

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

**ENSERCH CORP**

CIK: **33015** | IRS No.: **750399066** | State of Incorporation: **TX** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-03183** | Film No.: **94527945**  
SIC: **4923** Natural gas transmission & distribution

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DALLAS TX 75201

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1994

Commission File No. 1-3183

ENSERCH CORPORATION

Incorporated - State of Texas

I.R.S. Identification No. 75-0399066

ENSERCH Center, 300 South St. Paul, Dallas, Texas 75201

Registrant's telephone number, including Area Code: 214-651-8700

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes    X            No  
\_\_\_\_\_            \_\_\_\_\_

Number of shares of Common Stock of Registrant outstanding as of May 11, 1994: 66,761,042

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

<TABLE>

ENSERCH CORPORATION AND SUBSIDIARY COMPANIES  
CONDENSED STATEMENTS OF CONSOLIDATED INCOME (UNAUDITED)

<CAPTION>

Three Months Ended  
March 31

-----  
1994                      1993  
-----                      -----

(In thousands except  
per share amounts)

<S>	<C>	<C>
Revenues		
Natural gas transmission and distribution . . .	\$531,138	\$498,380
Natural gas and oil exploration and production.	50,737	41,034
Natural gas liquids processing. . . . .	19,967	22,082
Power and other . . . . .	48,202	48,120
Less intercompany revenues. . . . .	(44,327)	(16,067)
	-----	-----
Total . . . . .	605,717	593,549
	-----	-----
Costs and Expenses		
Gas purchase. . . . .	348,669	336,073
Operating expenses. . . . .	122,715	119,670
Depreciation and amortization . . . . .	34,253	29,948
Gross receipts and production taxes . . . . .	17,596	19,066
Payroll, ad valorem and other taxes . . . . .	9,642	9,065
	-----	-----
Total . . . . .	532,875	513,822
	-----	-----
Operating Income. . . . .	72,842	79,727
Other Income (Expense) - Net. . . . .	(1,440)	(882)
Interest Expense. . . . .	(16,813)	(20,784)
	-----	-----
Income before Income Taxes. . . . .	54,589	58,061
Income Taxes. . . . .	18,663	19,785
	-----	-----
Income from Continuing Operations . . . . .	35,926	38,276
Loss from Discontinued Operations . . . . .		(66)
	-----	-----
Net Income. . . . .	35,926	38,210
Provision for Dividends on Preferred Stock. . .	2,844	3,184
	-----	-----
Earnings Applicable to Common Stock . . . . .	\$ 33,082	\$ 35,026
	=====	=====
Per Share of Common Stock		
Income from continuing operations after provision for dividends on preferred stock. . . . .	\$ .50	\$ .53
Discontinued operations . . . . .		
	-----	-----
Earnings applicable to common stock. . .	\$ .50	\$ .53
	=====	=====
Cash dividends declared . . . . .	\$ .05	\$ .05
	=====	=====
Average Common and Dilutive Common		
Equivalent Shares Outstanding . . . . .	66,817	66,251
	=====	=====
Operating Income (Loss) of Major Businesses (Excludes general corporate expenses)		
Natural gas transmission and distribution . .	\$ 65,401	\$ 74,182
Natural gas and oil exploration and production	9,597	3,745
Natural gas liquids processing. . . . .	(1,022)	3,341
Power and other . . . . .	1,382	1,006

<FN>  
See accompanying Notes.  
</TABLE>

<TABLE>

ENSERCH CORPORATION AND SUBSIDIARY COMPANIES  
CONDENSED STATEMENTS OF CONSOLIDATED  
CASH FLOWS (UNAUDITED)

<CAPTION>

Three Months Ended

March 31

	1994	1993
	----	----
	(In thousands)	
	<C>	<C>
<b>OPERATING ACTIVITIES</b>		
Income from continuing operations . . . . .	\$ 35,926	\$ 38,276
Adjustments to reconcile income to net cash flows		
Depreciation and amortization. . . . .	34,253	29,948
Deferred income tax expense. . . . .	18,322	19,253
Recoveries of gas purchase contract settlements - net. . . . .	17,053	22,562
Other. . . . .	(1,046)	1,795
	-----	-----
Net cash flows provided by continuing operating activities before changes in current operating assets and liabilities . . . . .	104,508	111,834
Cash effect of changes in current operating assets and liabilities. . . . .	(104,977)	(6,597)
	-----	-----
Net cash flows (used for) from operating activities. . . . .	(469)	105,237
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment additions. . . . .	(53,200)	(44,639)
Proceeds from disposition of significant assets. . . . .		7,825
Other. . . . .	(14,681)	(10,185)
Discontinued operations. . . . .	(61,488)	4,095
	-----	-----
Net cash flows used for investing activities . . . . .	(129,369)	(42,904)
	-----	-----
Net cash flows (used for) from operating and investing activities . . . . .	(129,838)	62,333
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Change in commercial paper and other short-term borrowings . . . . .	152,550	(99,644)
Issuance of senior long-term debt. . . . .	149,117	
Retirement of senior long-term debt. . . . .	(75,067)	(7,126)
Retirement of Series D Preferred Stock . . . . .	(75,000)	
Other financing activities - net . . . . .	(25,017)	17,356
Issuance of common stock . . . . .	1,746	2,832
Cash dividends paid. . . . .	(7,119)	(6,495)
	-----	-----
Net cash flows from (used for) financing activities. . . . .	121,210	(93,077)
	-----	-----
Net Decrease in Cash and Equivalents . . . . .	(8,628)	(30,744)
Cash and Equivalents at Beginning of Period. . . . .	19,203	48,553
	-----	-----
Cash and Equivalents at End of Period. . . . .	\$ 10,575	\$ 17,809
	=====	=====

<FN>  
See accompanying Notes.  
</TABLE>

<TABLE>

ENSERCH CORPORATION AND SUBSIDIARY COMPANIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(March 31, 1994 Unaudited)

<CAPTION>

March 31	December 31
1994	1993
-----	-----

	(In thousands)	
<S>	<C>	<C>
<b>ASSETS</b>		
Current Assets		
Cash and equivalents . . . . .	\$ 10,575	\$ 19,203
Accounts receivable . . . . .	229,184	224,947
Gas stored underground . . . . .	89,525	109,615
Gas purchase settlements recoverable from customers . . .	34,823	42,800
Other . . . . .	149,871	111,002
	-----	-----
Total current assets . . . . .	513,978	507,567
	-----	-----
Investments . . . . .	81,770	86,208
	-----	-----
Property, Plant and Equipment (full-cost method for gas and oil properties) . . . . .	3,639,778	3,594,056
Less accumulated depreciation and amortization . . . . .	1,505,465	1,476,003
	-----	-----
Net property, plant and equipment . . . . .	2,134,313	2,118,053
	-----	-----
Other Assets . . . . .	39,763	48,433
	-----	-----
Total . . . . .	\$2,769,824	\$2,760,261
	=====	=====
<b>LIABILITIES</b>		
Current Liabilities		
Commercial paper and other short-term borrowings . . . . .	\$ 184,050	\$ 31,500
Current maturities of senior long-term debt . . . . .	10,600	10,600
Accounts payable and other accrued liabilities . . . . .	373,403	442,395
Accrued interest . . . . .	26,256	34,021
Litigation judgment payable . . . . .	87,554	62,035
Other . . . . .	87,554	122,534
	-----	-----
Total current liabilities . . . . .	681,863	703,085
	-----	-----
Senior Long-term Debt . . . . .	704,082	628,227
	-----	-----
Convertible Subordinated Debentures . . . . .	90,750	90,750
	-----	-----
Deferred Income Taxes . . . . .	337,075	321,364
	-----	-----
Other Liabilities . . . . .	177,377	195,117
	-----	-----
Shareholders' Equity		
Adjustable rate preferred stock . . . . .	100,000	175,000
	-----	-----
Common shareholders' equity		
Common stock (100,000 shares authorized; 66,761 and 66,656 shares outstanding) . . . . .	297,087	296,619
Paid in capital . . . . .	340,392	339,115
Retained earnings . . . . .	41,198	10,984
	-----	-----
Common shareholders' equity . . . . .	678,677	646,718
	-----	-----
Shareholders' equity . . . . .	778,677	821,718
	-----	-----
Total . . . . .	\$2,769,824	\$2,760,261
	=====	=====
<FN>		
See accompanying Notes.		
</TABLE>		

1. Prior period results have been restated to reflect the engineering and construction business segment as a discontinued operation.
2. Earnings per share applicable to common stock are based on the weighted average number of common shares, including common equivalent shares when dilutive, outstanding during the periods. Common equivalent shares consist of those shares issuable upon the assumed exercise of stock options under the treasury stock method. The 6 3/8% Convertible Subordinated Debentures were not common stock equivalents. Fully diluted earnings per share are not presented since the assumed exercise of stock options and conversion of debentures would not be dilutive.
3. In March 1994, the Corporation filed a shelf registration statement with the Securities and Exchange Commission for the sale from time to time of up to \$450 million of its securities, which can be senior or subordinated debt securities, equity securities or preferred shares of a special purpose subsidiary.

In April 1994, the Corporation sold three million Depositary Preferred Shares, Series F, representing \$75 million of Adjustable Rate Preferred Stock, Series F. Each depositary share (stated value \$25 per share) represents 1/40th ownership in one share of the Corporations' Adjustable Rate Preferred Stock, Series F. Dividend rates are determined quarterly, in advance, based on the Applicable Rate (being the highest of the three month U. S. Treasury bill rate, the U. S. Treasury ten-year constant maturity rate and the U. S. Treasury thirty-year constant maturity rate) multiplied by 87%. However, the dividend rate for any dividend period will not be less than 4.50% nor greater than 10.50% per annum. The dividend rate will be 6.375% through July 31, 1994. Net proceeds were used to repay a maturing bank loan of \$29.3 million with an interest rate of 8.7% and to reduce commercial paper borrowings.

4. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of the results of operations for the interim periods included herein have been made.

#### INDEPENDENT ACCOUNTANTS' REPORT

##### ENSERCH Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of ENSERCH Corporation and subsidiary companies as of March 31, 1994, and the related condensed statements of consolidated income and cash flows for the three months ended March 31, 1994 and 1993. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective

of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of ENSERCH Corporation and subsidiary companies as of December 31, 1993, and the related statements of consolidated income, cash flows and common shareholders' equity for the year then ended (not presented herein); and in our report dated February 7, 1994, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1993, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE

Dallas, Texas  
April 25, 1994

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Item 2. Management's Discussion and Analysis of  
Financial Condition and Results of Operations

#### RESULTS OF OPERATIONS

##### CONSOLIDATED RESULTS

A significant improvement in sales volumes and prices for natural gas partially offset the negative effects of warmer winter weather and lower oil and liquids prices. ENSERCH Corporation's earnings applicable to common stock were \$.50 per share for the first quarter of 1994, compared with \$.53 per share for the year-ago period. Income from continuing operations for the first quarter of 1994 was \$36 million, compared with \$38 million for the first quarter of 1993. Operating income for the first three months of 1994 was \$73 million versus \$80 million for the like period a year ago. First-quarter revenues were \$606 million, compared with \$594 million for the year-earlier period.

First-quarter 1994 interest expense of \$17 million was 19% below the first-quarter 1993 expense as a result of reduced debt and the restructuring of long-term debt at lower rates. The provision for preferred dividends of \$2.8 million was 11% lower than in the prior-year first quarter.

##### NATURAL GAS TRANSMISSION AND DISTRIBUTION

Transmission and Distribution operations contributed operating income of \$65 million for the first quarter of 1994, a \$9 million decline from the prior year. Although winter weather in much of the nation was severely cold, first-quarter heating weather in Lone Star Gas Company's service area was 12% below normal and 5% less than last year. Consequently, residential and commercial sales volumes were down 4% from the year-earlier period. Overall, however, total system throughput improved, increasing 27% to 206 billion cubic feet (Bcf), as gas transportation volumes rose nearly 45% above the 1993 first-quarter level. New investment to increase pipeline capacity contributed to the sharp increases in transportation and throughput volumes. Sales volumes for nonregulated affiliate Enserch Gas Company increased 43% due to higher sales off of the Lone Star system.

## NATURAL GAS AND OIL EXPLORATION AND PRODUCTION

Operating income from Exploration and Production operations was \$9.6 million, more than 2 1/2 times the year-earlier period, reflecting significantly improved prices and sales volumes for natural gas but lower oil prices. The average natural-gas sales price of \$2.31 per thousand cubic feet (Mcf) rose 18% from \$1.95 per Mcf a year ago. Natural-gas sales volumes were 18 Bcf, a 22% increase from the year-earlier quarter, primarily due to production from Mississippi Canyon Block 441, which went on stream after the first quarter of 1993. Improved production from several East Texas gas fields, the

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result of production optimization and successful in-fill drilling and completion work in late 1993 and early 1994, also contributed to the higher sales volumes.

Oil sales volumes of 514 thousand barrels were slightly lower than the year-earlier period, and the average price per barrel of oil declined 20% to \$14.80 from \$18.58.

Average production cost per million British thermal units (MMBtu) decreased to \$.54 in 1994 from \$.61 in 1993, as fixed costs per unit of production declined due to a higher level of gas production. The overall rate of amortization for the first quarter of 1994 was \$.98 per MMBtu produced, slightly higher than the year-earlier period, principally due to costs of additional offshore projects and increased development costs associated with older East Texas fields. At March 31, 1994, the value of ENSERCH's gas and oil properties, as determined by the method prescribed by the Securities and Exchange Commission, exceeded the net capitalized cost of such properties by approximately \$50 million. Product prices are subject to seasonal and other fluctuations.

## NATURAL GAS LIQUIDS PROCESSING

Natural gas liquids (NGL) processing activities had an operating loss of \$1 million for the first quarter versus operating income of \$3.3 million in the prior-year period. Higher prices for natural gas, the feedstock used in NGL production, and continued depressed NGL sales prices caused already weak margins to decline further. However, NGL prices are showing signs of strengthening due to more stable oil prices and a modest increase in demand. NGL processing sales volumes for the first quarter increased slightly to 1.5 million barrels, with the average sales price per barrel declining 20% to \$10.71. In early 1994, ENSERCH expanded its system's capabilities by acquiring a 150-mile gas gathering system in central Texas, including 10 compressor stations and related gas-purchase and sales contracts representing approximately 3 million cubic feet (MMcf) a day of high-quality gas, which will be routed to one of ENSERCH's processing plants located near the gathering system.

## POWER AND OTHER

ENSERCH's power and other activities, comprised of Enserch Development Corporation, Lone Star Energy Company and Enserch Environmental Corporation, had first-quarter operating income of \$1.4 million, compared with \$1.0 million in the same period a year ago. Enserch Environmental Corporation, which was retained when the principal operating assets of Ebasco were sold in late 1993, had operating income of \$1.9 million for the 1994 first quarter, well above the \$1.3 million for the 1993 first quarter. During the first quarter, contract management negotiations were completed on a \$460 million Total Environmental Restoration Contract, which was awarded in late 1993 by the New England Division of the U. S. Army Corps of Engineers. Under the four-year contract, an Enserch Environmental-led team will perform Superfund site remediation services throughout New England, with primary emphasis on civilian locations.

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## CASH FLOWS AND FINANCING ACTIVITIES

Operating activities, before the effects of changes in operating assets and liabilities, provided cash flows of \$105 million in the first quarter of 1994. The \$7 million decrease from the prior year's first quarter was primarily due to lower recoveries of gas-purchase contract settlements. The cash requirement due to changes in operating assets and liabilities increased \$98 million from the year-earlier period, principally due to the payment in the first quarter of 1994 of the \$62 million judgment in litigation, which had been accrued in 1993.

Investing activities required net cash flows of \$129 million, including a \$61 million requirement for discontinued operations. The requirement for discontinued operations included payments in 1994 related to accounts receivables financings in place in December 1993, payment of expenses accrued upon the sale of the assets of discontinued operations and accrued tax payments, principally for state income taxes. Property additions of \$53 million were up \$9 million from the 1993 period, with increases of \$4 million for transmission and distribution, \$2 million for exploration and production and \$3 million for natural gas liquids processing.

Planned property, plant and equipment additions for 1994 total \$238 million, including \$116 million designated for transmission and distribution, \$116 million for exploration and production, and \$6 million for all other businesses and general requirements. The planned expenditures are expected to be funded from internal cash flow and external financings as required. In addition, construction of the offshore platform and related facilities associated with the Garden Banks Block 388 project in the Gulf of Mexico is being financed through an operating lease arrangement.

The net cash of \$130 million required by operating and investing activities for the 1994 first quarter was financed principally by commercial paper borrowings. In February 1994, the Corporation issued \$150 million of 6 3/8% Notes due 2004 in a public offering. The net proceeds of this issue were used in March 1994 for the early redemption, including call premiums of \$1.4 million, of all of the \$74 million principal amount of outstanding sinking fund debentures and to fully redeem the \$75 million of Series D Adjustable Rate Preferred Stock at par. The sinking fund debentures had a weighted average interest rate of 8.5%, and the dividend on the Series D Preferred Stock, which was reset quarterly, had a minimum per annum rate of 7.5% and a maximum rate of 15.5%.

In April 1994, the Corporation sold \$75 million of Adjustable Rate Preferred Stock, Series F, in a public offering. The Series F Preferred Stock has a minimum per annum dividend rate of 4.5%, a maximum rate of 10.5% and is reset quarterly at 87% of the highest of the U. S. Treasury bill rate, the U. S. Treasury ten-year constant maturity rate and the U. S. Treasury thirty-year constant maturity rate. The initial dividend rate, which extends through July 31, 1994, is 6 3/8%. Net proceeds from the sale were used to repay \$29 million of maturing senior long-term debt, with the remainder used to reduce commercial paper borrowings.

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Senior long-term and convertible debt, including current maturities, as a percentage of total capitalization was 50.8% at March 31, 1994. The proforma March 31, 1994 debt ratio, adjusted for the effect of the sale of the Series F Preferred Stock in mid-April, was 47.6% of total capitalization, compared with 47.0% at the end of 1993. At March 31, 1994, the current ratio was .75, compared with .72 at December 31, 1993.

At March 31, 1994, the Corporation had short- and interim-term bank lines totaling \$650 million, which were all unused.

GAS PURCHASE CONTRACTS

Assuming normal weather conditions, it is expected that normal gas purchases will substantially satisfy purchase obligations for the year 1994 and thereafter. At March 31, 1994, the approximate amount of unsettled gas-purchase contract claims asserted by suppliers, as well as claims that are probable of assertion, was \$80 million. Of this total, approximately \$70 million relates to a claim filed in 1993, primarily related to asserted obligations for purchases for early through mid-1980s. The possibility exists that additional gas-purchase contract claims might be asserted by other claimants. Lone Star expects to resolve the foregoing claims at substantially less than the claimed amounts.

At March 31, 1994, there was an unrecovered balance of gas-purchase contract settlements of \$94 million, including \$57 million that represented prepayments for gas expected to be recouped under contracts covering future gas purchases. The remaining \$37 million represented amounts expected to be recovered from customers under the existing gas cost recovery provisions. Lone Star expects to recoup or recover the remaining balances of gas settlement payments made to date, as well as future payments to be made in settlement of remaining claims.

A summary of transactions related to unrecovered gas settlement payments during the first quarter of 1994 is as follows:

<TABLE>  
<CAPTION>

	Recoupable Prepayments -----	Recoverable Settlements -----	Total -----
	(In millions)		
<S> December 31, 1993	<C> \$ 63	<C> \$ 48	<C> \$ 111
Gas-purchase contract settlements	-	-	-
Recouped or recovered	(6)	(11)	(17)
	-----	-----	-----
March 31, 1994	\$ 57 =====	\$ 37 =====	\$ 94 =====

</TABLE>

DRILLING PROGRAM

The Garden Banks Block 388 project remains on schedule, with initial production anticipated by mid-1995. The final major contract for the conversion of the semisubmersible drilling rig to a floating drilling/production facility was awarded in January. Installation of the offshore facilities, consisting of the subsea template, gathering and sales pipelines and shallow-water facilities, will begin in the second quarter.

During the first quarter, a confirmation well on Green Canyon Block 254 was spudded, which is an offset to a discovery well drilled in late 1991 that encountered 11 sands with a combined thickness of more than 360 feet of oil pay. The well will test the downdip extent of the pay sands. ENSERCH holds a 25% working interest in this block and a similar working interest in three adjacent blocks.

ENSERCH continued developing gas reserves in East Texas. In the Freestone field, three new wells yielded initial deliveries of slightly over 2.0 MMcf of gas per day each. A fourth well is being drilled.

In north central Texas, four wells have been completed this year in the Boonsville field, with daily production ranging from 0.4 MMcf to 1.0 MMcf of gas. Additional wells in the field are in various stages of drilling or completion. A well completed in the Fashing field in South Texas flowed at a daily

&lt;TABLE&gt;

ENSERCH CORPORATION AND SUBSIDIARY COMPANIES  
Natural Gas Transmission and Distribution Operating Data (Unaudited)

&lt;CAPTION&gt;

	Three Months Ended March 31	
	1994	1993
	----	----
<S>	<C>	<C>
Operating Income (in millions) . . . . .	\$ 65.4	\$ 74.2
	=====	=====
Natural Gas Sales Revenues by Customer (in millions):		
Residential & commercial . . . . .	\$321.7	\$345.1
Industrial & electric generation . . . . .	83.6	80.8
Pipeline & other . . . . .	107.6	56.0
	-----	-----
Total gas sales revenues. . . . .	\$512.9	\$481.9
	=====	=====
Natural Gas Revenues (in millions):		
Lone Star Gas Company sales. . . . .	\$356.7	\$383.4
Enserch Gas Company sales. . . . .	156.2	98.5
	-----	-----
Total gas sales revenues. . . . .	512.9	481.9
Gas transportation . . . . .	14.1	12.0
	-----	-----
Total natural gas revenues. . . . .	527.0	493.9
Other. . . . .	4.1	4.5
	-----	-----
Total revenues. . . . .	\$531.1	\$498.4
	=====	=====
Natural Gas Sales Volumes by Customer (Bcf):		
Residential & commercial . . . . .	58.4	61.1
Industrial & electric generation . . . . .	30.7	32.2
Pipeline & other . . . . .	49.3	27.7
	-----	-----
Total gas sales volumes . . . . .	138.4	121.0
	=====	=====
Natural Gas Volumes (Bcf):		
Lone Star Gas Company sales. . . . .	67.0	71.2
Enserch Gas Company sales. . . . .	71.4	49.8
	-----	-----
Total gas sales volumes . . . . .	138.4	121.0
	=====	=====
Gas transportation:		
For associated . . . . .	38.1	32.1
For others (nonassociated) . . . . .	67.7	41.1
	-----	-----
Total . . . . .	105.8	73.2
	=====	=====
Lone Star system throughput . . . . .	174.5	147.4
Off-system sales (1) . . . . .	31.6	14.7
	-----	-----
Total throughput (2) . . . . .	206.1	162.1
	=====	=====
Natural Gas Sales Revenues (per Mcf):		
Lone Star Gas Company. . . . .	\$ 5.32	\$ 5.38
Enserch Gas Company. . . . .	2.19	1.98
Natural Gas Purchase Cost (per Mcf):		
Lone Star Gas Company. . . . .	\$ 3.23	\$ 3.38

Enserch Gas Company. . . . .	2.12	1.84
Gas Transportation Rate (per Mcf). . . . .	\$ .13	\$ .16

<FN>

- (1) Includes off-system sales never entering Lone Star's pipeline system.
- (2) Total throughput is the sum of gas sales volumes and gas transportation volumes for others. Gas transported by Lone Star for Enserch Gas Company is reported in both sales and associated transportation.

</TABLE>

<TABLE>

ENSERCH CORPORATION AND SUBSIDIARY COMPANIES  
Natural Gas and Oil Exploration and Production Operating Data (Unaudited)

<CAPTION>

	Three Months Ended March 31	
	----- 1994 -----	1993 -----
<S>	<C>	<C>
Operating Income (in millions) . . . . .	\$ 9.6 =====	\$ 3.8 =====
Revenues (in millions)		
Natural gas (1). . . . .	\$ 42.5	\$ 29.3
Oil and condensate . . . . .	7.6	10.0
Natural gas liquids. . . . .	.5	1.2
Other revenues - net . . . . .	.1	.5
	-----	-----
Total revenues. . . . .	\$ 50.7 =====	\$ 41.0 =====
Sales Volumes		
Natural gas (MMcf) (1) . . . . .	18,370	15,051
Oil and condensate (MBbl). . . . .	514	538
Average Sales Price		
Natural gas (per Mcf). . . . .	\$ 2.31	\$ 1.95
Oil and condensate (per Bbl) . . . . .	14.80	18.58
Net Wells		
Drilled. . . . .	16	16
Productive . . . . .	8	14
Data in Equivalent Energy Content (MMBtu) (2)		
Average sales price. . . . .	\$ 2.26	\$ 2.11
Average production costs (3) . . . . .	.54	.61
Amortization rate. . . . .	.98	.97

<FN>

- (1) Excludes products purchased for resale. Includes affiliated revenues and volumes.
- (2) For the purpose of providing a common unit of measure, natural gas, oil and natural gas liquids are converted to an approximate equivalent unit on the basis of relative energy content: one Mcf of natural gas equals 1.05 MMBtu, one barrel of oil equals 5.6 MMBtu and one barrel of natural gas liquids equals 4.2 MMBtu.
- (3) Average production costs declined due to the impact of a higher level of gas production on fixed costs.

</TABLE>

<TABLE>

ENSERCH CORPORATION AND SUBSIDIARY COMPANIES  
Natural Gas Liquids Processing Operating Data (Unaudited)

<CAPTION>

	Three Months Ended March 31	
	1994	1993
	-----	-----
<S>	<C>	<C>
Operating Income (Loss) (in millions) . . . . .	\$ (1.0)	\$ 3.3
	=====	=====
Revenues (in millions)		
Natural gas liquids (1) . . . . .	\$ 16.0	\$ 19.7
Other . . . . .	4.0	2.4
	-----	-----
Total . . . . .	\$ 20.0	\$ 22.1
	=====	=====
Natural Gas Liquids		
Sales volumes (MBbl) (1) . . . . .	1,492	1,466
Average sales price (per Bbl) . . . . .	\$10.71	\$13.43

<FN>

(1) Excludes products purchased for resale.

</TABLE>

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The Annual Meeting of Shareholders was held on May 10, 1994.
- (b) Not applicable.
- (c) Amendment of the ENSERCH Corporation 1991 Stock Option Plan was submitted to the shareholders for approval, all as more fully described in the Proxy Statement of the Corporation dated March 30, 1994, and Appendix B thereto, as filed with the Securities and Exchange Commission, which Proxy Statement and Appendix are incorporated herein by reference. The number of shares voted for the amendment of such Plan was 53,195,833; the number of shares voted against the amendment of such Plan was 3,490,999; the number of shares withheld was 1,402,470; and broker non-vote was one share.
- (d) Not applicable.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits

Exhibit No. 10 -ENSERCH Corporation 1991 Stock Incentive  
Plan (formerly ENSERCH Corporation 1991

Exhibit No. 15 -Letter of Deloitte & Touche dated  
May 13, 1994, regarding unaudited  
interim financial statements.

(b) Reports on Form 8-K

Current Report on Form 8-K dated January 18, 1994,  
was filed on January 18, 1994 (News release  
regarding sale of 6 3/8% Notes Due 2004).

Current Report on Form 8-K dated February 9, 1994,  
was filed on February 9, 1994 (News release  
regarding year-end earnings).

Current Report on Form 8-K dated March 3, 1994, was  
filed on March 3, 1994 (Year-end financial  
statements).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the  
Registrant has duly caused this report to be signed on its behalf by the  
undersigned thereunto duly authorized.

ENSERCH Corporation  
(Registrant)

Date: May 13, 1994

By /s/ S. R. Singer  
-----  
S. R. Singer, Senior Vice  
President, Finance and  
Corporate Development, Chief  
Financial Officer

Date: May 13, 1994

By /s/ J. W. Pinkerton  
-----  
J. W. Pinkerton,  
Vice President and Controller,  
Chief Accounting Officer

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ENSERCH CORPORATION  
1991 STOCK INCENTIVE PLAN

## ARTICLE I. PURPOSE

The purpose of the 1991 Stock Incentive Plan (the "Plan") is to promote the long-term success of ENSERCH Corporation (the "Company," which includes its Division, subsidiaries and affiliates) by providing a means through which the Company can attract and retain key employees who can contribute materially to that success. Such purpose shall be accomplished under the Plan by the (a) grants of stock Options ("Options") to purchase shares of the Common Stock of ENSERCH Corporation ("Shares"), (b) awards of Restricted Stock ("Restricted Stock"), or (c) a combination of both.

## ARTICLE II. EFFECTIVE DATE

The Plan became effective on February 12, 1991, (the "Effective Date") and was approved by shareholders at the 1991 Annual Meeting of Shareholders of ENSERCH Corporation.

## ARTICLE III. ADMINISTRATION

The Board of Directors of ENSERCH Corporation (the "Board"), acting through the Compensation Committee (the "Committee"), shall have the sole responsibility for the administration of the Plan. The Committee shall establish any Administrative Guidelines necessary or advisable for the administration of the Plan. The Committee shall have the authority to amend or rescind the Administrative Guidelines and shall have full authority with regard to the interpretation of the Administrative Guidelines or any other matters relating to the Plan. The Committee shall act by vote or consent of a majority of its members. All acts, determinations and decisions of the Committee shall be final and conclusive as to the parties concerned unless otherwise determined by the Board.

## ARTICLE IV. ELIGIBILITY

(a) Employees: Except as provided in Subparagraph (b) below with respect to non-employee directors, Grants of Options and awards of Restricted Stock under the Plan shall be confined to those persons whom the Committee, in its sole discretion, determines to be key employees of the Company (including officers and directors who are also employees of the Company) who devote substantially their full time to the Company and who can make a meaningful contribution to the Company's success. No Option shall be granted to any member of the Committee. The Committee shall,

from time to time and in its sole discretion, select from such eligible employees, those to whom Options shall be granted and awards of Restricted Stock shall be made and shall determine the number of shares to be subject to each Option or award of Restricted Stock.

(b) Non-employee Directors: Each current and subsequently elected non-employee director who has completed at least one full year of service (defined to mean service as a non-employee director from one Annual Meeting of Shareholders to the next succeeding Annual Meeting of Shareholders and referred to hereinafter as "Full Year of Service") and who has less than ten Full Years of Service as a non-employee director on May 9, 1994, shall receive an award of Restricted Stock following each Full Year of Service. The maximum number of awards of Restricted Stock that a non-employee director may receive is ten, reduced by the number of Full Years of Service completed as a non-employee director on May 9, 1994; provided, however, that in computing such maximum number of awards there shall not be counted any annual award that is forfeited pursuant to Article X(d) hereof. All such awards of Restricted Stock to non-employee directors shall be made only in accordance with the formula for such awards as set forth in Article X(d) hereof.

#### ARTICLE V. RESERVE OF SHARES

(a) A total of 2,000,000 Shares is the maximum number of Shares reserved for the Plan, subject to the adjustments authorized by Subparagraphs (b) and (c) below. Shares available under the Plan for grants of Options or awards of Restricted Stock may consist either in whole or in part of authorized but unissued Shares or Shares held in the treasury of ENSERCH Corporation.

(b) The number of Shares held in reserve for the Plan, the number of Shares subject to Option that may be granted to any individual in any calendar year, the number of shares of Restricted Stock that may be awarded to an Executive Officer with respect to all performance periods beginning in any calendar year, the number of Shares and the Option price for Shares covered by each outstanding Option, and the number of Shares covered by each outstanding award of Restricted Stock shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a subdivision or consolidation of the issued Shares and may, in the absolute discretion of the Board, be similarly adjusted for any other capital adjustment (including the reclassification of Shares or recapitalization or reorganization of the Company), the payment of a stock dividend or the distribution to holders of the Shares of rights, warrants, assets or evidences



of indebtedness.

(c) If an Option as to any Shares expires, terminates, ceases to be exercisable or is surrendered before being exercised in full, or an award of Restricted Stock is forfeited (where the forfeiting participant received no benefits of ownership), the number of Shares that were subject to the Option but that were not transferred pursuant to the Option or the number of Shares covered by the forfeited award of Restricted Stock shall, unless the Plan shall have been terminated, again be available for the granting of

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Options or the award of Restricted Stock, subject to the aggregate maximum stated in Subparagraph (a) above.

#### ARTICLE VI. TERMS AND CONDITIONS OF OPTIONS

One or more Options can be granted to any employee eligible to receive such a grant under Article IV. The maximum number of Shares subject of Options that can be granted to any one individual during any calendar year shall not exceed 80,000 shares (subject to adjustment pursuant to Article V hereof). Each Option granted pursuant to the Plan shall be evidenced by a stock option agreement (the "Agreement") between the Company and the employee to whom the Option is granted (the "Optionee"), which Agreements need not be identical to each other but shall comply with and be subject to the following terms and conditions:

(a) Option Price: The Option price per Share shall be set at the date of grant ("Date of Grant") by the Committee but shall in no instance be less than the Fair Market Value on the date the Option is granted. As used in the Plan (unless a different method of calculation is required by applicable law), "Fair Market Value" on any date shall mean (i) the average of the high and low prices per share of the Shares as reported in the New York Stock Exchange Composite Transactions Report (or any other consolidated transactions reporting system which subsequently may replace such Composite Transactions Report) (the "Consolidated Tape") for the New York Stock Exchange (the "NYSE") on the date as of which the determination is being made or, if there are no sales on such date, in accordance with applicable Internal Revenue Service Regulations relating to the determination of fair market value of stock options or (ii) in the event that the Shares are not listed for trading on the NYSE, an amount determined in accordance with standards adopted by the Committee.

(b) Duration of Options: Unless Subparagraph (f) of this

Article VI applies, each Option granted under the Plan shall expire and all rights to purchase Shares pursuant thereto shall cease on the tenth anniversary of the Date of Grant of the Option (the "Expiration Date").

(c) Vesting of Options: Each Option granted hereunder may only be exercised to the extent that the Optionee is vested in such Option. An Optionee shall vest separately in each Option granted hereunder in accordance with a schedule determined by the Committee, in its sole discretion, which will be incorporated in the Agreement. Unless otherwise determined by the Committee, each Agreement will provide that the Option vests in accordance with the following schedule:

<TABLE>

<CAPTION>

Number of years the Optionee has remained in the employ of the Company or Subsidiary following the grant of the Option	Extent to which the Option is vested
--	---

<S>	<C>
Under one. . . . .	0%
At least one but less than two . . . . .	25%
At least two but less than three . . . . .	50%
At least three but less than four. . . . .	75%
Four or more . . . . .	100%

Anything contained in this Subparagraph to the contrary notwithstanding, an Optionee shall become fully (100%) vested in each of his or her Options upon his or her termination of employment with the Company for reasons of death, Disability or Retirement at or after age 60, upon the sale of a Subsidiary of the Company to an unaffiliated company such that he or she no longer remains in the employ of the Company or, if in the sole discretion of the Committee, the Committee determines that acceleration of the Option vesting schedule would be desirable for the Company.

(d) Merger, Consolidation, Etc.: In the event that ENSERCH Corporation shall, pursuant to action by its Board, at any time propose to merge into, consolidate with or sell or otherwise transfer all or substantially all of its assets to another corporation and provision is not made pursuant to the terms of such transaction for the assumption by the surviving, resulting or acquiring corporation of outstanding Options, or for the substitution of new Options with substantially equivalent benefit

therefor, each outstanding Option shall become fully (100%) vested. The Committee shall advise each Optionee, in writing, of the manner and terms under which such fully vested Options shall be exercised.

(e) Exercise of Options:

(i) Unless otherwise prohibited by Subparagraph (f) or the terms of this Plan, an Optionee may exercise, in whole or in part, the vested portion of an Option at any time by delivering to the Corporate Secretary of ENSERCH Corporation written notice specifying the number of Shares with respect to which the Option is being exercised, together with payment in full of the purchase price of such Shares plus any federal, state or local taxes for which the Company has a withholding obligation in connection with such exercise. In addition to payment in cash, payment may be made by the exchange of Common Stock of ENSERCH Corporation previously acquired by the Optionee and held for at least six months and having a Fair Market Value on the date of exercise equal to the price for which the Shares may be purchased pursuant to the Option. The Committee may, in its sole discretion, authorize such payment, in whole or in part, in any other form as may be approved by the Board and in a manner authorized by law.

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(ii) An Optionee may elect to satisfy any withholding due on the exercise of an Option either (a) in cash (the "cash method") or (b) by the retention by the Company of a number of Shares out of the Shares being purchased having a Fair Market Value equal to the amount to be withheld (the "Share retention method"). The Compensation Committee shall determine, from time to time, the amount to be withheld and the time and manner in which an Optionee may elect to satisfy such withholding obligation. Such amount shall be not less than the minimum withholding obligation of the Company or not more than the amount determined by application of the maximum tax in effect for individuals under applicable federal, state or local tax law. Under the "Share retention method," the amount to be withheld, subject to the discretion of the Committee, shall be the amount designated by such Optionee within such maximum and minimum amounts.

(f) Termination of Employment: Unless otherwise determined by the Committee, the following rules shall apply in the event of an Optionee's termination of employment with the Company:

(i) In the event of an Optionee's termination of employment with the Company either (1) for cause or (2) voluntarily on the part of the Optionee, without the written consent of the Company and for reasons other than death, Disability or Retirement (as such terms are defined in Subparagraphs (f)(iv) and (v) hereof), his or her Options shall immediately terminate.

(ii) In the event of an Optionee's termination of employment with the Company under circumstances other than those specified in Subparagraph (f)(i) hereof and for reasons other than death, Disability or Retirement (as defined in Subparagraphs (f)(iv) and (v) hereof), such Options shall terminate on the earlier of 90 days after the date of such termination of employment or the Option's Expiration Date.

(iii) In the event of the death of an Optionee while he or she is employed by the Company or during a period when Subparagraph (f)(ii), (f)(iv) or (f)(v) hereof is applicable, such Options shall terminate on the earlier of the first anniversary of the Optionee's death or the Option's Expiration Date.

(iv) In the event of the Optionee's termination of employment with the Company on account of a Disability, as defined in the Internal Revenue Code, such Options shall terminate on the earlier of the first anniversary of the Optionee's termination of employment or the Option's Expiration Date.

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(v) In the event of the termination of employment of an Optionee, other than discharge for cause, after age 65 or on or after age 60 pursuant to the terms of any retirement plan maintained by the Company in which the Optionee participates (either of which terminations shall constitute "Retirement"), such Options shall terminate on the earlier of three years after the date of such termination of employment or the Option's Expiration Date, unless the retiring Optionee remains a director of the Company. In that event, this provision will be triggered when his directorship terminates.

(vi) Anything contained in this Subparagraph (f) to the contrary notwithstanding, an Option may only be exercised following the Optionee's termination of employment with the Company for reasons other than death, Disability or Retirement

if and to the extent that such Option was exercisable immediately prior to such termination of employment.

(vii) An Optionee's transfer of employment between ENSERCH Corporation and its Division or a Subsidiary or between Subsidiaries or between its Division and Subsidiaries shall not constitute a termination of employment and the Committee shall determine in each case whether an authorized leave of absence for military service or otherwise shall constitute a termination of employment.

(g) Nontransferability: Options shall not be transferable other than by will or the laws of descent and distribution, and no Option may be exercised by anyone other than the Optionee except that, should the Optionee die or become incapacitated, the Option may be exercised by his estate, legal representative or beneficiary subject to all other terms and conditions contained in the Plan.

(h) Change in Control: Anything contained herein to the contrary notwithstanding, an Optionee shall become fully (100%) vested in each of his or her Options upon the occurrence of a change in control, and no Option held by an Optionee at the time a change in control occurs or at any time thereafter shall terminate for any reason before the Option's Expiration Date. For this purpose, "change in control" means one or more of the following events:

(i) any person within the meaning of Section 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "1934 Act"), other than the Company, has become the beneficial owner, within the meaning of Rule 13d-3 under the 1934 Act, of 20% or more of the combined voting power of ENSERCH Corporation's then outstanding Common Stock or equivalent in voting power of any class or classes of ENSERCH Corporation's outstanding securities ordinarily entitled to vote in elections of directors ("voting securities"), or

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(ii) Shares representing 20% or more of the combined voting power of ENSERCH Corporation's voting securities are purchased pursuant to a tender offer or exchange offer (other than an offer by the Company), or

(iii) the Stockholders of ENSERCH Corporation have:

(A) approved an agreement to merge or consolidate

with or into another corporation or an agreement to sell or otherwise dispose of all or substantially all of ENSERCH Corporation's assets (including a plan of liquidation), or

(B) elected two or more persons to serve as directors of ENSERCH Corporation who were not nominated and approved by the Directors' Nominating Committee and approved by the Board.

#### ARTICLE VII. ISSUANCE OF SHARES: RESTRICTIONS

Subject to the conditions and restrictions provided in this Article VII, ENSERCH Corporation shall, as soon as practicable after an Option has been exercised in whole or in part, deliver to the Optionee a certificate, registered in the name of such Optionee, for the number of Shares with respect to which the Option has been exercised less any Shares which are to be retained in accordance with Article VI(e) to satisfy tax withholding requirements. ENSERCH Corporation may legend any stock certificate issued hereunder to reflect any restrictions necessary under the terms of any federal or state laws or regulations thereunder.

#### ARTICLE VIII. RIGHTS AS SHAREHOLDER AND EMPLOYEE

No Optionee shall have any rights as a Shareholder of ENSERCH Corporation with respect to any Shares prior to the date of issuance to him or her of the certificate or certificates for such Shares. Neither the Plan nor any Option granted or Restricted Stock awarded under the Plan shall confer upon the Optionee any right to continue in the employment of the Company.

#### ARTICLE IX. SUBSTITUTE OPTIONS

Anything contained herein to the contrary notwithstanding, Options may, at the discretion of the Board (or the Committee), be granted under the Plan in substitution for Options to purchase Shares of capital stock of another corporation which is merged into, consolidated with, or all or a substantial portion of the property or stock of which is acquired by, the Company. The terms, provisions and benefits to Optionees of such substitute Options may be identical in all respects to the terms, provisions and benefits to Optionees of the Options of the other corporation on the date of

substitution, except that such substitute Options shall provide the purchase of Shares instead of shares of such other corporation.

#### ARTICLE X. RESTRICTED STOCK

(a) Awards to Eligible Employees: The Committee may make awards of Restricted Stock to any eligible employee, for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the award (an "Award"). The terms and conditions of Restricted Stock, including the terms of the release of restrictions which may be performance-based, time-based, or a combination of both, shall be specified by the Award. The Committee, in its sole discretion, shall determine what rights, if any, the person to whom an award of Restricted Stock is made shall have in the Restricted Stock during the restriction period and the restrictions applicable to the particular Award, including whether the holder of the Restricted Stock shall have the right to vote the shares or receive all dividends and other distributions applicable to the Shares. The Committee shall determine when the restrictions shall lapse, or expire and the conditions, if any, under which the Restricted Stock will be forfeited or sold back to the Company. Each award of Restricted Stock may have different restrictions and conditions. The Committee, in its discretion, may prospectively change the restriction period and the restrictions applicable to any particular award of Restricted Stock. Restricted Stock may not be transferred or sold by the recipient until the restrictions specified in the Award expire.

(b) Issuance of Stock: Any Restricted Stock awarded hereunder may be evidenced in such manner as the Committee, in its sole discretion, shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of Restricted Stock awarded hereunder, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such Award. The Compensation Committee may also require as a condition to the issuance of any such certificate the delivery of an agreement in writing between the Company and the recipient in form and substance as shall be approved by the Compensation Committee (a "Restricted Stock Agreement"). The Company may retain, at its option, the physical custody of the Restricted Stock during the restriction period or require that the Restricted Stock be placed in an escrow or trust, along with a stock power endorsed in blank, until all restrictions are removed or expire.

(c) Awards to Executive Officers of Performance-Based Stock: The following provisions shall apply to any performance-based awards of Restricted Stock made under this Plan to any person who has been designated by the Board of Directors as an Executive

(i) the performance criteria upon which vesting of the Restricted Stock is contingent shall be such objective performance goals as the Compensation Committee shall establish in writing prior to the commencement of any performance period to which such performance criteria relate (provided, however, that performance goals for any performance period which includes the year 1994 may be established at any time prior to April 1, 1994, and such date as to future periods as may be authorized under Treasury Department Regulations), and while the outcome is substantially uncertain, and shall be based on total shareholder return, total shareholder return compared to a group of peer companies specified by the Compensation Committee, earnings per share, or operating unit income; and

(ii) the maximum number of Shares that may be awarded to any Executive Officer with respect to all performance periods beginning in a calendar year shall not exceed 50,000 Shares (subject to adjustment pursuant to Article V hereof); provided, however, that the Compensation Committee may retain the discretion to reduce an award during or at the conclusion of the performance period.

(d) Awards to Non-Employee Directors: There shall be made annually to each eligible non-employee director an award of Restricted Stock on the following terms and conditions:

(i) Awards shall be made at the time of the first meeting of the Compensation Committee following the Annual Meeting of Shareholders;

(ii) the number of Shares that may be awarded shall be determined by dividing \$25,000 by the average of the closing sale price per share of the Shares as reported on the Consolidated Tape (the "Closing Price") for the last twenty trading days in April (the "Award Value"), rounded up to the next full number of Shares;

(iii) the recipient shall deliver to the Company a Restricted Stock Agreement and shall also deliver a stock power endorsed in blank, relating to the Restricted Stock covered by the Award;

(iv) Shares shall be issued, after delivery of the



agreement and stock power required by (iii) above, and a certificate for such Shares shall be issued in the recipient's name but such certificate shall be retained by the Company for the recipient's account;

(v) the recipient, after issuance of a certificate, shall thereupon be a shareholder with respect to all the Shares represented by such certificate and shall have all the

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rights of a shareholder with respect to all such Shares, including the right to vote such Shares and to receive all dividends and other distributions paid with respect to such Shares, except that such Shares shall be restricted as to transferability and subject to forfeiture as provided in (vi) below;

(vi) the following restrictions are applicable to the award of Restricted Stock to non-employee directors:

(A) the recipient shall not be entitled to delivery of any certificate(s) and shall be prohibited from transferring the Restricted Stock unless prior to the tenth anniversary of the date of the Award (the "Termination Date") the death of the recipient shall occur or either of the following conditions shall be satisfied: (x) the Closing Price of the Shares on any one trading day shall be equal to a value of at least 1.5 times the Award Value or (y) the average Closing Price for the twenty trading days immediately preceding the Termination Date is at least equal to the Award Value; and

(B) if neither condition (x) nor condition (y) shall have been satisfied by the Termination Date, all Restricted Stock shall be forfeited and all rights to such shares shall terminate without further obligation on the part of the Company or the recipient.

Upon the death of the recipient or upon satisfaction of either requirement of (A) above, the restriction on transferability of the Restricted Stock shall be lifted, and the certificate(s) for the Restricted Stock shall be delivered as soon as practicable.

(e) Merger, Consolidation, Etc.: In the event that ENSERCH Corporation shall, pursuant to action by its Board, at

any time propose to merge into, consolidate with or sell or otherwise transfer all or substantially all of its assets to another corporation, the restriction on transferability of the Restricted Stock shall be lifted and the certificate(s) for the Restricted Stock shall be delivered as soon as practicable.

(f) Change in Control: In the event of a Change in Control of the Company as defined in Article VI(h) hereof, the restriction on transferability of the Restricted Stock shall be lifted and the certificate(s) for the Restricted Stock shall be delivered as soon as practicable.

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#### ARTICLE XI. TERM OF THE PLAN

Barring any action of the Board to the contrary, the Plan shall terminate on, and no Options shall be granted or award of Restricted Stock made after, the tenth anniversary of the Effective Date. The provisions of the Plan, however, shall continue thereafter to govern all Options theretofore granted until the exercise, expiration or cancellations of such Options and to govern all awards of Restricted Stock until all restrictions have lapsed or such Shares have been forfeited.

#### ARTICLE XII. AMENDMENT AND TERMINATION OF PLAN

The Plan may be amended or terminated at any time by the Board except that Article X may not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, or the rules thereunder. However, without further approval of the Shareholders of ENSERCH Corporation by the affirmative vote of the majority of the Shares present or represented and entitled to vote, no amendment shall (i) increase the maximum aggregate number of Shares with respect to which Options may be granted or awards of Restricted Stock made under the Plan and the limitations on individual Option grants under Article VI hereof and Restricted Stock Awards under Article X hereof, except in accordance with Article V hereof, (ii) change the Option price provided for in Article VI(a) hereof or (iii) change the eligibility provisions of Article IV hereof. Subject to the provisions of Article VI hereof, no termination of or amendment to the Plan shall adversely affect the rights of an Optionee or other person holding an Option previously granted hereunder or a holder of a Restricted Stock Award without the consent of such person.

#### ARTICLE XIII. CONSTRUCTION

The Plan and Agreements shall be interpreted and administered under the laws of the State of Texas.

ENSERCH Corporation:

We have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited interim condensed consolidated financial information of ENSERCH Corporation and subsidiary companies for the periods ended March 31, 1994 and 1993, as indicated in our report dated April 25, 1994; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 1994, is being used in Registration Statements No. 2-59259, No. 33-40589, No. 33-47911 and No. 2-77572 on Form S-8, and in Registration Statements No. 33-15623 and No. 33-52525 on Form S-3.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

DELOITTE & TOUCHE

Dallas, Texas  
May 13, 1994