No Cost" program. CPS was concerned that cold weather coupled with high prices for natural gas could have a dramatic impact on heating bills. Thus, CPS mobilized an "energy conservation task force" to answer customers' questions on efficient and cost-saving ways of keeping cold air out of and warm air in customers' homes during the winter months.

Conservation, Rate Studies

As a means of possibly expanding CPS' conservation program, staff members conducted a two-month-long study of utility rate structures aimed at encouraging efficient energy management. Information compiled by CPS will be coordinated with recommendations of the soon-to-be-completed San Antonio Energy Study. Based on the accumulated data, the CPS Board of Trustees will conduct a thorough review of CPS' existing rate structure and conservation programs.

In FY 82-83 operational highlights, CPS completed its Hill Country Substation, the second major terminal in the CPS electric system to distribute high-voltage bulk power from electric generating plants. Construction also progressed on the new Laredo Street Substation, which will supply the growing electrical needs of downtown San Antonio and its new hotels, office buildings and historical renovation projects.

Financially speaking, gross revenues for FY 82-83 reached $687.7 million, a 30.8% increase over the preceding year, while operating costs, interest expense and benefits to the City rose 28.7% to $609.4 million. The cost of fuel for electric generation and gas for resale to customers totaled $379.5 million and accounted for 83.6% of the operating expenses for the year. The City of San Antonio's benefits from CPS operations climbed $16.9 million over FY 81-82 to a record amount of $78.8 million in FY 82-83.

An adequate and competitively priced energy supply continues to be one of San Antonio's attractive features for economic development. However, remaining in this enviable position is a tribute to the hard work and dedication of CPS' 3,100 employees. The problems of high fuel costs and economic uncertainty on the national and international levels will have their effect on San Antonio's energy situation, but perseverance on the part of CPS' Trustees, management and work force will help CPS achieve its longstanding goal of adequate and reliable utility service at the lowest possible cost.

Sincerely,

Glenn Biggs (Left)
Chairman, Board of Trustees

J.K. Spruce (Right)
General Manager

Financial Review and Commentary

Recoveries of higher fuel costs, a 5.1% rate increase in May, 1982, sustained customer growth, and more funds available for investment contributed to a record $687.7 million in City Public Service gross revenues for Fiscal Year 1982-83.

Construction fund requirements remained at a high level, principally due to the South Texas Project (STP) nuclear power plant, as CPS continued its program to diversify its fuels mix and provide for the most economical method of electrical generation. To finance STP and other construction, CPS issued $135 million in AA-rated revenue bonds during the fiscal year.

Customers continued to benefit from CPS' investment in two coal-fired generating units, with 61.2% of total electric requirements generated from coal this year compared to 64.2% from coal the previous fiscal year. By using coal instead of natural gas, CPS saved customers $115.4 million in fuel costs during FY 1982-83, as well as making available 53.6 million MCF of gas (almost twice the amount sold to all gas customers) for other uses.

Revenues

A record $687.7 million in gross revenues for the fiscal year exceeded last year's total by $161.9 million, or 30.8%. Electric operating revenues advanced to $521.4 million, up $129.9 million, or 33.2%. Higher electric revenues stemmed mainly from a $65.9 million escalation in fuel cost recoveries and $30.8 million provided by a 5.1% rate increase in May, 1982. The balance of the increase was due to greater sales. Electric sales were 8.4 billion KWH, including 319.9 million KWH sold to other utilities. Excluding purchases by other utilities, electric sales climbed 2.6%, primarily due to sales to almost 17,000 new electric customers and increased customer usage. Residential customers accounted for 36.8% of electric system sales.

Gas operating revenues of $140.3 million surpassed last year's total by $29.7 million, or 26.9%. Greater revenues resulted from $19.4 million more in gas cost recoveries, while an additional $5.7 million of gas revenues was due to the 5.1% rate increase in May, 1982. Higher gas sales of 6.4% and more than 3,600 new customers also accounted for the remainder of this increase. Residential customers accounted for 54.0% of total gas sales. Interest and other revenues amounted to $26.0 million, up $2.3 million, or 9.7%, despite lower yields earned on investments.

Operating Expenses

Operating expenses advanced $108.2 million to $453.9 million, with gas and generation fuel accounting for 88.2% of the increase. Electric production fuel costs rose 36.2% to $264.9 million because of higher costs and a 4.8% increase in generation. Higher fuel costs resulted from a 71¢ escalation in the average price of gas to $4.18 per MCF and a 16.7% increase in the volume of gas burned for generation. In addition, coal costs increased $29.3 million due to an advance in the delivered price of coal to $35.39 per ton, up $7.68 from last year and primarily due to increases in the cost of rail transportation of coal. Gas purchased for resale totaled $114.6 million, an increase of $25.0 million from a year ago, even though a $934,000 larger credit was received from the Coastal/LoVaca settlement proceeds and credited back to customers through fuel costs. The average price of natural gas purchased for resale climbed 18.0% from FY 1981-82.

Other operating and general expenses and maintenance costs totaled $74.4 million, an increase of $12.8 million, or 20.8%, over last year. Maintenance costs rose $6.6 million and made up 34.8% due to increased work at the electric generating stations and utilization of personnel for system maintenance during the period of depressed residential construction. Depreciation expense of $35.0 million rose 12.5% as a result of an increase in the total value of assets and depreciation rate changes.

Increased emphasis on efficiency continues to help counteract cost increases caused by the addition of almost 21,000 new customers to be served and inflationary pressures on wages, supplies and services.

Interest and Debt Expense

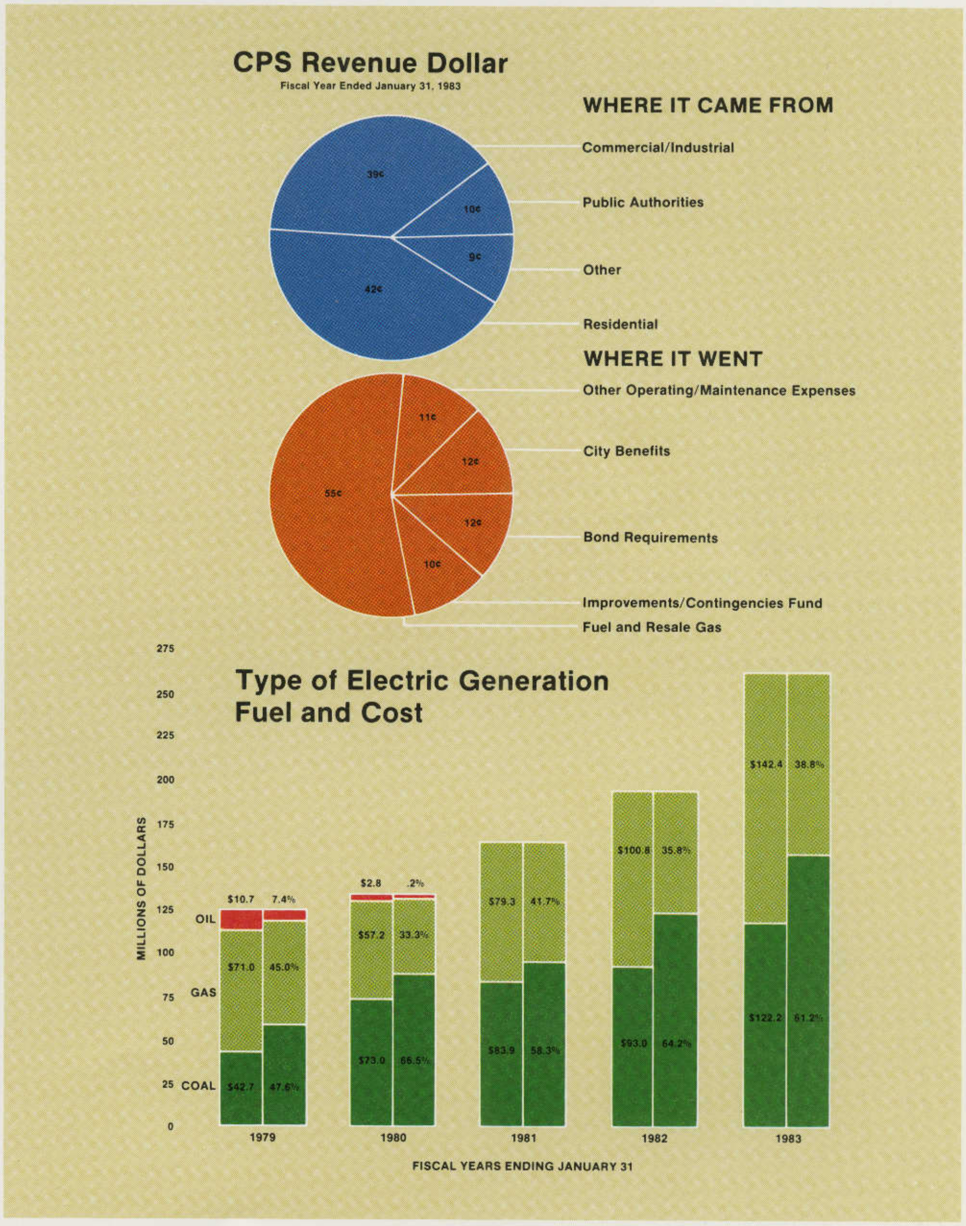
Total interest expense was $82.6 million, 19.4% higher this year as a result of issuing $135 million in new series revenue bonds to finance construction projects. The $60 million bond issue sold in March and $75 million issue in October, 1982, received interest rates of 13.15% and 10.35%, respectively, despite CPS' highly favorable AA rating. The allowance for interest charged to construction amounted to $40.9 million, up from $34.3 million a year ago, and reflected CPS' rising investment in the South Texas Project. Interest expense chargeable to operations was $41.8 million.

Benefits to the City

City benefits and payments climbed to $78.8 million, up 27.3%, or $16.9 million, from FY 1981-82. Benefits paid to the City of San Antonio totaled 11.5% of CPS' gross revenues. Since acquiring the utility in 1942, the City has received $555.8 million in benefits, while the City's equity in the electric and gas systems has risen to $716.4 million.

Utility Plant

Investment in utility plant and equipment rose $179.3 million and totaled almost $2.0 billion, including $816.5 million in construction work in progress. Construction costs during the year totaled $184.7 million, with STP expenditures accounting for $120.1 million of the $128.3 million spent on electric production plant. Other expenditures included $36.8 million for electric distribution facilities, $7.6 million for electric transmission, $6.5 million for gas system improvements and $5.3 million for general property additions.



Balance Sheets January 31, 1983 and 1982

ASSETS	Notes	1983	1982
		(in thousands)	
UTILITY PLANT — At cost:	1		
Electric		**$ 993,719**	$ 932,701
Gas		**153,977**	146,785
General		**19,513**	18,482
Construction work in progress	7	**816,485**	706,376
Total		**1,983,694**	1,804,344
Less accumulated depreciation		**319,898**	289,288
Utility plant — net		**1,663,796**	1,515,056
RESTRICTED CASH (Temporary cash investments and U.S. Government obligations — at cost which approximates market):	2		
Bond Construction Fund		**31,480**	7,977
Bond Reserve — Old Series Bonds		**17,475**	17,449
Bond Reserve — New Series Bonds		**68,366**	47,988
Improvements and Contingencies Fund		**61,822**	61,096
Other		**1,899**	361
Total restricted cash		**181,042**	134,871
EQUITY IN LOVACA SETTLEMENT TRUST	6	**22,976**	27,828
CURRENT ASSETS:			
Cash, including temporary cash investments		**13,210**	339
Accounts receivable, less allowance for doubtful accounts of $722,768 in 1983 and $652,162 in 1982		**49,173**	46,491
Inventories — at average cost:			
Materials and supplies		**19,545**	19,301
Fuel stock		**33,858**	41,510
Prepayments and other		**1,390**	1,571
Total current assets		**117,176**	109,212
DEFERRED DEBITS:			
Unamortized debt expense		**1,620**	1,481
TOTAL		**$1,986,610**	$1,788,448

See notes to financial statements.

LIABILITIES AND EQUITY

	Notes	1983	1982
		(in thousands)	
LONG-TERM DEBT — Revenue Improvement Bonds:	2&3		
Old Series		**$ 141,015**	$ 148,850
New Series		**987,595**	869,890
Total long-term debt		**1,128,610**	1,018,740
EQUITY:			
Appropriated retained earnings:	2		
Bond Reserve — Old Series Bonds		**17,475**	17,449
Bond Reserve — New Series Bonds		**68,366**	47,988
Improvements and Contingencies Fund		**61,822**	61,096
Total		**147,663**	126,533
Reinvested earnings		**568,753**	511,628
Total equity		**716,416**	638,161
CURRENT LIABILITIES:			
Current maturities of long-term debt	3	**25,130**	22,365
Accounts payable and accrued liabilities		**48,457**	42,562
LoVaca settlement benefits payable to customers	6	**591**	389
Customer service deposits		**5,108**	3,339
Total current liabilities		**79,286**	68,655
DEFERRED CREDITS:			
LoVaca settlement benefits	6	**22,976**	27,828
Customer advances for construction		**6,065**	5,515
Other		**2,818**	855
Total deferred credits		**31,859**	34,198
CONTRIBUTIONS IN AID OF CONSTRUCTION		**30,439**	28,694
COMMITMENTS AND CONTINGENCIES	7&8		
TOTAL		**$1,986,610**	$1,788,448

Statements of Earnings and Application of Earnings

	Notes	Years ended January 31, 1983	1982
		(in thousands)	
REVENUE:	1		
Electric		**$521,435**	$391,564
Gas		**140,283**	110,546
Interest and other		**25,975**	23,667
Gross revenue		**687,693**	525,777
EXPENSES:	1		
Gas, electricity and fuel		**379,470**	284,069
Other operating and general		**48,994**	42,733
Maintenance		**25,423**	18,861
Depreciation		**34,953**	31,084
Interest and debt expense		**82,647**	69,237
Allowance for interest used during construction		**(40,871)**	(34,310)
Payments to the City of San Antonio:	5		
In lieu of taxes		**5,673**	5,247
Refund of electric and gas services		**13,453**	10,824
Additional payments		**59,696**	45,817
Total expenses		**609,438**	473,562
EARNINGS BEFORE APPLICATION		**78,255**	52,215
Add:			
Depreciation		**34,953**	31,084
Interest requirements on New Series Bonds (payable from Improvements and Contingencies Fund)		**73,504**	59,799
AVAILABLE FOR APPLICATION		**$186,712**	$143,098
APPLICATION:			
To operating funds for working capital			$ 3,000
To pay long-term debt requirements —			
Old Series Bonds:			
Principal payments		**$ 7,540**	$ 7,240
Bond reserve		**26**	44
To reinvested earnings — Net gain on sale of assets		**92**	19
To Improvements and Contingencies Fund:			
Minimum requirement (12½% of gross revenue)	2	**85,962**	65,722
Balance of available revenue		**93,092**	67,073
APPLICATION		**$186,712**	$143,098

See notes to financial statements.

Statements of Changes in Equity

	Notes	1983	1982
		Years ended January 31, (in thousands)	
BOND RESERVE — OLD SERIES BONDS:			
Balance, beginning of year		**$ 17,449**	$ 17,405
Additions — from application of earnings		**26**	44
Balance, end of year		**$ 17,475**	$ 17,449
BOND RESERVE — NEW SERIES BONDS:			
Balance, beginning of year		**$ 47,988**	$ 33,583
Additions — from Improvements and Contingencies Fund:			
Interest earned and gain on sale of bond reserve investments		**9,469**	4,491
Reserve requirements		**10,909**	9,914
Total		**20,378**	14,405
Balance, end of year		**$ 68,366**	$ 47,988
IMPROVEMENTS AND CONTINGENCIES FUND:			
Balance, beginning of year		**$ 61,096**	$ 62,159
Additions — from application of earnings:			
Minimum requirement (12½% of gross revenue)		**85,962**	65,722
Balance of available revenue		**93,092**	67,073
Total		**179,054**	132,795
Deductions:			
New Series Bonds:			
Additions to reserve		**20,378**	14,405
Payment of bond interest		**73,504**	59,799
Payment of bond principal		**14,825**	13,160
Construction expenditures		**69,621**	46,494
Total		**178,328**	133,858
Balance, end of year		**$ 61,822**	$ 61,096
REINVESTED EARNINGS:			
Balance, beginning of year		**$511,628**	$472,799
Additions:			
From Improvements and Contingencies Fund — For construction		**69,621**	46,494
From applications of earnings:			
To operating funds for working capital			3,000
Old Series Bonds principal payments		**7,540**	7,240
From Improvements and Contingencies Fund — New Series Bonds principal payments		**14,825**	13,160
Net gain on sale of assets		**92**	19
Total		**92,078**	69,913
Deductions — Depreciation		**34,953**	31,084
Balance, end of year		**$568,753**	$511,628

See notes to financial statements.

Statements of Changes in Financial Position

	Notes	Years ended January 31, 1983	1982
		(in thousands)	
SOURCES OF FUNDS:			
Earnings before application		**$ 78,255**	$ 52,215
Add (deduct) amounts not affecting working capital:			
Depreciation		**34,953**	31,084
Allowance for interest used during construction		**(40,871)**	(34,310)
Working capital provided from operations		**72,337**	48,989
Contributions in aid of and advances for construction		**3,370**	4,038
Sale of revenue improvement bonds		**135,000**	135,000
LoVaca settlement benefits		**7,282**	4,787
Other		**1,769**	1,930
Total		**219,758**	194,744
APPLICATION OF FUNDS:			
Acquisition of utility plant — net of allowance for interest used during construction		**143,842**	149,154
Retirement of bonds		**22,365**	20,400
Increase in current maturities of long-term debt		**2,765**	3,350
Increase in restricted cash		**46,171**	15,836
LoVaca settlement benefits		**7,282**	4,787
Total		**222,425**	193,527
INCREASE (DECREASE) IN WORKING CAPITAL		**$ (2,667)**	$ 1,217
CHANGES IN WORKING CAPITAL COMPONENTS:			
Increase (decrease) in current assets:			
Cash		**$ 12,871**	$ (11,258)
Accounts receivable		**2,682**	14,164
Inventories		**(7,408)**	(1,013)
Prepayments and other		**(181)**	599
Decrease (increase) in current liabilities:			
Current maturities of long-term debt		**(2,765)**	(3,350)
Accounts payable and accrued liabilities		**(5,895)**	1,850
LoVaca settlement benefits payable to customers		**(202)**	356
Customer service deposits		**(1,769)**	(131)
INCREASE (DECREASE) IN WORKING CAPITAL		**(2,667)**	1,217
WORKING CAPITAL, BEGINNING OF YEAR		**$ 40,557**	$ 39,340
WORKING CAPITAL, END OF YEAR		**$ 37,890**	$ 40,557

See notes to financial statements.

Notes to Financial Statements — January 31, 1983 and 1982

1. Summary of Significant Accounting Policies

Basis of Accounting — City Public Service (CPS) uses the accrual method of accounting based upon the Uniform System of Accounts for Gas and Electric Utilities issued by the National Association of Regulatory Utility Commissioners.

Revenues and Expenses — Revenue is recognized as billed on a cycle basis. Rate schedules include fuel adjustment clauses which permit recovery of fuel and gas costs in the month incurred. CPS charges to expense the cost of electric production fuel as it is consumed and the cost of resale gas at the time of purchase.

Utility Plant is stated at the cost of construction, including costs of contracted services, direct material and labor, indirect costs, including general engineering, labor and material overhead, and an allowance for interest used during construction (AIUDC). CPS computes AIUDC using rates representing the cost of borrowed funds on projects estimated to cost in excess of one million dollars and expected to require more than one year to complete. Retirements of utility plant, together with removal cost less salvage, are charged to accumulated depreciation. The maintenance of property, and replacement and renewals of items determined to be less than a unit of property, are charged to maintenance expense.

CPS computes depreciation principally using the straight-line method over the estimated service lives of the assets as determined by periodic engineering studies. Depreciation as a percentage of average depreciable plant was 3.14% in 1983 and 2.99% in 1982.

Contributions in aid of construction are amortized over a period equal to the lives of the related assets.

2. Revenue Bond Indenture Requirements

The Trust Indenture executed by the City of San Antonio in conjunction with the issuance of the revenue bonds dated February 1, 1951, through August 1, 1974, "Old Series Bonds," contains, among others, the following provisions:

1) All of the assets of the gas and electric systems, together with the net revenues of the systems, as defined, are pledged with the Harris Trust and Savings Bank of Chicago, Illinois, as Corporate Trustee, to secure the payment of the "Old Series Bonds."
2) Gross revenues of the gas and electric systems shall be applied to: (a) expenses of operating and maintaining the systems; (b) debt service and reserve requirements on the "Old Series Bonds;" (c) payment of an "in lieu of tax" amount to the City of San Antonio; (d) an amount equal to 12½% of gross revenues to the Improvements and Contingencies Fund; (e) additional benefits and payments to the City of San Antonio to bring total City benefits and payments to 14% of gross revenues; (f) additional payments to the Improvements and Contingencies Fund until such fund equals 20% of the value of fixed capital assets; and (g) balance to the surplus fund.
3) The following funds are established: (a) General Fund; (b) Improvements and Contingencies Fund; (c) Bond Construction Fund (containing the proceeds of revenue bonds); (d) Principal and Interest current requirements (containing the monthly payments of annual debt requirements); and (e) Bond Reserve Fund (containing an amount equal to the fiscal year's principal and interest requirements). These funds may be invested with authorized depository banks or in U.S. Government securities.

Beginning with the year ended January 31, 1976, New Series Electric and Gas Systems Revenue Improvement Bonds ("New Series Bonds") were issued. These bonds are junior and subordinate to the "Old Series Bonds." The bond ordinances authorizing these issues provide that no further bonds or obligations will be authorized or issued under the terms of the Trust Indenture for "Old Series Bonds" and, at such time as the Trust Indenture becomes inoperative, the Trust Estate will revert to the City. While any of the "Old Series Bonds" are outstanding, the "New Series Bonds" are payable solely from the net revenues of the systems (1) deposited and available for deposit in the Improvements and Contingencies Fund and (2) payable to the City of San Antonio. At such time as the Trust Indenture covering the "Old Series Bonds" becomes inoperative, revenues will be applied as follows: (a) for maintenance and operating expenses of the systems; (b) for payments of the "New Series Bonds;" (c) for the payment of any bonds inferior in lien to the "New Series Bonds" which may be issued; (d) for an

continued

amount equal to 6% of the gross revenues of the systems to be deposited in a Repair and Replacement Fund; (e) for cash payments and benefits to the City of San Antonio not to exceed 14% of the gross revenues of the systems; and (f) any remaining revenues to the Repair and Replacement Fund. The funds created by the "New Series Bonds" ordinance are similar to those set forth under the "Old Series Bonds" Trust Indenture.

3. Long-Term Debt

A summary of long-term debt is as follows:

	Final Maturity	Weighted-Average Interest Rate On Outstanding Bonds	Unpaid ...Principal... 1983	1982
			(in thousands)	
Old Series, 1962-1974	1984-1997	6.14%	$ 148,850	$ 156,390
New Series, 1975-1982	1998-2005	7.91%	1,004,890	884,715
Total		7.77%	1,153,740	1,041,105
Less current maturities			25,130	22,365
Amounts due after one year			$1,128,610	$1,018,740

	Principal Due		Additional Bond Reserve Requirements	
	Old Series Bonds	New Series Bonds	Old Series Bonds (A)	New Series Bonds
1984	$7,835	$17,295	$ -	$10,551
1985	8,195	18,805	-	9,600
1986	8,600	20,440	-	7,171
1987	9,000	22,250	-	3,891
1988	9,435	24,160	-	917

(A) As of January 31, 1983, reserve requirements for the Old Series Bonds have been met.

At January 31, 1983, New Series Bonds totaling $100 million had been authorized by the Board of Trustees of CPS but had not been sold.

4. Pension Plan

CPS has had a contributory pension plan ("Old Plan") covering substantially all employees. Under the Old Plan, insurance was purchased for each participating employee in an amount calculated to yield cash value at retirement sufficient to provide an annuity equal to prescribed benefits. To the extent benefits represent amounts attributable to wage increases received after an employee has reached age 55, CPS assumes all of the incremental cost. The incremental costs for wage increases after age 60½ are paid directly to retirees by CPS.

Effective January 1, 1982, CPS established an Interim Pension Trust in anticipation of a change to a self-administered plan ("New Plan"). Deposits to the Interim Pension Trust included employer and employee contributions and the cash value of insurance policies under the Old Plan of about $34,350,000.

Effective September 29, 1982, CPS adopted the self-administered New Plan, a defined-benefit contributory pension plan covering substantially all employees. At that date, the Interim Pension Trust was terminated and all accumulated funds were transferred into a permanent trust (the CPS Employees' Pension Trust).

The total employer pension cost (all funded), which includes amortization of past service costs over 30 years using the Unit Credit Cost actuarial method, is summarized as follows:

	1983	1982
Paid to life insurance company under the Old Plan		$3,250,000
Paid directly to retired employees	$ 688,000	618,000
Amounts accrued and deposited in the Interim or Permanent Trust for the New Plan	7,907,000	3,556,000
Total	$8,595,000	$7,424,000

A comparison of accumulated plan benefits and plan net assets as of September 29, 1982 for the New Plan is as follows:

Actuarial present value of accumulated plan benefits:	
Vested benefits	$55,569,859
Nonvested benefits	7,196,787
Total	$62,766,646
Net assets available for plan benefits	$50,242,098

An assumed rate of 8% was used in determining the actuarial present value of accumulated plan benefits.

5. Payments to the City of San Antonio

The Trust Indenture provides for benefits and services totaling 14% of CPS' gross revenues, as defined to be paid or provided to the City of San Antonio. Currently the total benefits and services to the City of San Antonio are less than 14% of gross revenue. The reduction of City benefits has been passed on to utility consumers and, accordingly, there is no effect on financial operations.

6. LoVaca Settlement

On December 31, 1979, CPS settled claims against its natural gas supplier, LoVaca Gathering Company and its parent, Coastal Corporation. The settlement resulted in CPS owning about 17% of a trust established for the benefit of CPS and other settling parties. Trust assets consisted primarily of equity securities that are to be sold over a seven-year period and a note in the principal amount of $8,000,000. Based on the then current market values of the equity securities in the Trust, a 17% share of the Trust on or about December 31, 1979 had an approximate value of $30,540,000. The market value of CPS' share of the Trust securities as of January 31, 1983 was about $25,055,000.

The settlement provided CPS with an option to obtain certain lignite properties, which it exercised on December 28, 1981 at a cost of approximately $1,600,000. It also required Coastal Corporation to undertake a 15-year gas search program with gas discovered sold at discounted rates to a natural gas supplier, the benefit of which must be passed through to CPS and other settling parties. Except as described below, the value of these provisions of the settlement has not been recorded in CPS' financial statements because of the inherent uncertainty thereof. Since CPS has determined that it will pass through the benefits of this settlement to its ratepayers, the settlement will have no substantial effect on the results of operations of CPS.

All monies received from the Trust are to be distributed to CPS' utility customers. CPS received $7,282,000 in 1983 and $4,787,000 in 1982 as a result of the settlement. Distributions to utility customers totaled $7,080,000 in 1983 and $5,144,000 in 1982, including $1,002,000 in 1983 and $317,000 in 1982 of distributions from the gas search program. Since the settlement, distributions to utility customers have totaled $20,406,000.

7. Purchase and Construction Commitments

CPS has commitments under an agreement with Houston Lighting & Power Company, Central Power and Light Company, and the City of Austin for joint construction of a nuclear power plant. CPS' share of the remaining cost of the plant is estimated to be approximately $988 million for construction over the next seven years, exclusive of initial fuel requirements, interest, and other costs during construction. This estimate is based on the engineering and construction contractor's July, 1982, forecast.

Construction costs may vary from the estimated amount due to continued inflation, changes in equipment delivery and construction schedules, and legislative changes.

In addition to the above, other purchase and construction commitments amounted to approximately $16.5 million at January 31, 1983. As of January 31, 1983, CPS has no material lease commitments.

8. Contingencies

Coal Freight Rate Dispute — For the past eight years, CPS has been engaged in continuous litigation with certain railroads (Burlington Northern, Inc. and Southern Pacific Transportation Company) which transport its bituminous coal to the J.T. Deely Station. This litigation, which is ongoing, is, or has been, before the Interstate Commerce Commission ("I.C.C."), three Federal Circuit Courts, a Federal District Court, and the United States Supreme Court. All of the past and continuing legal actions have at their source the question of the proper or lawful freight rate which CPS should pay the railroads for its required coal transportation services.

As of March 11, 1983, the rate issue for the period 1978 through 1980 is pending in litigation before the I.C.C. A sub-

continued

sidiary dispute involving ten months in 1981 and 1982 in which an additional $19 million plus interest allegedly due the railroads is at issue has been before the United States Supreme Court, and is now pending before the United States Court of Appeals for the District of Columbia circuit.

On October 1, 1980, the Congress enacted the *Staggers Rail Act* which contains a specific provision to determine the maximum rail rate for the CPS rail movement. The application and implementation of this provision are both part of the continuing litigation before the I.C.C., which has yet to finally set any CPS rate for any period after 1978. Because of this circumstance, all freight rates paid by CPS since 1978 are subject ultimately to either an upward or downward adjustment by the I.C.C. It is the belief and opinion of CPS' transportation counsel that any increases added to pre-1980 rates will be more than offset by decreases that will be required in the post-1980 rates to comply with the *Staggers Act*.

The disputes over freight rates should have no substantial effect on the results of operations of CPS, since freight represents a component of the cost of fuel which is includable in billings to its customers if an adverse outcome results from this litigation.

Other — CPS is involved in various legal proceedings related to alleged personal and property damages, breach of contract, environmental matters, condemnation appeals, and discrimination cases. In the opinion of management of CPS, the outcome of such proceedings will not have a material effect on the financial position or results of operations of CPS.

9. Segment Information

Segment information is as follows:

	1983 (in thousands)			1982 (in thousands)		
	Electric	Gas	Total	Electric	Gas	Total
REVENUES	$ 521,435	$ 140,283	$ 661,718	$ 391,564	$ 110,546	$ 502,110
EXPENSES:						
Operating and maintenance expenses	321,040	132,847	453,887	241,070	104,593	345,663
Depreciation	30,649	4,304	34,953	27,565	3,519	31,084
Total	351,689	137,151	488,840	268,635	108,112	376,747
EARNINGS (LOSS) BEFORE INTEREST AND DEBT EXPENSE, ALLOWANCE FOR INTEREST CHARGED TO CONSTRUCTION, AND PAYMENTS TO THE CITY OF SAN ANTONIO	$ 169,746	$ 3,132	$ 172,878	$ 122,929	$ 2,434	$ 125,363
CAPITAL EXPENDITURES	$ 176,714	$ 7,999	$ 184,713	$ 174,181	$ 9,283	$ 183,464
UTILITY ASSETS	$ 1,013,738	156,387	$ 1,170,125	$ 929,354	$ 152,718	$ 1,082,072
CONSTRUCTION WORK IN PROGRESS	813,872	2,613	816,485	703,610	2,766	706,376
TOTAL ASSETS	$ 1,827,610	$ 159,000	$ 1,986,610	$ 1,632,964	$ 155,484	$ 1,788,448

Auditor's Report

Board of Trustees
City Public Service
San Antonio, Texas:

We have examined the balance sheets of City Public Service as of January 31, 1983 and 1982 and the related statements of earnings and application of earnings, changes in equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of City Public Service at January 31, 1983 and 1982 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

March 11, 1983

Rate Comparison

Residential Electric and Gas Bills for the 25 Largest Cities in the U.S.
Usage of 500 KWH of electricity; 70 therms of natural gas.

Five-Year Financial Review

	1983	1982	1981	1980	1979
				Years ended January 31,	
					(dollars in thousands)
REVENUE AND APPLICATION					
Revenues:					
Electric sales	$ **521,435**	$ 391,564	$ 333,656	$ 274,601	$ 257,676
Gas sales	**140,283**	110,546	91,275	79,080	78,306
Other income	**25,975**	23,667	19,099	13,669	7,275
Total revenues	$ **687,693**	$ 525,777	$ 444,030	$ 367,350	$ 343,257
Revenues applied:					
Cost of operating systems:					
Gas, electricity and fuel purchased	$ **379,470**	$ 284,069	$ 238,760	$ 197,505	$ 190,533
Other operating expenses	**49,085**	42,752	38,909	33,004	28,863
Maintenance	**25,423**	18,861	18,142	14,663	12,223
Total	$ **453,978**	$ 345,682	$ 295,811	$ 245,172	$ 231,619
Operating Fund	$ **-0-**	$ 3,000	$ -0-	$ 2,000	$ 3,000
Debt requirements for Old Series Bonds:					
Interest and debt expense	$ **9,144**	$ 9,439	$ 9,731	$ 10,016	$ 10,287
Principal requirements	**7,540**	7,240	6,940	6,655	6,390
Reserve requirements	**26**	44	220	79	517
Total	$ **16,710**	$ 16,723	$ 16,891	$ 16,750	$ 17,194
Payments and services to City:					
Payment in lieu of taxes	$ **5,673**	$ 5,247	$ 4,997	$ 4,923	$ 4,901
Refunds for services	**13,453**	10,824	9,713	8,384	8,323
Construction of street lighting	**-0-**	-0-	-0-	-0-	(74)
Additional payment	**59,696**	45,817	37,860	30,003	26,407
Total	$ **78,822**	$ 61,888	$ 52,570	$ 43,310	$ 39,557
Debt requirements for New Series Bonds:					
Interest expense	$ **73,504**	$ 59,798	$ 46,161	$ 34,281	$ 24,141
Principal requirements	**14,825**	13,160	10,200	7,675	4,925
Reserve requirements	**20,378**	14,405	11,205	8,282	6,571
Total	$ **108,707**	$ 87,363	$ 67,566	$ 50,238	$ 35,637
Allowance for funds used during construction	**(40,871)**	(34,310)	(32,766)	(18,784)	(12,867)
Additions to plant:					
Total expenditures for year	$ **184,712**	$ 183,464	$ 182,998	$ 188,044	$ 167,449
Less construction funds provided by sources other than revenues	**115,091**	138,033	158,708	179,290	153,007
Revenues used for additions to plant	$ **69,621**	$ 45,431	$ 24,290	$ 8,754	$ 14,442
Addition to Improvements and Contingencies Fund	**726**	-0-	19,668	19,910	14,675
Total	$ **70,347**	$ 45,431	$ 43,958	$ 28,664	$ 29,117
Total revenues applied	$ **687,693**	$ 525,777	$ 444,030	$ 367,350	$ 343,257
BALANCE SHEET DATA					
Utility plant at cost	$ **1,983,694**	$ 1,804,344	$ 1,626,916	$ 1,449,573	$ 1,265,233
Annual construction additions	**184,712**	183,464	182,998	188,044	167,375
Accumulated depreciation	**319,898**	289,288	263,152	236,614	209,127
Annual depreciation allowance	**34,953**	31,084	30,101	29,274	27,503
Debt service coverage	**1.86x**	1.73x	1.75x	1.82x	2.11x

Five-Year Operations Review

	1983	1982	1981	1980	1979
				Years ended January 31, (dollars in thousands)	
OPERATING REVENUES					
Electric:					
Residential	$ **208,969**	$ 157,212	$ 138,806	$ 106,968	$ 102,569
Commercial and industrial	**214,096**	164,471	140,458	116,674	108,724
Street lighting	**6,637**	5,817	5,316	4,952	3,922
Public authorities	**61,271**	46,582	39,361	32,065	32,622
Other utilities	**26,917**	14,600	8,101	12,396	7,597
Miscellaneous	**3,545**	2,882	1,614	1,546	2,242
Total electric	$ **521,435**	$ 391,564	$ 333,656	$ 274,601	$ 257,676
Gas:					
Residential	$ **79,293**	$ 62,037	$ 51,949	$ 44,364	$ 44,001
Commercial and industrial	**50,955**	40,775	32,716	28,835	28,422
Public authorities	**8,923**	7,108	6,021	5,357	5,433
Miscellaneous	**1,112**	626	589	524	450
Total gas	$ **140,283**	$ 110,546	$ 91,275	$ 79,080	$ 78,306
SALES (000 OMITTED)					
Electric — KWH:					
Residential	**3,084,901**	2,845,773	2,799,274	2,344,081	2,318,020
Commercial and industrial	**3,715,362**	3,586,524	3,467,354	3,154,478	3,059,621
Street lighting	**78,508**	78,272	77,888	77,045	75,783
Public authorities	**1,175,742**	1,117,215	1,087,129	983,025	1,050,897
Other utilities	**332,730**	315,225	196,529	438,693	335,000
Total	**8,387,243**	7,943,009	7,628,174	6,997,322	6,839,321
Gas — MCF:					
Residential	**14,847**	13,683	14,404	14,355	15,598
Commercial and industrial	**10,752**	10,354	10,763	11,164	11,933
Public authorities	**1,895**	1,798	1,969	2,061	2,279
Total	**27,494**	25,835	27,136	27,580	29,810
PURCHASE FOR RESALE:					
Electric (1,000) KWH	**-0-**	175	-0-	-0-	-0-
Gas (1,000) MCF	**28,322**	26,093	27,732	27,714	30,441
ELECTRIC GENERATION — (1,000) KWH	**8,913,801**	8,505,724	8,079,950	7,453,425	7,267,236
Electric Gen. Capacity, KW (Gas)*	**2,400,000**	2,400,000	2,400,000	2,400,000	2,400,000
Electric Gen. Capacity, KW (Coal)	**836,000**	836,000	836,000	836,000	836,000
ELECTRIC PEAK DEMAND — KW	**1,984,000**	1,911,000	1,950,000	1,707,000	1,688,000
NUMBER OF CUSTOMERS:					
Electric	**372,235**	355,297	340,797	323,553	307,638
Gas	**272,331**	268,655	263,902	256,223	249,292
RESIDENTIAL AVERAGES:					
Electric:					
Revenue per customer	$ **654.37**	$ 512.17	$ 475.16	$ 387.55	$ 390.33
KWH per customer	**9,660**	9,271	9,582	8,493	8,822
Revenue per KWH	**6.77¢**	5.52¢	4.96¢	4.56¢	4.42¢
Gas:					
Revenue per customer	$ **317.26**	$ 251.59	$ 216.41	$ 190.48	$ 194.55
MCF per customer	**59.4**	55.5	60	62	69
Revenue per MCF	$ **5.34**	$ 4.53	$ 3.61	$ 3.09	$ 2.82

* *Oil rating for the gas units is 2,198,000 KW for the five-year period.*

CPS Board of Trustees

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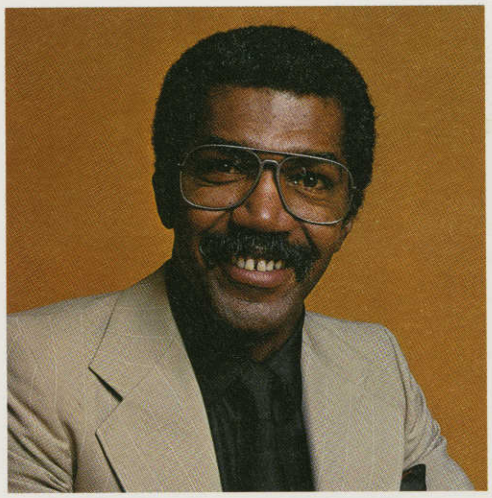
Chairman

Chairman of the Executive Committee,
InterFirst Bank of San Antonio, N.A.



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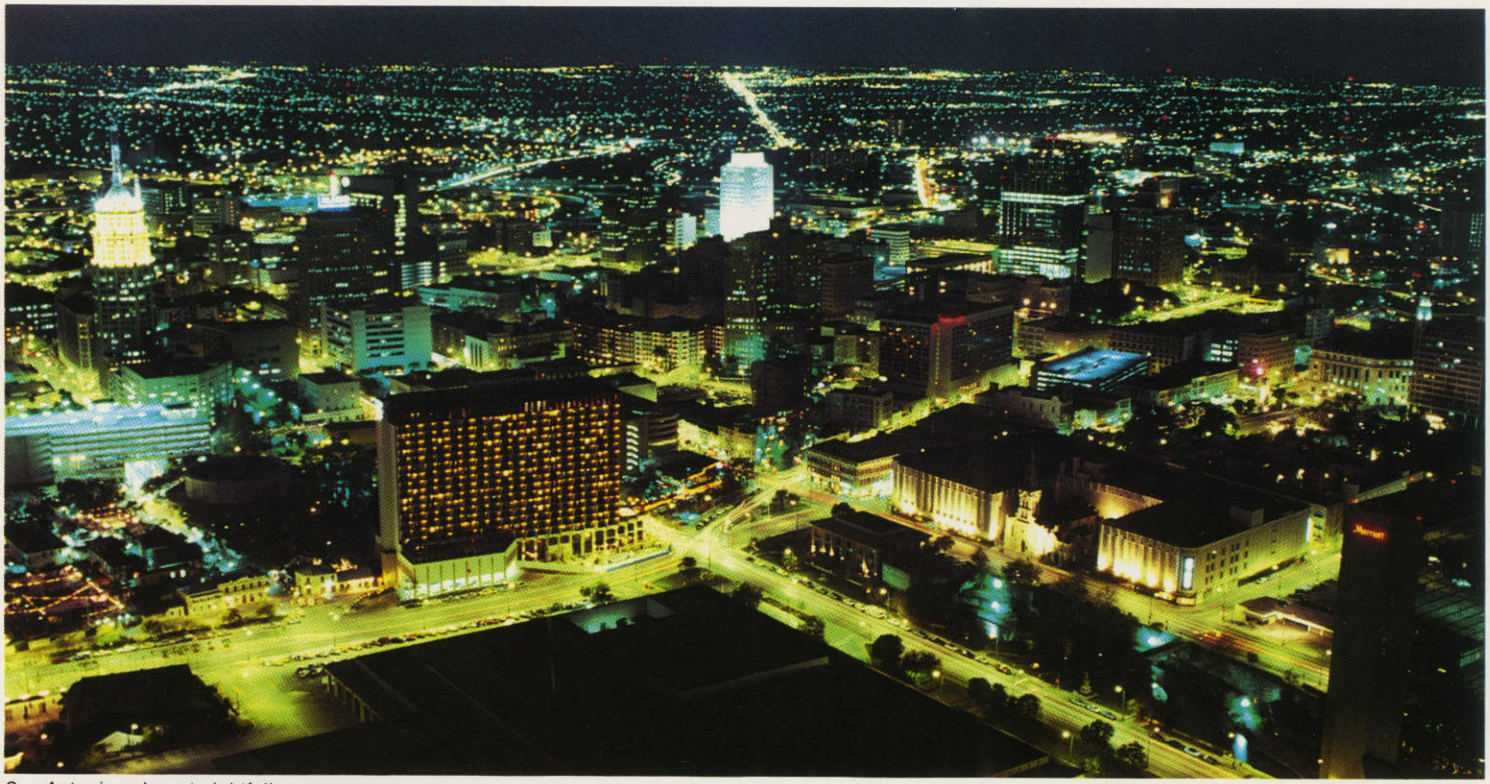
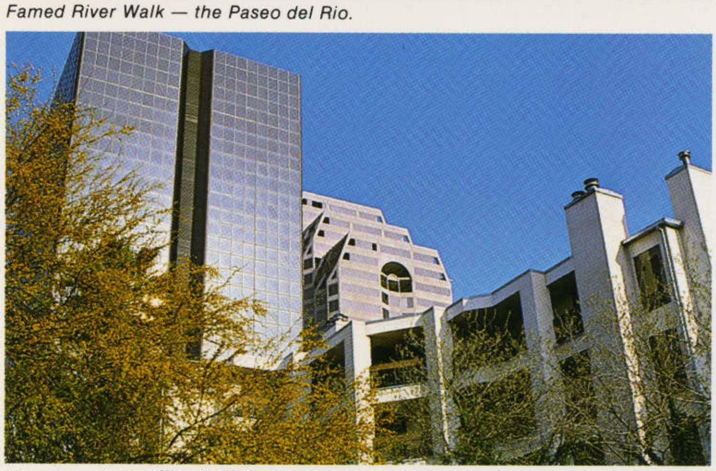


San Antonio aglow at nightfall.

Famed River Walk — the Paseo del Rio.

SAN ANTONIO
ALL-AMERICA CITY

City Public Service is proud to provide energy for a vibrant and growing San Antonio, which recently drew national acclaim by being named an All-America City. San Antonio is a masterful blend of historical charm and progressive outlook. It is blessed with a favorable climate, available human resources and other essentials for further development, such as adequate and competitively priced supplies of natural gas and electricity. For more information about San Antonio's ideal business climate in general and information about energy in particular, contact LeRoy Eck, City Public Service Director of Industrial Development, at (512) 227-3211 or write City Public Service, P.O. Box 1771, San Antonio, Texas 78296.



New downtown office buildings, condos.

Suburban office development.

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