SECURITIES AND EXCHANGE COMMISSION

# FORM 35-CERT

Certificate of compliance with terms by public utility company under Rule 24

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## FILER

**CENTRAL POWER & LIGHT CO /TX/**

CIK:**18734**| IRS No.: **740550600** | State of Incorp.:**TX** | Fiscal Year End: **1231**
Type: **35-CERT** | Act: **35** | File No.: **070-08597** | Film No.: **95556789**
SIC: **4911** Electric services

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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|---|---|
| In the Matter of<br><br>CENTRAL POWER AND LIGHT COMPANY<br><br>File No. 70-8597<br><br>(Public Utility Holding Company Act of 1935) | CERTIFICATE<br><br>OF<br><br>NOTIFICATION |

---

Central Power and Light Company (the "Company"), an electric utility subsidiary of Central and South West Corporation ("CSW"), hereby certifies that:

1. On June 7, 1995, the Board of Directors of the Company authorized the execution, delivery and performance by the Company of an Installment Payment Agreement between Matagorda County Navigation District Number One (Texas) (the "District") and the Company and approved the form and provisions of a Bond Purchase Agreement between the District and Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and J.P. Morgan Securities Inc. (the "Underwriters").

2. On July 17, 1995, the Company approved the terms of the Bond Purchase Agreement which provided for the purchase by the Underwriters of $100,635,000 aggregate principal amount of the District's 6.10% Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 (the "Refunding Bonds") due July 1, 2028. The Bond Purchase Agreement provided that the Underwriters would pay the District 100% of the principal amount of the Refunding Bonds, plus accrued interest from July 1, 1995, and that the Bonds would have an interest rate of 6.10%.

3. The Installment Payment Agreement dated as of July 1, 1995, was executed by the parties thereto in the form filed herewith as Exhibit 1(a).

4. On July 27, 1995, the District issued, sold and delivered $100,635,000 aggregate principal amount of its Refunding Bonds at 100% of their principal amount, being the price specified in the Bond Purchase Agreement.

5. The above-described transactions have been carried out in accordance with the terms and conditions of, and for the purposes represented in, the Form U-1 Application-Declaration of the Company, in

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File No. 70-8597, and in accordance with the terms and conditions of the Commission's Order dated June 15, 1995, permitting said Application-Declaration to become effective.

The following exhibits (in the final form thereof in which executed, filed or used) are filed herewith:

Exhibit 1(a) - Installment Payment Agreement, dated July 1, 1995, between the Company and the District.

Exhibit 2(a) - Indenture of Trust, dated July 1, 1995, between the District and the Trustee.

Exhibit 3(a) - Bond Purchase Agreement, dated July 13, 1995, between the District and the Underwriters.

Exhibit 4(a) - Letter of Representation, dated July 13, 1995, from the Company to the Issuer and the Purchasers.

Exhibit 5(a) - Official Statement relating to the Bonds, dated July 13, 1995.

Exhibit 7(a) - Final or "past tense" opinion of Milbank, Tweed, Hadley & McCloy, counsel to CSW and the Company.

S I G N A T U R E

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, as amended, the undersigned company has duly caused this document to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: July 28, 1995

CENTRAL POWER AND LIGHT COMPANY

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By/s/SHIRLEY S. BRIONES
Shirley S. Briones
Treasurer

INDEX TO EXHIBITS

| Exhibit Transmission Number | Exhibit | Method |
| --- | --- | --- |
| 1(a) | Installment Payment Agreement, | Electronic |

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| | dated July 1, 1995, between the Company and the District. | |
|---|---|---|
| 2(a) | Indenture of Trust, dated July 1, 1995, between the District and the Trustee. | Electronic |
| 3(a) | Bond Purchase Agreement, dated July 13, 1995, between the District and the Underwriters. | Electronic |
| 4(a) | Letter of Representation, dated July 13, 1995, from the Company to the Issuer and the Purchasers. | Electronic |
| 5(a) | Official Statement relating to the Bonds, dated July 13, 1995. | Electronic |
| 7(a) | Final or "past tense" opinion of Milbank, Tweed, Hadley & McCloy, counsel to CSW and the Company. | Electronic |

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EXHIBIT 1(a)

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# INSTALLMENT PAYMENT AGREEMENT

BETWEEN

MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE

AND

CENTRAL POWER AND LIGHT COMPANY

______________________

Dated as of July 1, 1995

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Relating to
Matagorda County Navigation District Number One
Pollution Control Revenue Refunding Bonds
(Central Power and Light Company Project)

SERIES 1995

INSTALLMENT PAYMENT AGREEMENT

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and is only for convenience of reference)


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INSTALLMENT PAYMENT AGREEMENT

THE STATE OF TEXAS :
MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE :

THIS AGREEMENT is made and entered into as of July 1, 1995, by and between MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE ("Issuer"), a governmental agency and body politic and corporate of the State of Texas, operating as a conservation and reclamation district pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, and CENTRAL POWER AND LIGHT COMPANY ("Company").

W I T N E S S E T H:

WHEREAS, this Agreement is authorized and executed pursuant to applicable Texas laws, including the Regional Waste Disposal Act, Chapter 30, Texas Water Code ("Chapter 30"), the Clean Air Financing Act, Chapter 383, Texas Health and Safety Code (the "Air Act"), and Article 717q V.A.T.C.S. ("Art. 717q", which together with Chapter 30 and the Air Act are sometimes hereinafter collectively referred to as the "Acts"); and

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WHEREAS, Issuer and Company have previously entered into an Installment Sale Agreement dated as of October 15, 1984 (the "1984 Agreement") pursuant to which Issuer issued its Matagorda County Navigation District Number One Adjustable Rate Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1984 (the "1984 Bonds") and used the proceeds to finance the costs of certain eligible projects and Company agreed to make payments to NationsBank of Texas, National Association (successor to RepublicBank Dallas, National Association), as Trustee (the "Prior Trustee") on behalf of the owners of the 1984 Bonds under an Indenture of Trust with Issuer dated as of October 15, 1984 (the "1984 Indenture"), in amounts sufficient to pay the principal of, premium, if any, and interest on and all other charges in connection with the 1984 Bonds; and

WHEREAS, Issuer and Company have previously entered into an Installment Sale Agreement dated as of July 1, 1985 (the "1985A Agreement") pursuant to which Issuer issued its Matagorda County Navigation District Number One Collateralized Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1985A (the "1985A Bonds") and used the proceeds to finance the costs of certain eligible projects and Company agreed to make payments to the Prior Trustee on behalf of the owners of the 1985A Bonds under an Indenture of Trust with Issuer dated as of July 1, 1985 (the "1985A Indenture"), in amounts sufficient to pay the principal of, premium, if any, and interest on and all other charges in connection with the 1985A Bonds; and

WHEREAS, the 1984 Agreement and 1985A Agreement are sometimes hereinafter referred to collectively as the Prior Agreements, the 1984 Bonds and the 1985A Bonds are sometimes hereinafter referred to collectively as the Prior Bonds, and the 1984 Indenture and the 1985A Indenture are sometimes hereinafter referred to as the Prior Indentures; and

WHEREAS, pursuant to the terms of the Prior Agreements and the Prior Indentures, Company is obligated to make installment payments, which installment payments shall be made to the Prior Trustee in amounts which, together with other moneys available therefor, will be sufficient to pay the principal of, premium, if any, and interest on the Prior Bonds as the same come due, with such installment payments to be made in funds which will be immediately available on the date such principal, premium, if any, and interest is due on the Prior Bonds; and

WHEREAS, Company has requested that Issuer issue its refunding bonds for the purpose of refunding and retiring all of the Outstanding Prior Bonds; and

WHEREAS, Company has agreed to make payments hereunder in lieu of its obligations under the Prior Agreements relating to the refunded Prior Bonds.

NOW, THEREFORE, for and in consideration of the covenants herein made, and subject to the conditions herein set forth, the parties hereto

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agree as follows:

## ARTICLE I

## Definitions

Section 1.01. Definitions. Unless a different meaning clearly appears from the context, the following words and terms shall have the following meanings, respectively:

Acts - Chapter 30, the Air Act and Art. 717q.

Agreement - this Installment Payment Agreement dated as of July 1, 1995, between Issuer and Company, as from time to time modified, altered, amended, and supplemented.

Agreement to Issue Bonds - the resolution of the Board adopted on March 2, 1974 taking "some other similar official action" toward the issuance of the Bonds.

Air Act - the Clean Air Financing Act, Chapter 383, Texas Health and Safety Code.

Art. 717q - Article 717q, Vernon's Annotated Texas Civil Statutes, as amended.

Authorized Company Officer - the President, any Vice President or the Treasurer of the Company and the Treasurer and Director, Finance of Central and South West Corporation.

Authorized Company Representative - any person or persons designated to act on behalf of Company in matters relating to this Agreement by written certificate furnished to Issuer and Trustee containing the specimen signature of any such person or persons and signed on behalf of Company by the Chairman of the Board of Directors, the President, or any Vice President of Company.

Board - the lawfully qualified Board of Navigation and Canal Commissioners of Issuer.

Bonds - Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 issued in the aggregate principal amount of $100,635,000 pursuant to the Indenture.

Bond Counsel - an attorney or firm of attorneys of recognized standing in the field of law relating to revenue bonds, selected by Issuer and satisfactory to Trustee and Company.

Bond Fund - the fund by that name created and established in the Indenture.

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Bond Insurer - MBIA Insurance Corporation and its successors and assigns.

Bond Resolution - each resolution of the Board authorizing the issuance, execution, and delivery of the Bonds.

Bond Registrar - the registrar of Bonds named in the Indenture and any successors or assigns.

Chapter 30 - the Regional Waste Disposal Act, Chapter 30, Texas Water Code.

Closing Date - the date the Bonds are delivered to the original purchaser or purchasers thereof and payment is made therefor.

Code - the Internal Revenue Code of 1986, as amended.

Company - Central Power and Light Company and its successors and assigns as permitted by Sections 5.07 and 8.04.

Costs of Issuance - All costs and expenses incurred by Issuer or Company in connection with the issuance and sale of the Bonds, including, without limitation (i) fees and expenses of accountants, attorneys, engineers, financial advisors and underwriters, (ii) materials, supplies and printing and engraving costs, (iii) recording and filing fees, (iv) rating agency fees, (v) initial fees and expenses of Trustee, (vi) underwriter's discount and (vii) Issuer's administrative and overhead expenses as provided in Section 4.04 of this Agreement.

Event of Default - any event of default specified in Section 6.01.

Facilities - the Facilities as defined in the Prior Agreements.

Indenture - the Indenture of Trust dated as of July 1, 1995, between Issuer and Trustee, securing the Bonds, as from time to time amended and supplemented in accordance with its terms.

Installment Payment - as defined in Section 3.01.

Issuer - Matagorda County Navigation District Number One, or its lawful successors or assigns.

Issuer Expenses - all direct fees, costs, and reasonable expenses of Issuer incurred in connection with the issuance of the Bonds and the administration of this Agreement and the Indenture. Such fees, costs, and expenses shall include those amounts specified in the Agreement to Issue Bonds and the letter agreement between Issuer and Company, dated as of September 5, 1984, and all direct payments of Issuer for reasonable fees of accountants, attorneys, engineers, and fiscal agents and other direct payments for services of third parties, and for materials and supplies.

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1985A Bonds - the Matagorda County Navigation District Number One Collateralized Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1985A.

1985A Indenture - the Indenture of Trust dated as of July 1, 1985 between Prior Trustee and Issuer.

1984 Bonds - the Matagorda County Navigation District Number One Adjustable Rate Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1984.

1984 Indenture - the Indenture of Trust dated as of October 15, 1984 between Prior Trustee and Issuer.

1954 Code - the Internal Revenue Code of 1954, as amended prior to enactment of the Tax Reform Act of 1986.

Outstanding under the Indenture or Outstanding thereunder or Outstanding - when used with reference to Bonds, at any date as of which the amount of Outstanding Bonds is to be determined, the aggregate of all Bonds authorized, issued, authenticated, and delivered under the Indenture, except:

(a) Bonds cancelled on or prior to such date, and Bonds for which other Bonds have been issued in lieu of and in exchange or substitution for other Bonds pursuant to the terms of Sections 2.07 and 2.10 of the Indenture; and

(b) Bonds which shall be deemed to have been paid and discharged pursuant to the terms of Section 9.02 of the Indenture.

In determining whether the owners of the requisite aggregate principal amount of Bonds Outstanding have consented under the Indenture, Bonds which are owned by either Company or Issuer or any person controlling, controlled by, or under common control with either of them shall be disregarded and not deemed to be Outstanding for the purpose of any such determination.

Plant - the South Texas Nuclear Generating Plant located in Matagorda County, Texas and wholly within the boundaries of Issuer.

Pollution Control Facilities - the facilities acquired, constructed, and improved at the Plant which either are certified to be water pollution control facilities designed in furtherance of the purpose of abating or controlling water pollution by the Nuclear Regulatory Commission or other federal or state agency or agencies or constitute "solid waste disposal facilities" within the meaning of Section 103(b)(4)(E) of the 1954 Code, and for which the Prior Bonds were issued.

Prior Agreements - collectively, the Installment Sale Agreement

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dated as of October 15, 1984 between Issuer and Company, and the Installment Sale Agreement dated as of July 1, 1985 between Issuer and Company.

Prior Indentures - collectively, the 1984 Indenture and 1985A Indenture.

Prior Trustee - NationsBank of Texas, National Association (successor to RepublicBank Dallas, National Association), as trustee under the Prior Indentures.

Qualifying Facilities - "air or water pollution control facilities" or "solid waste disposal facilities" as such phrases are used in Section 103(b)(4)(E) and (F) of the 1954 Code and the regulations issued thereunder.

Redemption Price - the principal of a Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture prior to the stated maturity date of the Bond.

Regulations - any regulations promulgated by the U.S. Department of Treasury with respect to the provisions of the Code.

Trustee - The Bank of New York, a New York banking corporation, and its successors as such trustee under the Indenture.

Trustee Expenses - the compensation and expenses payable to Trustee and any paying agent pursuant to this Agreement or the Indenture.

Undertaking - the Rule 15c2-12 Undertakings dated as of July 1, 1995 and attached to this Agreement as Exhibit A.

Section 1.02. Certain Rules of Interpretation. Except where the context otherwise requires, the definitions set forth in Section 1.01 shall be equally applicable to both the singular and plural forms of the words and terms therein defined and shall cover all genders.

"Herein", "hereby", "hereunder", "hereof", "hereinbefore", "hereinafter" and other equivalent words refer to this Agreement and not solely to the particular Article, Section, or subdivision hereof in which such word is used.

Reference herein to an Article number or a Section number shall be construed to be a reference to the designated Article number or Section number hereof unless the text or use clearly indicates another or different meaning or intent.

In addition, unless the context clearly indicates to the contrary, capitalized words and terms used herein and not otherwise defined shall have the meaning given in the Indenture.

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## ARTICLE II

## Representations

Section 2.01. Representations by Issuer. Issuer makes the following representations as the basis for the undertakings on its part herein contained:

(a) Issuer is a governmental agency, body politic and corporate of the State of Texas, and a "district" within the definition set forth in the Acts.

(b) Issuer has the legal power under the Acts to enter into the transactions contemplated by this Agreement, the Indenture and the Bond Resolution and to carry out its obligations hereunder and thereunder, including the issuance and delivery of the Bonds, and to adopt and perform the Bond Resolution; and each such instrument is a legal, valid, and binding obligation of the Issuer enforceable in accordance with its terms, except to the extent that the enforcement thereof may be limited by (i) bankruptcy, insolvency, reorganization, moratorium, or other laws now or hereafter in effect relating to or affecting creditors' rights generally, and (ii) general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity). The Issuer has been duly authorized to execute, deliver and perform its obligations under this Agreement and the Indenture, and to adopt and perform the Bond Resolution by proper action of the Board.

(c) Issuer, by carrying out the purposes of the Acts as provided in this Agreement, will be performing an essential public function under the Texas Constitution.

(d) Issuer is not in default under any of the provisions of the laws of Texas which would impair, interfere with, or otherwise adversely affect the ability of Issuer to make and perform the provisions of this Agreement, the Indenture, or the Bonds.

(e) There is no litigation pending, or to the knowledge of Issuer threatened, in any court, either state or federal, calling into question the creation, organization or existence of Issuer, the validity or enforceability of this Agreement or the authority of Issuer to refund the Prior Bonds or to make or perform this Agreement or the Indenture or to issue the Bonds or to adopt or perform the Bond Resolution.

(f) The execution and delivery of this Agreement, the Indenture and the Bonds, the adoption of the Bond Resolution and the performance of the transactions contemplated hereby and thereby, will not violate any provision of law or regulation, or of any decree, writ, order or injunction or the organic documents of Issuer, and will not contravene the provisions of or constitute a default under any agreement, indenture, bond resolution or other instrument to which Issuer is a party or by which Issuer is bound.

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(g) All consents, authorizations, and approvals of governmental bodies or agencies, including the Attorney General of Texas, required in connection with the execution and delivery of this Agreement, the Indenture, and the Bonds or the adoption of the Bond Resolution or in connection with the carrying out by Issuer of its obligations under this Agreement, the Indenture, the Bonds, and the Bond Resolution will be duly obtained or waived prior to the initial delivery of the Bonds to the purchasers thereof.

(h) All requirements and conditions specified in the Acts and all other laws and regulations applicable to the adoption of the Bond Resolution, the execution and delivery of this Agreement, the Indenture, and the issuance and delivery of the Bonds will be fulfilled prior to the initial delivery of the Bonds to the purchasers thereof.

Section 2.02. Representations by Company. Company makes the following representations as the basis for the undertakings on its part herein contained:

(a) Company is a corporation duly organized and in good standing under the laws of the State of Texas; Company is not in violation of any provisions of the laws of the State of Texas in a manner which materially impairs the Company's ability to perform its obligations hereunder; Company is fully empowered to enter into and perform all agreements on its part herein contained; Company has been authorized to enter into and deliver this Agreement and perform all its obligations hereunder by all necessary and proper corporate action; and the execution and delivery by Company of this Agreement and the agreements herein contained do not contravene any provision of its charter or by-laws or other requirements of law or constitute a default under any existing agreement, indenture, mortgage, loan agreement, commitment, or any other existing agreement of any kind to which it is a party or by which it is or may be bound.

(b) Company has full legal right, power, and authority to execute and deliver this Agreement and this Agreement is a legal, valid, and binding obligation of Company enforceable in accordance with its terms, except to the extent that the enforcement thereof may be limited by (i) bankruptcy, insolvency, reorganization, moratorium, or other laws now or hereafter in effect relating to or affecting creditors' rights generally, and (ii) general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

(c) There is no litigation pending, or to the knowledge of Company threatened, in any court, either state or federal, calling into question the creation, organization or existence of Company, the validity or enforceability of this Agreement or the authority of Company to refund the Prior Bonds or to make or perform this Agreement.

(d) The execution and delivery of this Agreement and the performance of the transactions contemplated hereby, will not violate any

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provision of law or regulation, or of any decree, writ, order or injunction or the organic documents of Company, and will not contravene the provisions of or constitute a default under any agreement, indenture, bond resolution or other instrument to which Company is a party or by which Company is bound.

(e) Company has obtained or will obtain all necessary licenses and permits to enter into and perform this Agreement and the other documents executed by it in connection with the issuance of the Bonds and the refunding of the Prior Bonds.

(f) The statements, information, descriptions, estimates, and assumptions of Company contained in the Tax Letter of Representation are true and correct in all material respects, and are based upon the best information available to Company.

ARTICLE III

The Bonds and the Company's Payments

Section 3.01. Issuance of the Bonds. (a) In order to provide funds to finance the refunding of all of the outstanding Prior Bonds, Issuer agrees that it will issue under the Indenture, sell and cause to be delivered, the Bonds, bearing interest, maturing on the date and subject to redemption prior to maturity as set forth in the Indenture. In consideration of the covenants and agreements set forth in this Agreement, and to enable Issuer to issue the Bonds to carry out the intents and purposes hereof, this Agreement is executed to assure the issuance of the Bonds, and to provide for and guarantee the due and punctual payment by Company to Issuer, or to the Trustee under the Indenture securing the Bonds, of amounts not less than those required to pay, as and when due (whether at stated maturity, upon redemption, acceleration of maturity, or otherwise), all of the principal of, premium, if any, and interest on the Bonds, and all other payments required in connection with such Bonds and the Bond Resolution or Indenture. Each such payment is hereby designated as an "Installment Payment", and collectively such payments are hereby designated as "Installment Payments". Company hereby agrees to make, or cause to be made, each Installment Payment, as and when due, for the benefit of the owners of the Bonds into the Bond Fund, as provided in the Bond Resolution and the Indenture.

(b) By execution and delivery of this Agreement by the Company, the Bond Resolution and the Indenture are hereby approved by Company. It is hereby agreed that such approval constitutes the acknowledgment and agreement of Company that the Bonds, when issued, sold, and delivered as provided in the Indenture, will be issued in accordance with and in compliance with this Agreement. Any Bondholder is entitled to rely fully and unconditionally on any such approval. All covenants and provisions in the Bond Resolution and Indenture affecting, or purporting to bind, Company shall, upon the delivery of the Bonds and Indenture, become absolute, unconditional, valid and binding covenants and obligations of

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Company so long as said Bonds and interest thereon are outstanding and unpaid, and may be enforced as provided in the Bond Resolution and the Indenture.

(c) Issuer shall cause to be deposited into a separate account within the bond fund established pursuant to the 1984 Indenture proceeds from the sale of the Bonds equal to $68,870,000, and Company shall cause to be deposited into such separate account the amount of $5,552,643.75, which together shall be sufficient to pay the redemption price of and redeem $68,870,000 in aggregate principal amount of the 1984 Bonds on October 15, 1995.

(d) Issuer shall cause to be deposited into a separate account within the bond fund established pursuant to the 1985A Indenture proceeds from the sale of the Bonds equal to $31,765,000, and Company shall cause to be deposited into such separate account the amount of $1,443,322.19, which together shall be sufficient to pay the redemption price of and redeem $31,765,000 in aggregate principal amount of the 1985A Bonds on August 28, 1995.

Section 3.02. Refunding of Bonds. After the issuance of the Bonds, Issuer shall not refund the Bonds or change or modify the Bonds in any way without the prior written approval of the Authorized Company Representative; nor shall Issuer redeem the Bonds prior to their scheduled maturities, or change or modify the Bond Resolution or the Indenture, without the prior written approval of the Authorized Company Representative, unless such redemption is required by the Bond Resolution or the Indenture.

Section 3.03. Redemption of Bonds. Issuer, upon the written request of Company (and provided that the Bonds are subject to redemption or prepayment prior to maturity at the option of Issuer or Company, and provided that, as provided in the Indenture, such request is received in sufficient time prior to the date upon which such redemption or prepayment is proposed), forthwith shall take or cause to be taken all action that may be necessary under the applicable redemption or prepayment provisions to effect such redemption or prepayment prior to maturity, as set forth in Sections 4.05(a) or (b) of the Indenture. Issuer shall also take or cause to be taken all action that may be necessary on its part to effect the redemption of Bonds on a date on which such Bonds are subject to mandatory redemption pursuant to the terms of Section 4.05(c) of the Indenture. In its written request to Issuer, Company shall designate the redemption date for the Bonds to be redeemed. The redemption or prepayment of any Bonds prior to maturity at any time shall not relieve Company of its absolute and unconditional obligation to pay, or cause to be paid, each remaining Installment Payment, with respect to the Outstanding Bonds except as provided in this Agreement and the Bond Resolution and Indenture.

Section 3.04. Installment Payments. Payment of all Installment Payments shall be made and deposited so as to fund payment on the Bonds as required by the Indenture, including all such payments which may come due

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because of the acceleration of the maturity or maturities of the Bonds upon default, call for redemption, or otherwise, under the provisions of the Indenture. If any available funds in excess of current requirements are held on deposit in the Bond Fund at the time payment of any Installment Payment is due, such funds shall be applied to the Installment Payments then due and the obligation of Company to make such Installment Payment shall be reduced by the amount of the available funds so applied. The Installment Payments, together with available funds held on deposit in the Bond Fund, except funds held therein for payment of matured installments of principal of, premium, if any, and interest on the Bonds or interest payable thereon, shall be sufficient to pay when due all principal of, premium, if any, and interest on the Bonds, and if at any time that any payment of principal, premium or interest on the Bonds is due (whether at maturity, upon acceleration or upon mandatory redemption) the available amounts on deposit in the Bond Fund are insufficient to make such payment in full, Company will immediately pay to the Trustee in immediately available funds an amount equal to such deficiency. Company shall have the right to prepay or cause to be prepaid all or a portion of each Installment Payment at any time, and shall be obligated to do so in a timely manner if and to the extent Company requests redemption or prepayment of the Bonds. Any such prepayment by the Company shall not relieve it of liability for each remaining Installment Payment except as provided in this Agreement and the Bond Resolution and Indenture.

Section 3.05. Issuer's Rights Assigned to Trustee. Company is advised and recognizes that as security for the payment of the Bonds, Issuer will assign to the Trustee, pursuant to the Indenture, Issuer's rights under this Agreement, including the right to receive payments hereunder (except the rights reserved to Issuer under Section 8.05 hereof), and hereby directs Company to make said payments directly to the Trustee. Company herewith assents to such assignment and will make such payments directly to the Trustee without defense or set-off by reason of any dispute between Company and Issuer or the Trustee. All rights against Company arising under this Agreement or the Bond Resolution or Indenture and assigned to the Trustee under the Indenture may be enforced by the Trustee, or the owners of the Bonds, to the extent provided in the Bond Resolution or Indenture, and the Trustee, or the owners of the Bonds, shall be entitled to bring any suit, action, or proceeding against Company, to the extent provided in the Bond Resolution or Indenture, for the enforcement of this Agreement, and it shall not be necessary in any such suit, action, or proceeding to make Issuer a party thereto.

## ARTICLE IV

## Other Payments

Section 4.01. Intentionally Omitted.

Section 4.02. Intentionally Omitted.

Section 4.03. Trustee Expenses. Company shall pay Trustee until

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the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with provisions of the Indenture:

(a) the annual fees of Trustee for the ordinary services of Trustee rendered and its ordinary expenses incurred, including reasonable counsel fees;

(b) the reasonable fees and charges of Trustee, as Bond Registrar and Paying Agent, as provided in the Indenture, as and when the same become due; and

(c) the reasonable fees and charges of Trustee for necessary extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture; provided, that Company may, without creating a default hereunder, contest in good faith the necessity for any such extraordinary services and extraordinary expenses and the reasonableness of any such fees, charges, or expenses. Company shall pay the reasonable fees and charges of any paying agent for the Bonds named pursuant to the terms of the Indenture.

Section 4.04. Issuer Expenses. Company agrees to pay directly to Issuer, all Issuer Expenses and to pay the amount of any extraordinary expenses incurred by Issuer in the administration of this Agreement or the Indenture as such expenses are agreed to by Issuer and Company. All such extraordinary expenses shall be paid within a reasonable time after receipt by Company of the bills with respect to each. Issuer shall bill Company from time to time as convenient to Issuer and the bill will contain reasonable itemization.

Section 4.05. Taxes and Other Governmental Charges and Utility Charges. Company will pay, as the same respectively become due, all taxes, assessments, whether general or special, and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Facilities or any machinery, equipment, or other property installed or brought by Company therein or thereon, and all utility and other charges incurred in the operation, maintenance, use, occupancy, and upkeep of such Facilities; provided, however, that Company may, at its expense and in its own name and behalf, or if permitted in writing by Issuer, in the name and on behalf of Issuer, in good faith contest the validity of any such taxes, assessments, and other charges, and, in the event of any such contest, may permit the taxes, assessments, or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom. Issuer will cooperate fully with Company in any such contest.

Section 4.06. Payment to Special Rebate Fund. Company hereby covenants and agrees to make the determinations and to pay any deficiency

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in the Special Rebate Fund, at the times and as described in Section 5.09 of the Indenture. In any event, if the amount of cash held in the Special Rebate Fund shall be insufficient to permit Trustee to make payment to the United States of any amount due under Section 148 of the Code, Company forthwith shall pay the amount of such insufficiency on such date to Trustee in immediately available funds. The obligations of Company under this Section 4.06 are direct obligations of Company, acting under the authorization of, and on behalf of, Issuer and Issuer shall have no further obligation or duty with respect to the Special Rebate Fund.

ARTICLE V

Special Covenants

Section 5.01. Compliance with Rule 15c2-12. Company hereby agrees that it will comply with and perform its duties under the Undertaking.

Section 5.02. Intentionally Omitted.

Section 5.03. Indemnities. Company releases Issuer, its officers, directors, employees, agents, and attorneys (collectively, the "Indemnified Parties") from, and the Indemnified Parties shall not be liable for, and Company agrees, and shall be liable to protect, indemnify, defend, and hold the Indemnified Parties harmless from any and all liability, cost, expense, damage, or loss of whatever nature (including, but not limited to, attorneys' fees, litigation and court costs, amounts paid in settlement, and amounts paid to discharge judgments) directly or indirectly resulting from, arising out of, in connection with, or related to (i) the issuance, offering, sale or delivery of the Bonds, the Indenture, this Agreement, and the obligations imposed on Issuer hereby and thereby; or the design, construction, installation, operation, use, occupancy, maintenance, or ownership of the Facilities; (ii) any written statements or representations made or given by Company, or any of its officers or employees, to the Indemnified Parties, Trustee, or any underwriters or purchasers of any of the Bonds, with respect to Issuer, Company, the Facilities, or the Bonds, including, but not limited to, statements or representations of facts, financial information, or corporate affairs; (iii) damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Facilities; and (iv) any loss or damage incurred by Issuer as a result of violation by Company of the provisions of the Prior Agreements or Section 5.12 or 5.13 hereof. The provisions of the preceding sentence shall remain and be in full force and effect even if any such liability, cost, expense, damage, or loss or claim therefor by any person, directly or indirectly results from, arises out of, or relates to or is asserted to have resulted from, arisen out of, or related to, in whole or in part, one or more negligent acts or omissions of Issuer or its officers, directors, employees, agents, servants, or any other party acting for or on behalf of Issuer in connection with the matters set forth in clauses (i) through (iv) of said sentence. Company also agrees to indemnify and hold Trustee

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harmless from any loss or damage incurred by Trustee as a result of a violation by Company or Issuer of the provisions of Section 5.12 or 5.13 hereof, or the provisions of Section 5.08 or 9.02(b) of the Indenture.

Section 5.04. Facilities to be Used for Pollution Abatement. So long as Company is operating the Pollution Control Facilities, or causing them to be operated, Company will continue, or cause to be continued, the operation of the Pollution Control Facilities for the purposes of pollution control and solid waste disposal and Company will not discontinue the operation of the Pollution Control Facilities so long as the operation thereof is required to comply with applicable laws and regulations relating to pollution control; however, this in no way requires Company to operate the Pollution Control Facilities or any part thereof for any period after the useful life thereof.

Section 5.05. Intentionally Omitted.

Section 5.06. Intentionally Omitted.

Section 5.07. Company to Maintain Corporate Existence; Conditions Under Which Exceptions Permitted. Company agrees that it will not dispose of all or substantially all of its assets as an entirety (whether by liquidation, dissolution, or otherwise) and will not consolidate with or merge into another corporation, or permit one or more corporations to consolidate with or merge into it, unless the resulting, surviving, or transferee corporation, as the case may be, if other than Company, irrevocably and unconditionally assumes, in an instrument delivered to Issuer and to Trustee, the due and punctual performance of the obligations of Company under this Agreement. Upon the delivery of such instrument, Company shall thereupon be relieved of any further obligation or liability under this Agreement or with respect to the Bonds; and the resulting, surviving, or transferee corporation, as the case may be, shall succeed to and be substituted for Company under this Agreement with the same effect as if such resulting or surviving corporation or transferee had been named herein as Company. If consolidation, merger, or sale, or other transfer is made as provided in this Section 5.07, the provisions of this Section 5.07 shall continue in full force and effect and no further consolidation, merger, or sale or other transfer shall be made except in compliance with the provisions of this Section 5.07.

Section 5.08. Qualification in Texas. Company warrants that it is and throughout the term of this Agreement it will continue to be a corporation duly qualified to do business in the State of Texas.

Section 5.09. Permits or Licenses. In the event it may be necessary for the proper performance of this Agreement on the part of Issuer or Company that any application or applications for any permit or license to do or perform certain things be made to any governmental or other agency by Company or Issuer, Company and Issuer shall execute promptly upon the request of the other such application or applications.

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Section 5.10. Preservation of Existence of Issuer; Obligations under the Indenture. Issuer agrees that it will do or cause to be done all things necessary within its powers to preserve and keep in full force and effect its existence. Issuer hereby agrees to duly and punctually perform and observe all of the covenants, terms, conditions, and agreements on its part contained in the Bonds and the Indenture.

Section 5.11. No Personal Liability. No officer, employee, representative, or agent of Issuer, and no officer, employee, representative, or agent of Company shall be personally liable on this Agreement.

Section 5.12. Tax Exempt Status of the Bonds. Company and Issuer (to the extent reasonably within the control of Issuer) covenant to refrain from any action which would adversely affect, or to take such action to assure, the treatment of the Bonds as obligations described in Section 103 of the Code or Section 1313 of the Tax Reform Act of 1986, the interest on which is not includable in the "gross income" of the owner or beneficial owner (other than the income of a "substantial user" of the Facilities or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code) for purposes of federal income taxation. In particular, but not by way of limitation thereof, Company covenants as follows:

(a) to use all of the proceeds of the Bonds for the payment of principal on all of the outstanding Prior Bonds;

(b) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of Section 149(b) of the Code;

(c) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire investment property or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in Section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with --

(1) proceeds of the Bonds invested for a period the lesser of 90 days or until such proceeds are needed for the purpose for which the Bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of Section 1.148-1(b) of the Regulations, and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds and to the extent that at no time during any Bond Year will the aggregate amount so invested exceed 150 percent of debt service on the Bonds for such year;

(d) to otherwise restrict the use of the proceeds of the Bonds

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or amounts treated as proceeds of the Bonds, as may be necessary, to satisfy the requirements of Section 148 of the Code (relating to arbitrage) and Section 149(d) of the Code (relating to refundings);

(e) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) the amount, if any, deposited to the Special Rebate Fund as set forth in Section 5.09 of the Indenture that is at least equal to 90 percent of the "Excess Earnings," within the meaning of Section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been actually paid in full, 100 percent of the amount, if any, then required to be paid as a result of Excess Earnings under Section 148(f) of the Code;

(f) to maintain such records as will enable Company to fulfill its responsibilities under this section and Section 148 of the Code and to retain such records for at least six years following the actual final payment of principal and interest on the Bonds; and

(g) to the extent required by regulations or rulings promulgated by the U.S. Department of the Treasury relating to the Code, to use any proceeds derived from the sale or other disposition of the Project provided with the proceeds of the Prior Bonds to provide qualified property or to redeem the Bonds.

It is the understanding of Issuer and Company that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Bonds, Company will not be required to comply with any covenant contained herein to the extent that such modification or expansion, in the opinion of Bond Counsel, will cause noncompliance with such covenant to not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, Company agrees to comply with the additional requirements to the extent necessary, in the opinion of Bond Counsel, to preserve the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

Section 5.13. Arbitrage Covenants. Issuer and Company covenant and agree, for the benefit of the Trustee and the owners of the Bonds, that they will not knowingly take any action or omit from taking any action, which would result in a loss of the exemption from federal income taxation of interest on the Bonds by virtue of the Bonds being considered "arbitrage bonds" within the meaning of section 148 of the Code.

Section 5.14. Annual Report. Company shall have an annual audit made by its regular independent certified public accountants and promptly furnish Trustee and Issuer either a copy of its audited financial

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statements or a copy of Company's annual report to its shareholders if such annual report shall contain financial statements of substantially similar detail and similarly prepared and certified. Such financial statements and reports shall be furnished to Trustee and Issuer by Company at the same time as such financial statements are furnished to its preferred shareholders.

ARTICLE VI

Events of Default and Remedies

Section 6.01. Event of Default. The following shall be "events of default" under this Agreement and the terms "Event of Default" or "default" shall mean, whenever they are used in this Agreement, any one or more of the following events:

(a) Failure by Company to pay the Installment Payments at or prior to the time at which payment is required to be made and which failure, if with respect to the payment of interest on the Bonds, shall continue for a period of sixty (60) days.

(b) Failure by Company to observe or perform or the breach by Company of any representation, covenant, or agreement in this Agreement on its part to be observed or performed, other than as referred to in paragraph (a) of this Section 6.01, for a period of ninety (90) days after written notice, specifying such and requesting that it be remedied, shall be given to Company by Issuer or Trustee, unless Issuer and Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice can, in the reasonable judgment of Company, be corrected, but not within the applicable period, such failure shall not constitute an Event of Default or default if corrective action is instituted by Company within the applicable period and Company notifies Issuer and Trustee of such corrective action and undertakes to diligently pursue and shall pursue the corrective action until the failure is corrected.

(c) Dissolution or liquidation of Company. However, the term "dissolution or liquidation of the Company", as used in this paragraph, shall not be construed to include the cessation of the corporate existence of Company resulting either from a merger or consolidation of Company into or with another corporation or a dissolution or liquidation of Company following a transfer of all or substantially all of its assets as an entirety under the conditions permitting such actions contained in Section 5.07.

(d) Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization, or other relief with respect to itself or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official of

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it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing.

(e) An involuntary case or other proceeding shall be commenced against Company seeking liquidation, reorganization, or other relief with respect to it or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian, or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) days.

The provisions of paragraph (b) of this Section 6.01 are subject to the following limitations: If by reason of acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders or regulations of any kind of the government of the United States of America or of the State of Texas or any of their departments, agencies, political subdivisions, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; tidal waves; fires; hurricanes; tornadoes; blue northers; other storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes, transmission facilities or canals; partial or entire failure of utilities; shortages of labor, material, supplies or transportation; or any other cause or event not reasonably within the control of Company (collectively, "events of force majeure"), Company is unable in whole or in part to carry out the agreements on Company's part herein contained, Company shall not be deemed in default during the continuance of such inability. Company, however, will use its best efforts to remedy with all reasonable dispatch the cause or causes preventing Company from carrying out such agreements; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of Company, and Company shall not be required to make settlement of strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of Company, unfavorable to Company. The occurrence of any event of force majeure shall not suspend or otherwise abate, and Company shall not be relieved from, any obligation under this Agreement to the extent that the failure of Company to observe or perform any such obligation would result in the failure to pay when due the principal of, premium, if any, and interest on the Bonds or would result in the interest on any Bonds becoming includable in the gross income of the owners thereof for federal income tax purposes.

The above provisions, however, are subject to the condition that, after any such Event of Default, subject to and as provided in Article VIII of the Indenture, Trustee may waive such Event of Default and rescind

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and annul any remedial step theretofore taken by it or by Issuer with respect to such default and its consequences; but no such waiver, rescission or annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

In the event that Trustee fails to receive any Installment Payments when due under this Agreement, Trustee has agreed in the Indenture to give immediate telephonic, facsimile or laserphonic notice, confirmed in writing, to Issuer and Company specifying such failure.

Section 6.02. Remedies on Default. Whenever an Event of Default hereunder shall have happened and be continuing the following remedial steps may be taken:

(a) Trustee, as provided in the Indenture, may at its option declare all amounts payable under Section 3.04 for the remainder of the term of this Agreement to be immediately due and payable, and such amounts shall thereupon become due and payable.

(b) Trustee or Issuer, subject to the provisions of Section 8.05, at the option of either, may take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due, or to enforce performance and observance of any representation, agreement, or covenant of Company under this Agreement.

In the event Company fails to make any of the payments required by this Agreement, the item or installment so in default shall continue as an obligation of Company until the amount in default shall have been fully paid, and Company shall pay the same with interest thereon, to the extent legally permissible, from the due date until paid at the highest rate borne by any Outstanding Bonds.

Any amounts collected pursuant to action taken under this Section 6.02 shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture.

Section 6.03. No Remedy Exclusive. No remedy conferred upon or reserved to Issuer or Trustee by this Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. To entitle Issuer or Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Issuer acknowledges that Company's obligations hereunder are not secured by any lien or other interest whatsoever in the Facilities or Plant and hereby waives any such

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lien or interest including, but not limited to, vendor's liens.

Section 6.04. Agreement to Pay Attorneys' Fees and Expenses. In the event that Company should default under any of the provisions of this Agreement, and as a consequence Issuer and/or Trustee should employ attorneys or incur other expenses or charges, legal or otherwise, for the collection of payments or the enforcement of performance or observance of any obligation or agreement on the part of Company contained in this Agreement, Company agrees that it will, on demand therefor, reimburse Issuer and/or Trustee for such reasonable fees, charges, and other expenses so incurred; provided, however, that Company, without creating a default hereunder or under the Indenture, may contest in good faith the necessity for and the reasonableness of any such expenses, charges, or fees.

Section 6.05. No Additional Waiver Implied By One Waiver. In the event an agreement contained in this Agreement is breached by either party hereto and such breach is thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed as a waiver of any other breach hereunder.

Section 6.06. Notice to Bond Insurer. Company agrees to give written notice to Bond Insurer not less than two days prior to any regularly scheduled payment date for principal of or interest on the Bonds if Company does not intend or will be unable to make the corresponding payment to the Trustee hereunder.

ARTICLE VII

Prepayments

Section 7.01. Prepayments. At the option of Company, the Installment Payments shall be subject to prepayment, in whole or in part, at any time, and such prepayments shall be deposited in the Bond Fund. At Company's option such prepayments shall be used to redeem Bonds pursuant to the optional redemption provisions of the Indenture or credited against payments required under Section 3.04. Whenever Bonds are redeemable at the option of Issuer in whole or in part, Issuer shall redeem the same upon request of Company and not otherwise, and Company will pay the amount required under Section 7.02. Whenever Bonds are subject to mandatory redemption according to the provisions thereof, Issuer will redeem the same upon notice from Trustee, and Company will pay the amount required under Section 7.02.

Section 7.02. Amount of Prepayments when Bonds to be Redeemed. In the event Company elects or is required to make prepayments of all or part of the Installment Payments and Bonds are to be redeemed with such prepayments in accordance with the terms of this Agreement and the Indenture, the amount of such prepayments will be equal to the applicable Redemption Price and interest to accrue on the Bonds in respect of which the prepayments are made until the applicable redemption date. Such

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prepayments shall not in any other way alter or suspend any obligations of Company under the terms of this Agreement and Company shall continue to perform and be responsible for its performance of all other terms and provisions of this Agreement.

Section 7.03. Notice of Prepayment. In case Bonds are to be redeemed prior to maturity at the option of Issuer (on request of Company), Company shall give written notice to Issuer and Trustee at least forty-five (45) days before the date of redemption. In the case of the exercise of an option granted by Section 4.05(b) of the Indenture, Company shall give written notice to Issuer and Trustee of the event authorizing the exercise of the option within one hundred twenty (120) days after such event, and shall specify therein the date of redemption, which date shall be not less than forty-five (45) days nor more than one hundred twenty (120) days from the date the notice is given. Upon the happening of an event requiring the redemption of part or all of the Outstanding Bonds, Trustee shall determine a date (not later than one hundred eighty (180) days from the date of such event) for redemption. Trustee shall give Issuer and Company not less than forty-five (45) days written notice of such date. Trustee shall give notice of redemption as provided in the Indenture.

Section 7.04. Time of Prepayments. In the event Company exercises a prepayment option or is required to make prepayments, Company shall pay to Trustee the amounts due and payable pursuant to Section 7.02, on or before the date of redemption in funds which will be immediately available on such redemption date except as otherwise may be required or permitted by Article IX of the Indenture.

## ARTICLE VIII

## Miscellaneous

Section 8.01. Disposition of Bond Fund Upon Termination. It is agreed by the parties hereto that any amounts remaining in the Bond Fund upon expiration of this Agreement, after payment in full of the Bonds (including interest and premium, if any, thereon), or provision for payment thereof having been made in accordance with the provisions of the Indenture, and payment of the Issuer Expenses and other payments required to be made to Issuer hereunder, shall belong to and be paid to Company by Trustee.

Section 8.02. Notices. All notices, certificates, requests, or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered mail, postage prepaid, addressed as follows: if to Issuer, Matagorda County Navigation District Number One, 209 Fifth Street, Palacios, Texas 77465, attention: Eli Mayfield, General Counsel and Manager; if to Company, Central and South West Corporation as agent for the Company, 1616 Woodall Rodgers Freeway, Dallas, Texas 75202, attention: Director, Finance; and if to Trustee, The Bank of New York, 101 Barclay Street, 21st Floor, New York, New York 10286, attention:

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Corporate Trust Trustee Administration. A duplicate copy of each notice, certificate, request, or other communication given hereunder by or to Issuer, Company, or Trustee shall also be given by the sender to the others. Company, Issuer, and Trustee may, by written notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, requests, or other communications shall be sent.

Section 8.03. Unconditional Obligation. (a) The payment obligations of Company under Sections 3.04, 4.03, 4.04, and 4.06 and covenants of Company under Section 5.12 shall be deemed and construed to be absolute and unconditional, and Company shall make the payments required hereunder, free of any deductions, and without abatement or set-off.

(b) All other obligations of Company under this Agreement shall remain in full force and effect until the entire principal of, premium, if any, and interest on the Bonds have been paid or provided for, and all other payments to be made to Issuer and to Trustee have been paid or provided for.

(c) Company further unconditionally agrees, subject to Company's rights specified in Section 6.04, to pay all expenses and charges, legal or otherwise (including court costs and attorneys' fees), paid or incurred by Issuer and/or Trustee, their successors or assigns, in realizing upon any of said payments to be made by Company or in enforcing the provisions of this Agreement.

Section 8.04. Assignment of the Agreement by Company. This Agreement may be assigned in whole or in part by Company without the necessity of obtaining the consent of either Issuer or Trustee, subject, however, to each of the following conditions:

(a) the assignees shall assume the obligations of Company hereunder;

(b) no assignment (other than pursuant to Section 5.07) shall relieve Company from primary liability for any of its obligations hereunder, and in the event of any such assignment Company shall continue to remain liable for the payments specified in Articles III and IV hereof and for performance and observance of the other agreements on its part herein provided; and

(c) Company shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to Issuer and Trustee a true and complete copy of each such assignment.

Section 8.05. Assignment to Trustee by Issuer. All rights and interests of Issuer in and to this Agreement (other than the rights of Issuer under Sections 4.04, 5.03 and 6.04) are assigned to Trustee under the terms of the Indenture. Although such assignment confers on Trustee

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full right and authority to enforce all of the terms of this Agreement, such assignment shall not preclude Issuer from bringing an action to require Company to carry out its agreements hereunder or to recover any damages incurred by Issuer as a result of Company's failure to perform such agreements. As provided in the Indenture, prior to bringing any such action to enforce this Agreement, Issuer will give reasonable notice to Trustee and Trustee shall participate in and, if it so desires, control such action. Company assents to such assignment, and Company's obligations to make payments directly to Trustee under this Agreement shall be absolute and shall not be subject to any defense or any right of set-off, counterclaim, or recoupment arising out of any breach by Issuer of any obligation to Company, whether singularly or collectively or hereunder or otherwise, or out of any indebtedness or liability at any time owing to Company by Issuer.

Section 8.06. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon Issuer, Company, and its respective successors or assigns, subject to the limitation that any obligations or liabilities of Issuer created by or arising out of this Agreement shall not be a general debt of Issuer, but shall be payable solely out of the proceeds derived from this Agreement or the sale of the Bonds. This Agreement shall not be deemed to create any right in any person who is not a party (other than the permitted successors or assigns of a party) and shall not be construed in any respect to be a contract in whole or in part for the benefit of any third party (other than the permitted successors or assigns of a party hereto), except in each case the owners from time to time of the Bonds and Trustee.

Section 8.07. Amendments, Changes, Modifications, and Financed Interest. Subsequent to the initial issuance of the Bonds and prior to payment or provision for the payment of the Bonds in full (including interest and premium, if any, thereon), in accordance with the provisions of the Indenture, and payment or provision for the payment of Trustee Expenses and Issuer Expenses, this Agreement may not be effectively amended, changed, modified, or altered so as to reduce or postpone the payments herein required to be made by Company to Issuer, and it shall not otherwise be amended, changed, modified, or altered without the prior written consent of Trustee.

Section 8.08. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered, shall be an original; but such counterparts shall together constitute but one and the same Agreement.

Section 8.09. Severability. If any clause, provision, Section, or Article of this Agreement is held illegal or invalid by any court, the invalidity of such clause, provision, Section, or Article shall not affect any of the remaining clauses, provisions, Sections, or Articles and this Agreement shall be construed and enforced as if such illegal or invalid clause, provision, Section, or Article had not been contained herein. In case any agreement or obligation contained in this Agreement is held to be

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in violation of law, then such agreement or obligation shall be deemed to be the agreement or obligation of Issuer or Company, as the case may be, to the full extent permitted by law.

Section 8.10. Laws Governing. The laws of the State of Texas shall govern the construction of this Agreement. This Agreement is made and is to be performed in Matagorda County, Texas.

Section 8.11. Section Headings. All section headings contained herein are for convenience of reference and are not intended to define or limit the scope of any provision of this Agreement.

Section 8.12. Entire Agreement. Any inconsistencies between the provisions of this Agreement and any prior agreements between Issuer and Company shall be controlled by this Agreement.

ARTICLE IX

Term of Agreement

Section 9.01. Term of Agreement. This Agreement shall remain in full force and effect from the date hereof until such time as the Indenture has been discharged in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have caused this Installment Payment Agreement to be duly executed as of the day and year first above written.

MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE

ATTEST: By__________________________________

Chairman, Board of Navigation and Canal Commissioners

By _______________________________

Secretary

(SEAL)

CENTRAL POWER AND LIGHT COMPANY

ATTEST: By__________________________________

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Vice President

By ___________________________

Secretary

(SEAL)

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EXHIBIT 2(a)
------------

# INDENTURE OF TRUST

Between

MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE

and

THE BANK OF NEW YORK

Trustee

____________________

Dated as of July 1, 1995

Relating to
Matagorda County Navigation District Number One
Pollution Control Revenue Refunding Bonds
(Central Power and Light Company Project)

SERIES 1995

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but for convenience of reference only)


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THE STATE OF TEXAS :
MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE :

THIS INDENTURE OF TRUST, dated as of July 1, 1995 made by and between MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE ("Issuer"), a governmental agency and body politic and corporate of the State of Texas operating as a conservation and reclamation district pursuant to Article XVI, Section 59, of the Texas Constitution and the general laws of the State of Texas, and THE BANK OF NEW YORK, as Trustee ("Trustee"), a New York banking corporation and having its principal corporate trust office at 101 Barclay Street, Floor 21 West, New York, New York 10286.

W I T N E S S E T H:

WHEREAS, pursuant to the Regional Waste Disposal Act, as amended (codified as Chapter 30, Texas Water Code, and hereinafter referred to as "Chapter 30") and the Clean Air Financing Act (codified as Chapter 383, Texas Health and Safety Code, and hereinafter referred to as the "Air Act"), the Issuer is authorized to issue revenue bonds to finance the acquisition, construction and improvement, enlargement, extension or repair of "disposal systems" and "control facilities" as those terms are defined and described in Chapter 30 and the Air Act, respectively (hereinafter referred to as "eligible projects"); and

WHEREAS, Article 717q, V.A.T.C.S. (hereinafter referred to as "Art. 717q"), together with Article 717k, V.A.T.C.S., authorizes the Issuer to issue bonds to refund obligations issued by it to finance eligible projects and to enter into agreements in relation thereto; and

WHEREAS, Issuer and Central Power and Light Company ("Company") have previously entered into an Installment Sale Agreement dated as of October 15, 1984 (the "1984 Agreement") pursuant to which Issuer issued its Matagorda County Navigation District Number One Adjustable Rate Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1984 (the "1984 Bonds") and used the proceeds to finance the costs of certain eligible projects and Company agreed to make payments to NationsBank of Texas, National Association (successor to RepublicBank Dallas, National Association), as Trustee on behalf of the owners of the 1984 Bonds under an Indenture of Trust with Issuer dated as of October 15, 1984 (the "1984 Indenture"), in amounts sufficient to pay the principal of, premium, if any, and interest on and all other charges in connection with the 1984 Bonds; and

WHEREAS, Issuer and Company have previously entered into an Installment Sale Agreement dated as of July 1, 1985 (the "1985A Agreement") pursuant to which Issuer issued its Matagorda County Navigation District Number One Collateralized Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1985A (the "1985A Bonds") and used the proceeds to finance the costs of certain eligible

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projects and Company agreed to make payments to NationsBank of Texas, National Association (successor to RepublicBank Dallas, National Association), as Trustee on behalf of the owners of the 1985A Bonds under an Indenture of Trust with Issuer dated as of July 1, 1985 (the "1985A Indenture"), in amounts sufficient to pay the principal of, premium, if any, and interest on and all other charges in connection with the 1985A Bonds; and

WHEREAS, the 1984 Agreement and 1985A Agreement are sometimes hereinafter referred to collectively as the Prior Agreements, the 1984 Bonds and the 1985A Bonds are sometimes hereinafter referred to collectively as the Prior Bonds, and the 1984 Indenture and the 1985A Indenture are sometimes hereinafter referred to as the Prior Indentures; and

WHEREAS, the Board of Navigation and Canal Commissioners of Issuer duly adopted a "RESOLUTION AUTHORIZING MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE POLLUTION CONTROL REVENUE REFUNDING BONDS (CENTRAL POWER AND LIGHT COMPANY PROJECT) SERIES 1995; THE EXECUTION OF AN INDENTURE OF TRUST, AN INSTALLMENT PAYMENT AGREEMENT, AND A BOND PURCHASE AGREEMENT; APPROVAL OF AN OFFICIAL STATEMENT; AND OTHER MATTERS IN CONNECTION THEREWITH" (together with any amendment or supplement to such resolution as authorized therein, hereinafter called the "Bond Resolution"); and

WHEREAS, Issuer desires to issue and sell its Bonds (as hereinafter defined) in order to provide funds for the refunding of all of the outstanding Prior Bonds; and

WHEREAS, the Bond Resolution authorized the issuance of Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995, in the aggregate principal amount of $100,635,000 (hereinafter called the "Bonds"); and

WHEREAS, the Bonds, and the interest thereon, are and shall be payable from and secured by a first and superior lien on and pledge of the payments designated as "Installment Payments" to be made by Company pursuant to the Installment Payment Agreement dated as of July 1, 1995 (the "Agreement") between Issuer and Company in amounts sufficient to provide for the payment of the principal of, premium, if any, and interest on the Bonds, when due, and the fees and expenses of the Trustee and any paying agent for the Bonds; and

WHEREAS, certified copies of the Bond Resolution have been duly filed with the Trustee; and

WHEREAS, the Trustee has agreed to accept the trusts herein created upon the terms and subject to the conditions herein set forth; and

WHEREAS, all things necessary to make the Bonds, when issued as

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provided in this Indenture, the valid, binding and legal special obligations of the Issuer according to the import thereof, and to constitute this Indenture a valid assignment of the amounts pledged to the payment of the principal of, premium, if any, and interest on the Bonds and a valid assignment of certain rights of the Issuer under the Agreement have been done and performed, and the creation, execution and delivery of this Indenture and the execution and issuance of the Bonds, subject to the terms hereof, in all respects have been duly authorized.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That, in consideration of the premises, of the mutual covenants herein contained, of the purchase and acceptance of Bonds by the owners thereof, and of the sum of One Dollar ($1.00) to Issuer duly paid by Trustee at or before the execution and delivery of this Indenture of Trust, the receipt of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, authenticated, delivered, secured, and accepted by all persons who shall from time to time be or become owners thereof, and in order to secure the payment of the principal of, premium, if any, and interest on all the Bonds at any time issued and outstanding under this Indenture of Trust, according to their tenor, purport, and effect, and in order to secure the performance and observance of all of the covenants, agreements, and conditions in the Bonds and in this Indenture of Trust contained Issuer has pledged, assigned, set over, and confirmed, and does hereby pledge, assign, set over, and confirm unto Trustee all of the right, title, and interest of Issuer in and to (i) the Agreement, together with all moneys payable thereunder (other than the rights reserved to Issuer as set forth in Section 8.05 of the Agreement) and (ii) all moneys which are deposited or required to be deposited with Trustee pursuant thereto or pursuant to this Indenture of Trust (other than any moneys deposited to the Special Rebate Fund) (the "Trust Estate") for the payment of the principal of, premium, if any, and interest on such Bonds, all subject to the provisions and conditions hereof; provided, however, that no lien or other interest whatsoever in the Facilities or the Plant arising under the Agreement or otherwise shall be a part of the Trust Estate.

PROVIDED, FURTHER, that (a) although the foregoing assignment shall confer on Trustee the full right and authority to enforce the rights of Issuer under the Agreement assigned hereby, such assignment shall not preclude Issuer from enforcing the Agreement in accordance with Section 8.05 thereof, and (b) if Issuer or its successors or assigns shall well and truly pay or cause to be paid the principal of the Bonds, the premium, if any, and the interest due or to become due thereon, at the times and in the manner provided in the Bonds, according to the true intent and meaning thereof, and shall well and truly keep, perform, and observe all the covenants and conditions in this Indenture of Trust expressed to be kept, performed, and observed by it, and shall pay to Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then this Indenture of Trust and the rights hereby granted shall cease, terminate, and be void, and Trustee in such case, on demand of

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Issuer, shall execute and deliver to Issuer such assignments, discharges, or satisfactions as shall be requisite to discharge the lien hereof and reconvey to or to revest in Issuer the rights hereby conveyed or intended to be conveyed; otherwise, this Indenture of Trust shall be and remain in full force and effect.

THIS INDENTURE OF TRUST FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated, and delivered and the Trust Estate hereby pledged is to be dealt with and disposed of under, upon, and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses, and purposes hereinafter expressed; and Issuer has agreed and covenanted and does hereby agree and covenant with Trustee and with the respective owners, from time to time, of the Bonds or any part thereof, as follows:

## ARTICLE I

## Definitions of Terms

Section 1.01.Definitions. In each place throughout this Indenture wherein the following terms, or any of them, are used, the same, unless the context shall indicate another or different meaning or intent, shall be construed and intended to have meanings as follows:

"Acts" - Chapter 30, the Air Act, Article 717k, Vernon's Annotated Texas Civil Statutes, as amended, and Art. 717q.

"Agreement" - the Installment Payment Agreement dated as of July 1, 1995, between Issuer and Company, as from time to time modified, altered, amended, and supplemented.

"Agreement to Issue Bonds" - the resolution of the Board adopted on March 2, 1974 taking "some other similar official action" toward the issuance of the Bonds.

"Air Act" - the Clean Air Financing Act, Chapter 383, Texas Health and Safety Code.

"Art. 717q" - Article 717q, Vernon's Annotated Texas Civil Statutes, as amended.

"Authorized Company Officer" - the President, any Vice President, or the Treasurer of the Company and the Treasurer and Director, Finance of Central and South West Corporation.

"Authorized Company Representative" - any person or persons designated to act on behalf of Company in matters relating to this Indenture by written certificate furnished to Trustee containing the specimen signature of any such person or persons and signed on behalf of Company by the Chairman of the Board of Directors, the President, any Vice President or any other authorized officer of Company.

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"Board" - the lawfully qualified Board of Navigation and Canal Commissioners of Issuer.

"Bonds" - Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 issued in the aggregate principal amount of $100,635,000 pursuant to this Indenture.

"Bondholder or Bondholders or owner of the Bonds or owner or registered owner" - the registered owner of any Bond as shown on the registration books kept by Trustee as Bond Registrar.

"Bond Counsel" - an attorney or firm of attorneys of recognized standing in the field of law relating to revenue bonds, selected by Issuer and satisfactory to Trustee and Company.

"Bond Fund" - the fund by that name created in Section 5.01.

"Bond Insurer" - MBIA Insurance Corporation and its successors and assigns.

"Bond Registrar" - the registrar of Bonds named herein and any successors or assigns.

"Bond Resolution" - shall have the meaning given such term in the recitals hereto.

"Business Day" - any day which is not a Sunday or a legal holiday or a day (including Saturday) on which banking institutions either in The City of New York, New York or in the state where the principal corporate trust office of Trustee is located are authorized by law or executive order to close.

"Chapter 30" - the Regional Waste Disposal Act, Chapter 30, Texas Water Code.

"Closing Date" - the date on which the Bonds are delivered to the original purchaser or purchasers thereof and payment is made therefor.

"Code" - the Internal Revenue Code of 1986, as amended.

"Company" - Central Power and Light Company and its successors and assigns as permitted by Section 5.07 and 8.04 of the Agreement.

"DTC" - The Depository Trust Company.

"Eastern Time" - time as measured and used by banking institutions in The City of New York, New York.

"Event of Default" - any event of default specified in Section

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8.01.

"Facilities" - the Facilities as defined in the Prior Agreements.

"Indenture" - this Indenture of Trust and any indenture supplemental hereto or amendatory hereof.

"Interest Payment Date" - with respect to the Bonds, each January 1 and July 1, commencing January 1, 1996.

"Issuer" - Matagorda County Navigation District Number One, or its lawful successors or assigns.

"Issuer Expenses" - all direct fees, costs, and reasonable expenses of Issuer incurred in connection with the issuance of the Bonds and the administration of the Agreement and this Indenture. Such fees, costs, and expenses shall include those amounts specified in the Agreement to Issue Bonds and the letter agreement between Issuer and Company, dated as of September 5, 1984, and all direct payments of Issuer for reasonable fees of accountants, attorneys, engineers, and fiscal agents and other direct payments for services of third parties, and for materials and supplies.

"Municipal Bond Insurance Policy" means the financial guaranty insurance policy issued by Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

1985A Bonds - the Matagorda County Navigation District Number One Collateralized Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1985A.

1985A Indenture - the Indenture of Trust dated as of July 1, 1985 between Prior Trustee and Issuer.

1984 Bonds - the Matagorda County Navigation District Number One Adjustable Rate Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1984.

1984 Indenture - the Indenture of Trust dated as of October 15, 1984 between Prior Trustee and Issuer.

1954 Code - the Internal Revenue Code of 1954, as amended prior to the enactment of the Tax Reform Act of 1986.

"Officers' Certificate" - a certificate signed by the Chairman or Vice Chairman and the Secretary or Treasurer of Issuer.

"Outstanding under this Indenture or Outstanding hereunder or Outstanding" - when used with reference to Bonds, at any date as of which

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the amount of Outstanding Bonds is to be determined, the aggregate of all Bonds authorized, issued, authenticated, and delivered under this Indenture, except:

(a) Bonds cancelled on or prior to such date, and Bonds for which other Bonds have been issued in lieu of and in exchange or substitution for other Bonds pursuant to the terms of Section 2.07 and 2.10;

(b) Bonds which shall be deemed to have been paid and discharged pursuant to the terms of Section 9.02.

In determining whether the owners of the requisite principal amount of Bonds Outstanding have consented under the Indenture, Bonds which are owned by Company or Issuer or any person controlling, controlled by, or under common control with either of them shall be disregarded and not deemed to be Outstanding for the purpose of any such determination.

"Paying Agent, Paying Agents" - any paying agent or paying agents for the Bonds named by Issuer pursuant to Section 7.09.

"Plant" - the South Texas Nuclear Generating Plant located in Matagorda County, Texas and wholly within the boundaries of Issuer.

"Pollution Control Facilities" - the facilities acquired, constructed, and improved at the Plant which either are certified to be water pollution control facilities designed in furtherance of the purpose of abating or controlling water pollution by the Nuclear Regulatory Commission or other federal or state agency or agencies or constitute "solid waste disposal facilities" within the meaning of Section 103(b)(4)(E) of the 1954 Code, and for which the Prior Bonds were issued.

Prior Agreements - collectively, the Installment Sale Agreement dated as of October 15, 1984 between Issuer and Company, and the Installment Sale Agreement dated as of July 1, 1985 between Issuer and Company.

"Prior Bonds" - the $68,870,000 in aggregate principal amount of 1984 Bonds and $31,765,000 in aggregate principal amount of 1985A Bonds to be refunded in connection with the issuance of the Bonds.

Prior Indentures - collectively, the 1984 Indenture and 1985A Indenture.

Prior Trustee - NationsBank of Texas, National Association (successor to RepublicBank Dallas, National Association), as trustee under the Prior Indentures.

"Record Date" - with respect to the Bonds, the fifteenth day of the calendar month next preceding each Interest Payment Date.

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"Redemption Price" - the principal of a Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to this Indenture prior to the stated maturity date of the Bond.

"Special Payment Date" - shall have the meaning given in Section 2.07.

"Special Rebate Fund" - the fund by that name created in Section 5.09.

"Special Record Date" - shall have the meaning given in Section 2.07.

"Trust Estate" - as defined in the granting clause hereof.

"Trustee" - The Bank of New York, a New York banking corporation having its principal corporate trust office in New York, New York, and its successors as Trustee hereunder.

"Trustee Expenses" - the compensation and expenses payable to Trustee and any Paying Agent pursuant to this Indenture or the Agreement.

"Undertaking" - the Rule 15c2-12 Undertakings dated as of July 1, 1995 and attached to the Agreement as Exhibit A.

"Written Order" - an order signed in the name of Issuer by the President or Secretary of the Board and delivered to Trustee.

Section 1.02. Certain Rules of Interpretation. Except where the context otherwise requires, the definitions set forth in Section 1.01 shall be equally applicable to both the singular and plural forms of the words and terms therein defined and shall cover all genders.

"Herein", "hereby", "hereunder", "hereof", "hereinbefore", "hereinafter" and other equivalent words refer to this Indenture and not solely to the particular Article, Section, or subdivision hereof in which such word is used.

Reference herein to an Article number or a Section number shall be construed to be a reference to the designated Article number or Section number hereof unless the context or use clearly indicates another or different meaning or intent.

In addition, unless the context clearly indicates to the contrary, capitalized words and terms used herein and not otherwise defined shall have the meaning given such term in the Agreement.

ARTICLE II

General Terms and Provisions of the Bonds

Section 2.01. Payment of Bonds. The Bonds issued under this

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Indenture shall be payable, with respect to principal, premium, if any, and interest, in lawful money of the United States of America. The principal of all Bonds shall be payable at the principal corporate trust office of Trustee. The payment of interest on Bonds shall be made on each Interest Payment Date by Trustee as herein provided to the registered owner appearing on the registration books of Issuer on the Record Date by check mailed to such registered owner at his address as it appears on such registration books.

Section 2.02. (a) Lien, Parity, Designation of Series. This Indenture shall be a continuing lien to secure the full payment of the principal of, premium, if any, and interest on the Bonds executed, authenticated, and delivered pursuant to the terms hereof, without priority as to security afforded by this Indenture of any Bond over any other Bond by reason of date of issue, date of maturity, date of delivery, or otherwise, except as otherwise provided or permitted in this Indenture. The Bonds shall have a first lien upon the Trust Estate. The forms of Bonds issued hereunder, Trustee's certificate of authentication, and the registration forms shall be substantially as herein set forth. The Bonds shall be lettered "R" and numbered separately from one upward.

(b) Title, Execution, and Effect of Certificate of Trustee. The Bonds issued under this Indenture shall be issued in one series and shall be designated "Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995"; shall be in fully registered form in the denomination of $5,000 or any integral multiple thereof; shall be executed on behalf of Issuer by the facsimile signature of the Chairman of the Board under its corporate seal or a facsimile thereof and attested by the facsimile signature of its Secretary; and shall be delivered to Trustee, who shall deliver the same upon the Written Order of Issuer. Only such Bonds as shall (i) be the Bonds initially delivered to the purchasers thereof and have attached thereto a manually signed Comptroller's Registration Certificate or (ii) be issued in exchange, transfer or substitution for such initial Bonds and bear endorsed thereon a certificate of authentication substantially in the form herein recited and executed by Trustee shall be valid or obligatory for any purpose or be secured by this Indenture or be entitled to any right or benefit hereunder. Such registration by the Comptroller of Public Accounts of the State of Texas or authentication by Trustee upon any such Bonds shall be conclusive evidence (and the only evidence) that the Bond so registered or authenticated has been duly issued hereunder and that the owner thereof is entitled to the benefit of the trusts hereby created.

Section 2.03. Authentication and Delivery of Bonds After Officers Signing the Bonds Cease to be Officers. In the event that any person who shall have signed or signed and sealed any Bond issuable under this Indenture as an officer of Issuer shall have ceased to be such officer before the Bond so signed or signed and sealed shall have been actually authenticated and delivered by Trustee, such Bond, nevertheless,

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may be authenticated and delivered and issued as though the person who signed or signed and sealed such Bond had not ceased to be such officer of Issuer. Any Bonds issuable hereunder may be signed and sealed on behalf of Issuer by such persons as at the actual date of the execution of such Bonds shall be the proper officers of Issuer although at the date of such Bonds any such person shall not have been an officer of Issuer. Issuer may adopt or use the facsimile signature of any person who shall have been an officer notwithstanding the fact that he may have ceased to be such officer at the time when such Bonds shall have been actually authenticated and delivered.

Section 2.04. The Text of the Bonds and Certificates. The text of the Bonds, the certificate of Trustee for all Bonds, the certificate of the Comptroller of Public Accounts of the State of Texas which shall appear on the Bonds upon initial issue, and the form of assignment (with such variations, omissions, or insertions as are required or permitted hereby or as set forth in the Bond Resolution relating to the Bonds) shall be substantially in the following forms, to-wit:

[The following legend shall appear so long as the Book-Entry System described in Section 2.12 of the Indenture has not been discontinued; provided that such legend shall not appear on the Bond initially delivered under this Indenture.]

THE ISSUER HAS ESTABLISHED A BOOK ENTRY SYSTEM OF REGISTRATION FOR THIS BOND. EXCEPT AS SPECIFICALLY PROVIDED OTHERWISE IN THE INDENTURE, CEDE & CO., AS NOMINEE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), WILL BE THE REGISTERED OWNER AND WILL HOLD THIS BOND ON BEHALF OF EACH BENEFICIAL OWNER HEREOF. BY ACCEPTANCE OF A CONFIRMATION OF PURCHASE, DELIVERY OR TRANSFER, EACH BENEFICIAL OWNER OF THIS BOND SHALL BE DEEMED TO HAVE AGREED TO SUCH ARRANGEMENT. CEDE & CO., AS REGISTERED OWNER OF THIS BOND, MAY BE TREATED AS THE OWNER OF IT FOR ALL PURPOSES.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF DTC TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

NO. _______
$___________

UNITED STATES OF AMERICA
STATE OF TEXAS
MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE

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POLLUTION CONTROL REVENUE REFUNDING BONDS
(CENTRAL POWER AND LIGHT COMPANY PROJECT)
SERIES 1995

| Maturity Date: | Interest Rate: | Bond Date: | Cusip: |
|---|---|---|---|
| July 1, 2028 | 6.10% | July 1,1995 | |

Registered Owner:

Principal Amount: Dollars

ON THE MATURITY DATE SPECIFIED ABOVE, Matagorda County Navigation District Number One ("Issuer"), a governmental agency and a body politic and corporate of the State of Texas, for value received hereby promises to pay to the Registered Owner set forth above, or to the registered assigns (hereinafter called the registered owner), the Principal Amount set forth above upon presentation and surrender of this bond at the principal corporate trust office of The Bank of New York ("Trustee") or its successor trustee appointed under the Indenture (as hereinafter defined), and to pay interest thereon at the Interest Rate set forth above as herein provided to the registered owner, by check mailed to the registered owner at his address as it appears on the bond registration books of Issuer on the Record Date, on each January 1 and July 1, commencing January 1, 1996 (the "Interest Payment Dates") to the Maturity Date set forth above or the date of redemption prior to maturity, pursuant to the Indenture of Trust between Issuer and Trustee dated as of July 1, 1995 (the "Indenture"). The Principal Amount hereof shall bear interest (i) in the case of the initial bond or bonds delivered pursuant to the Indenture, from July 1, 1995, and (ii) in the case of all other bonds delivered thereafter, from the Interest Payment Date next preceding the date of authentication (unless such date of authentication is after any Record Date but on or before the next following Interest Payment Date in which case the Principal Amount shall bear interest from such next following Interest Payment Date, or if this bond shall be authenticated on or prior to the Record Date for the January 1, 1996 Interest Payment Date, it shall bear interest from July 1, 1995).

UNLESS SPECIFIED OTHERWISE, CAPITALIZED WORDS AND TERMS APPEARING IN THIS BOND SHALL HAVE THE MEANINGS SET FORTH IN THE INDENTURE.

This bond is one of a series of bonds entitled Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 (the "bonds") issued in the aggregate principal amount of $100,635,000, pursuant to a resolution of the Board of Navigation and Canal Commissioners of Issuer (the "Bond Resolution"), in accordance with the terms of the Indenture. The bonds are issued by Issuer for the purpose of providing certain of the funds for the refunding of all the outstanding Matagorda County Navigation District Number One Adjustable Rate Pollution Control Revenue Bonds

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(Central Power and Light Company Project) Series 1984 and Matagorda County Navigation District Number One Collateralized Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1985A.

This bond is one of the duly authorized bonds issued pursuant to the Indenture as authorized by the Regional Waste Disposal Act, Chapter 30, Texas Water Code, the Clean Air Financing Act, Chapter 383, Texas Health and Safety Code, and Articles 717k and 717q, V.A.T.C.S.

Said Indenture, including any amendment or modification thereof or supplement thereto, pledges to the Trustee all of the right, title, and interest of Issuer in and to the Installment Payment Agreement dated as of July 1, 1995 (the "Agreement"), between Issuer and Central Power and Light Company ("Company") together with all moneys payable thereunder (excluding certain rights reserved to Issuer as set forth in Section 8.05 of the Agreement), and all moneys which are deposited or required to be deposited with Trustee pursuant thereto or pursuant to the Indenture. Company is unconditionally obligated (subject only to the provisions of Sections 5.07 and 8.04 of the Agreement relating to merger, consolidation, transfer of assets, and assignment) to Issuer and Trustee to make or pay, or cause to be made or paid, to Trustee each Installment Payment, as defined in the Agreement, for deposit into the Bond Fund created for the benefit of the bonds in the Indenture, in aggregate amounts sufficient to pay, and provide for the payment of the principal of, premium, if any, and interest on the bonds, when due, subject to and as required by the provisions of the Agreement, the Bond Resolution, and the Indenture.

The Indenture is on file with Trustee and reference is hereby made to the Indenture and to all indentures supplemental thereto or amendatory thereof for a full and complete statement of the provisions with respect to the custody and application of the proceeds of the bonds, the collection and disposition of pledged revenues, the nature and extent of the security, and the rights of the owners of the bonds, the terms and conditions on which, and the purposes for which, bonds are or may be issued, and the rights, duties, and obligations of Issuer and Trustee thereunder, to all of which the owner hereof, by acceptance of this bond, assents.

Neither the credit nor the taxing power of the State of Texas or the Matagorda County Navigation District Number One, or any other political subdivision of the State of Texas is pledged for the payment of the principal of, the interest on, or the premium, if any, on this bond; nor shall this bond be deemed a general obligation of said State, Issuer, or any other political subdivision of said State; nor shall said State, Issuer, the Board of Navigation and Canal Commissioners of Issuer, or any other political subdivision of said State be liable for the payment of the principal of, the interest on, or the premium, if any, on this bond except from those revenues to be derived by Issuer pursuant to the Agreement. The owner of this bond shall never have the right to demand payment from moneys derived by taxation or any revenues of Issuer except the funds pledged to the payment of said bond.

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The bonds are subject to redemption on July 1, 2000 or any date thereafter, in whole or in part (and if in part as specified in the Indenture) at the option of Issuer, to be exercised at the direction of Company, upon acceleration of the payments by Company in accordance with the Agreement, upon payment of the applicable redemption price, expressed as a percentage of the principal amount of the bonds set forth in the schedule below, together with unpaid interest accrued to date of redemption, to-wit:

| Redemption Date | Redemption Price |
|---|---|
| July 1, 2000 through June 30, 2001 | 102% |
| July 1, 2001 through June 30, 2002 | 101% |
| July 2, 2002 and thereafter | 100% |

The bonds are also subject to redemption prior to maturity at the option of Issuer, to be exercised at the direction of Company, at any time, in whole, on acceleration of the payments by Company in accordance with the Agreement, at a redemption price equal to the principal amount of the Outstanding bonds, plus accrued interest thereon to date of redemption, without premium, upon the occurrence of any of the following events:

(i) in the reasonable judgment of Company unreasonable burdens or excessive liabilities shall have been imposed upon Issuer or Company with respect to the Facilities (as defined in the Agreement) or the Plant (as defined in the Agreement), including without limitation (A) the imposition of any income or other taxes not being imposed on July 1, 1995 or (B) the imposition of any ad valorem property or other taxes (other than ad valorem property or other taxes being imposed on July 1, 1995 upon similarly assessed property within the same taxing jurisdiction);

(ii) the Facilities or the Plant shall have been damaged or destroyed to such extent that, in the opinion of Company (A) within a period of six consecutive months following such damage or destruction, it is not practicable or desirable to rebuild, repair, or restore the same, (B) Company will be thereby prevented from carrying on its normal operations of the Facilities or the Plant for a period of six consecutive months, or (C) the cost of restoration would exceed by $1,500,000 or more the net proceeds of insurance thereon;

(iii) title to, or temporary use of, all or substantially all of the Facilities or the Plant shall have been taken under the exercise of the power of eminent domain;

(iv) changes in the economic availability of materials, labor,

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services, supplies (including fuel), equipment, or other property, facilities, or things necessary for the operation of the Facilities or the Plant shall have occurred, or technological, regulatory, or other changes shall have occurred which, in the opinion of Company, render the continued operation of the Facilities or the Plant uneconomic;

(v) any court or administrative body shall enter a judgment, order, or decree requiring Company to cease, or dispose of, all or any substantial part of its operations of the Facilities or the Plant to such extent that, in the opinion of Company, it is or will be thereby prevented from carrying on its normal operations of the Facilities or the Plant for a period of six or more consecutive months; or

(vi) as a result of any change in the Constitution of the State of Texas or the Constitution of the United States of America or of any legislative or administrative action (whether state or federal) or of any final decree, judgment, or order of any court or administrative body (whether state or federal), the obligations of Company under the Agreement shall have become unenforceable or impossible of performance in any material respect in accordance with the intent and purpose of the parties as expressed in the Agreement.

The exercise of any such option shall be at the direction of Company which shall give written notice to Issuer and Trustee within one hundred twenty (120) days after the occurrence of any event described in clause (i), (ii), (iii), (iv), (v) or (vi) above, which notice shall specify that, as determined by Company, one or more of such events has occurred or one or more of such conditions is continuing and also shall specify a date for redemption not less than 45 nor more than 120 days after the date such notice is given.

The bonds are subject to mandatory redemption in whole or in part at any time (and if in part, as specified in the Indenture) if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining bonds outstanding, at a redemption price equal to the principal amount thereof together with unpaid interest

accrued to the date fixed for redemption, and without premium, if (i) a final decree or judgment of any federal court in which Company participates to the extent it deems sufficient, or (ii) a final action by the Internal Revenue Service, in proceedings in which Company participates to the extent it deems sufficient, determines that the interest paid or payable on any such bonds to other than, as provided in the Code or the 1954 Code, a "substantial user" of the Facilities or a "related person", is or was includable in the gross income of the owner thereof for federal income tax purposes under the Code, as a result of the failure by Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Agreement or the inaccuracy of any representation by Company under the Agreement; provided, however, that no

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decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the bondholder involved in such proceeding or action (y) gives Company and Trustee prompt notice of the commencement thereof and (z) if Company agrees to pay all expenses in connection therewith and to indemnify such bondholder against all liabilities in connection therewith, offers Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Trustee not more than 180 days after the time of such final decree, judgment, or action.

If any bonds or portions thereof shall be called for redemption, notice thereof shall be given by mailing the same by first-class mail, postage prepaid, addressed to each registered owner of bonds at his address recorded on the registration books, unless waived by the owners of all bonds called for redemption, such notice to be so mailed not more than 60 nor less than 30 days prior to the date fixed for redemption; provided, however, the failure so to give such notice or any defect therein with respect to any particular bond will not affect the validity of any call for redemption of any other bonds.

If such notice of redemption has been duly mailed to or waived by the owners of all bonds called for redemption, then the bonds or portions thereof called for redemption shall be due and payable on the redemption date at the redemption price. Payment of the redemption price, together with accrued interest, shall be made by Trustee to or upon the order of the owners of the bonds called for redemption upon surrender of such bonds. From and after the redemption date designated in such notice or waiver, deposit of redemption moneys, or to the extent permitted in Article IX of the Indenture, "Governmental Obligations", as defined therein, having been made and notice given or waived as aforesaid, no further interest shall accrue upon the principal of any of the bonds, or portions thereof, so called for redemption. If the notice of redemption has been made or waived, and if due provision for payment is made, all as provided above, such bonds, or portions thereof, shall not be regarded as being outstanding and shall cease to be entitled to any lien, benefit, or security under the Indenture, and the owners thereof shall have no rights in respect of such bonds, or portions thereof, except to receive payment of the redemption price thereof and unpaid interest accrued to the date fixed for redemption.

In case an "Event of Default", as defined in the Indenture, shall occur, the principal of all bonds then outstanding under the Indenture may be declared or become due and payable upon the conditions and in the manner and with the effect provided in the Indenture. Upon the curing of any default, Trustee, and, in certain cases, the owners of the majority in principal amount of the bonds then outstanding, may waive such default and its consequences as permitted by the terms of the Indenture, and such waiver shall be binding upon Trustee and upon all owners of the bonds.

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The owner of this bond shall have no right to enforce the provisions of the Indenture, or to institute action to enforce the covenants therein, or to take any action with respect to any default under the Indenture, or to institute, appear in, or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

The bonds are issuable in fully registered form in the denomination of $5,000 or any integral multiple thereof. Subject to the conditions provided in the Indenture, any bonds, upon payment of the charges specified in the Indenture and upon surrender at the principal corporate trust office of Trustee, may be exchanged for an equal aggregate principal amount of bonds in fully registered form of any authorized denominations.

This bond shall be transferable on the books of Issuer to be kept for that purpose at the principal corporate trust office of Trustee upon surrender hereof at said office by the registered owner in person or by duly authorized attorney for cancellation and upon presentation of a written instrument of transfer duly executed, and thereupon Issuer shall issue to the transferee and Trustee shall authenticate and deliver a new bond or bonds in authorized form or forms and denomination or denominations of like aggregate principal amount. Such transfers shall be without expense to the owner hereof, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the owner requesting such transfer as a condition precedent to the exercise of such privilege.

Whenever in this bond or the Indenture a duty or payment is required to be performed or paid or a notice given on a given day of the month, and such day is not a Business Day, the required duty, payment, or notice shall be performed or paid, or notice given on the next succeeding day which is a Business Day.

IT IS HEREBY CERTIFIED AND RECITED that all acts and things required by the Constitution and laws of the State of Texas to happen, exist, and be performed precedent to and in the issuance of this series of bonds and in the execution and delivery of the Indenture, have happened, exist, and have been performed as so required.

THIS BOND shall not be entitled to any benefit under the Indenture, or any indenture supplemental thereto, or become valid or obligatory for any purpose until (i) Trustee shall have manually signed the certificate of authentication hereon or (ii) a manually signed Comptroller's Registration Certificate is attached hereto.

IN WITNESS WHEREOF, Matagorda County Navigation District Number One has caused this bond to be signed by the manual or facsimile signature of the Chairman of the Board of Navigation and Canal Commissioners and attested by the manual or facsimile signature of the Secretary of said Board and the corporate seal of said Issuer to be duly impressed, printed, or lithographed on this bond.

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MATAGORDA COUNTY NAVIGATION DISTRICT
NUMBER ONE

____________________________________
Chairman, Board of Navigation
and Canal Commissioners

ATTEST:

_____________________________
Secretary

(SEAL)

(FORM OF TRUSTEE'S AUTHENTICATION CERTIFICATE FOR BONDS)

TRUSTEE'S CERTIFICATE

DATE:____________

This bond is one of the bonds described in the within mentioned Indenture of Trust.

THE BANK OF NEW YORK, Trustee

_____________________________
Authorized Signatory

(INSERT APPROPRIATE BOND INSURANCE LEGEND)

(FORM OF STATE COMPTROLLER'S CERTIFICATE
FOR ALL BONDS UPON INITIAL ISSUE)

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COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO. _____

I HEREBY CERTIFY that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this bond has been examined by him as required by law, and that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding special obligation of Matagorda County Navigation District Number One and said bond has this day been registered by me.

WITNESS my signature and seal this

___________________________________
Comptroller of Public Accounts of
the State of Texas

(SEAL)

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner of this bond or duly authorized representative or attorney thereof, hereby assigns this bond to

| ______________________ | ____________________________________ |
|---|---|
| (Assignee's Social Security or Taxpayer Identification Number) | (print or typewrite Assignee's name and address, including zip code) |

_____________________________________________________________________________
and hereby irrevocably constitutes and appoints

_____________________________________________________________________________
attorney to transfer the registration of this bond on the Bond Registration Books with full power of substitution in the premises.

Dated: __________________

Signature Guaranteed: ________________________________

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever; and

NOTICE: Signature(s) must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Trustee, which requirements include membership or participation in STAMP or such other "signature

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guaranty program" as may be determined by the Trustee in addition to or in substitution for STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

Section 2.05. Required Certificate by State Comptroller. Before the initial delivery of the Bonds, there shall be endorsed on each of said Bonds a certificate of registration duly executed by or on behalf of the Comptroller of Public Accounts of the State of Texas.

Section 2.06. Registrar. Issuer shall, at the expense of the Company, keep or cause to be kept within the State of Texas books for the registration and transfer of Bonds and Issuer hereby appoints Trustee as Bond Registrar to keep such books within the State of Texas and make such registrations and transfers under such reasonable regulations as Issuer or the Bond Registrar may prescribe; and Bond Registrar will register or transfer or cause to be registered or transferred therein, as hereinbefore provided, any Bonds entitled to be so registered or transferred, upon presentation thereof at such office.

Section 2.07. Title and Negotiability of Bonds. Bonds may be transferred on the aforesaid registration books by the registered owner in person or by his duly authorized attorney, by proper written instrument of transfer in form, and with guaranty of signatures, satisfactory to Issuer and Trustee. Bonds may, upon surrender thereof at the aforesaid office of Trustee, be exchanged for a like aggregate principal amount of Bonds, in any other authorized denomination or denominations, maturity and interest rate, bearing interest from the last Interest Payment Date to which interest has been paid in full on the Bonds so surrendered. Such transfers of registration or exchanges of Bonds shall be without charge to the owner of such Bonds, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Bond-holder requesting such registration, transfer, or exchange as a condition precedent to the exercise of such privilege.

Except as provided in Sections 2.09 and 2.10, every Bond shall be dated the date of its registration and authentication and shall bear interest (i) in the case of the initial Bond or Bonds delivered hereunder, from July 1, 1995, and (ii) in the case of all other Bonds delivered thereafter, from the Interest Payment Date next preceding the date of its authentication (unless such date of authentication is after any Record Date but on or before the next following Interest Payment Date in which case it shall bear interest from such next following Interest Payment Date, or if it shall be authenticated on or prior to the Record Date for the first Interest Payment Date for such Bond, it shall bear interest from the date prescribed for such Bond).

Each Bond delivered pursuant to any provision of this Indenture in exchange or substitution for, or upon the transfer of the whole or any part of, one or more other Bonds, shall carry all of the rights to interest accrued and unpaid and to accrue which were carried by the whole or such part, as the case may be, of such one or more other Bonds, and

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notwithstanding anything contained in this Indenture, such Bonds shall be so dated or bear such notation, that neither gain nor loss in interest shall result from any such exchange, substitution, or transfer.

Every exchange or transfer of Bonds under the foregoing provisions shall be effected in such manner as may be prescribed by Issuer or pursuant to its authorization, with the approval of Trustee. Trustee shall not be required to make exchanges or transfers of any Bond during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following Interest Payment Date or the maturity date of a series of Bonds, anything in the Indenture or such Bond to the contrary notwithstanding.

In addition, in the event of a non-payment on a scheduled Interest Payment Date, and for 60 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by Trustee, if and when funds for the payment of such interest or any portion thereof have been received from Company. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date"), which shall be 15 days after the Special Record Date shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the bond registration books at the close of business on the last Business Day next preceding the date of mailing of such notice.

Section 2.08. Payment of Bonds. The person in whose name any Bond shall be registered on the books of Issuer may be deemed and treated as the absolute owner thereof for all purposes of this Indenture, whether or not such Bond shall be overdue, and Issuer and Trustee and any Paying Agent shall not be affected by any notice to the contrary; and payment of, or on account of, the principal of, premium, if any, and interest on any such Bond shall be made only to such registered owner thereof; but such registration may be changed as provided herein. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

Section 2.09. Temporary Bonds. Until Bonds in definitive form are ready for delivery, Issuer may execute, and upon its request in writing, Trustee shall authenticate and deliver in lieu of any thereof, and subject to the same provisions, limitations, and conditions, one or more printed, lithographed, or typewritten Bonds in temporary form, substantially of the tenor of the Bonds hereinbefore described, without coupons, and with appropriate omissions, variations, and insertions. Such Bond or Bonds in temporary form may be for the principal amount of $5,000 or any integral multiple or multiples thereof, as Issuer may determine. Until exchanged for Bonds in definitive form, such Bonds in temporary form shall be entitled to the lien and benefit of this Indenture. Issuer shall, without unreasonable delay, prepare, execute, and deliver to Trustee, and thereupon, upon the presentation and surrender of the Bond or

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Bonds in temporary form, Trustee shall authenticate and deliver, in exchange therefor, a Bond or Bonds in definitive form in authorized denominations of the same series, maturity, and interest rate for the same aggregate principal amount as the Bond or Bonds in temporary form surrendered. Such exchange shall be made by Issuer at its own expense and without making any charge therefor. When and as interest is paid upon Bonds in temporary form, the fact of such payment shall be noted thereon by the owner. Any such temporary Bonds shall be numbered consecutively upward from TR-1.

Section 2.10. Loss, Theft, Destruction, or Mutilation of Bonds. Upon receipt by Issuer and Trustee of evidence satisfactory to both of them that any outstanding Bond has been mutilated, destroyed, lost, or stolen, and of indemnity satisfactory to both of them, Issuer, in its discretion, may execute and thereupon Trustee shall authenticate and deliver a new Bond of the same series, maturity and interest rate and of like tenor, as the mutilated, destroyed, lost, or stolen Bond, in exchange and substitution for, and upon surrender and cancellation of, the mutilated Bond or in lieu of and in substitution for the Bonds so destroyed, lost, or stolen. In the event any such Bond shall have matured, instead of issuing a duplicate Bond, Trustee may pay the same from amounts available for such purpose. Such replacement Bonds shall be issued in accordance with law. Issuer and Trustee may charge the owner of the Bond destroyed, lost, or stolen the expenses incurred in the issuance of the replacement Bonds or payment thereof, and may require indemnification satisfactory to both of them.

Section 2.11. Cancellation and Destruction. Upon the surrender to Trustee of any temporary or mutilated Bonds, or Bonds transferred or exchanged for other Bonds, or Bonds acquired, redeemed, or received by Trustee through the operation of a sinking fund, if any, or Bonds acquired or redeemed or paid at maturity by Issuer, the same shall forthwith be cancelled by Trustee. Cancelled Bonds shall be delivered to Issuer.

Section 2.12. Book-Entry Only System. The Bonds shall be initially issued in the form of a single fully registered Bond. After initial issuance, the ownership of the Bond shall be registered in the name of Cede & Co., as nominee of DTC, and except as provided in Section 2.13 hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, Issuer and Trustee shall have no responsibility or obligation to any participant in DTC (a "DTC Participant") or to any person on behalf of whom such a DTC Participant holds an interest in the Bonds, except as provided in this Indenture. Without limiting the immediately preceding sentence, Issuer and Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant

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or any other person, other than a Bondholder, as shown on the registration books, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a Bondholder as shown in the registration books, of any amount with respect to principal of, premium, if any, or interest on, the Bonds. Notwithstanding any other provision of this Indenture to the contrary, Issuer and Trustee shall be entitled to treat and consider the person in whose name each Bond is registered in the registration books as the absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. Trustee shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective owners, as shown in the registration books as provided in this Indenture, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge Issuer's obligations with respect to payment of principal of, premium, if any, and interest on, the Bonds to the extent of the sum or sums so paid. No person other than an owner, as shown in the registration books, shall receive a Bond certificate evidencing the obligation of Issuer to make payments of principal, premium, if any, and interest, pursuant to this Indenture. Upon delivery by DTC to Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Indenture with respect to payment of interest to the registered owner at the close of business on the Record Date, the word "Cede & Co." in this Indenture shall refer to such new nominee of DTC.

Section 2.13. Successor Securities Depository; Transfers Outside Book-Entry Only System. (a) In the event that Company determines that DTC is incapable of discharging its responsibilities described herein and in the representation letter of Issuer to DTC (the "DTC Letter") and that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, Issuer, at the direction of the Company, shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, as amended, notify DTC and DTC Participants, identified by DTC, of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants, identified by DTC, of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants, identified by DTC, having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the registration books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Bondholders transferring or exchanging Bonds shall designate, in accordance with the provisions of this Indenture.

(b) Upon the written consent of 100% of the beneficial owners

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of the Bonds, Trustee, in accordance with the DTC Letter, shall withdraw the Bonds from DTC, and authenticate and deliver Bonds fully registered to the assignees of DTC or its nominee. If the request for such withdrawal is not the result of any Issuer action or inaction, such withdrawal, authentication and delivery shall be at the cost and expense (including costs of printing, preparing and delivering such Bonds) of the persons requesting such withdrawal, authentication and delivery.

Section 2.14. Payments to Cede & Co. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on, such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the DTC Letter.

Section 2.15. CUSIP Numbers. The Issuer in issuing the Bonds may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to holders of the Bonds; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Bonds or as contained in any notice of redemption and that reliance may be placed only on the other identification numbers printed on the Bonds, and any such redemption shall not be affected by any defect in or omission of such numbers.

## ARTICLE III

## Authorization and Issuance of Bonds

Section 3.01. Limitation on Issuance of Bonds. No Bonds shall be delivered under this Indenture except in accordance with the provisions of this Article.

Section 3.02. Principal Amount, Interest Rate, Interest Payment Dates, and Maturity Dates of the Bonds. There shall be delivered under and secured by this Indenture, for the purpose of refunding all of the outstanding Prior Bonds, an issue of Bonds in the aggregate principal amount of $100,635,000. Bonds thus to be delivered shall be fully registered Bonds without coupons, in the denomination of $5,000 or any integral multiple thereof, numbered from R-1 upward, and entitled "Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995". The Bonds shall mature on July 1, 2028, shall be dated July 1, 1995 and the principal amount thereof shall bear interest (i) in the case of the initial Bond or Bonds delivered pursuant to the Indenture, from July 1, 1995, and (ii) in the case of all other Bonds delivered thereafter, from the Interest Payment Date next preceding the date of authentication (unless such date of authentication is after any Record Date but on or before the next following Interest Payment Date in which case such principal amount shall bear interest from such next following Interest Payment Date, or if any Bond shall be authenticated on or prior to the

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Record Date for the January 1, 1996 Interest Payment Date, it shall bear interest from July 1, 1995). Interest shall be paid by check to the registered owner thereof as such owner appears on the Record Date next preceding each Interest Payment Date on the registration books kept by Trustee. Interest shall be payable semiannually on each January 1 and July 1, beginning January 1, 1996. Payment of principal and premium, if any, on all Bonds and accrued interest upon the redemption of any Bonds shall be made upon the presentation and surrender of such Bonds at the principal corporate trust office of Trustee as the same shall become due and payable. Interest shall be calculated upon the basis of a 360-day year consisting of twelve thirty day months.

Section 3.03. Interest Rate. (a) The Bonds shall bear interest at the rate of six and one-tenth percent (6.10%) per annum from July 1, 1995 to and including July 1, 2028 or the date of redemption prior to maturity.

Section 3.04. Execution and Delivery of Bonds. The Bonds shall be executed by Issuer and delivered to Trustee and thereupon shall be delivered by Trustee to the initial purchasers thereof, but only upon receipt by Trustee of:

(1) A copy of the Bond Resolution adopted by the Board and certified by the Secretary of the Board, authorizing this Indenture, the issuance of the Bonds, and the delivery of the Bonds;

(2) The purchase price of the Bonds delivered as stated in the Bond Resolution;

(3) A certificate of the Chairman or Secretary of the Board of Issuer stating that on the date of such delivery of such Bonds, Issuer is not in default in the performance or observance of any of the covenants, conditions, agreements, or provisions of this Indenture; and

(4) A Written Order directing the delivery of the Bonds.

Section 3.05.No Additional Bonds. No Bonds other than the Series 1995 Bonds authorized and issued hereunder shall be issued under this Indenture.

Section 3.06. No Limitation on Issuer. No provision in this Indenture shall in any way affect the statutory right of Issuer to issue bonds supported wholly by ad valorem or other taxes or bonds secured by revenues other than the revenues herein pledged, or bonds secured by taxes and revenues other than the revenues herein pledged.

## ARTICLE IV

## Redemption of Bonds

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Section 4.01. Redemption in Accordance with Indenture. Any redemption of all or any part of the Bonds issued under the provisions of this Indenture which are subject to redemption shall be made in the manner provided in this Article.

Section 4.02. Selection by Lot. In case of the redemption of less than all of the Bonds Outstanding, except as otherwise provided herein, the particular Bonds or portions of Bonds to be redeemed shall be selected from all the Outstanding Bonds by lot or other customary means by Trustee in such manner as Trustee in its discretion may deem proper in order to assure to each owner of Bonds a fair opportunity to have his Bond or Bonds or portions thereof drawn; provided, however, Trustee shall treat each such Bond of a denomination of more than $5,000 as representing that number of Bonds of $5,000 denominations obtained by dividing the principal amount of such Bonds by $5,000.

Section 4.03. Notice of Redemption. In case of any redemption, Trustee shall cause notice of such redemption to be given by mailing by first-class mail, postage prepaid, a copy of the redemption notice to the registered owners of the Bonds designated for redemption in whole or in part, at their addresses as the same shall last appear upon the registration books, not more than 60 nor less than 30 days prior to the redemption date. In addition, notice of redemption shall be sent by certified or registered mail, return receipt requested, or by over night delivery service (1) contemporaneously with such mailing: (A) to any registered owner of $1,000,000 or more in principal amount of Bonds and (B) to at least two or more information services of national recognition that disseminate redemption information with respect to municipal bonds and (2) to any securities depository registered as such pursuant to the Securities Exchange Act of 1934, as amended, that is an owner of Bonds to be redeemed so that such notice is received at least two days prior to such mailing date. An additional notice of redemption shall be given by certified mail, postage prepaid, mailed not less than 60 nor more than 90 days after the redemption date to any owner of Bonds selected for redemption that has not surrendered the Bonds called for redemption, at the address as the same shall appear upon the registration books.

All notices of redemption shall state:

(1) the redemption date,

(2) the redemption price,

(3) the identification, including complete designation (including series) and issue date of the Bonds and the CUSIP number, certificate number (and in the case of partial redemption, the respective principal amounts), interest rates and maturity dates of the Bonds to be redeemed,

(4) that on the redemption date the Redemption Price will

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become due and payable upon each such Bond, and that interest thereon shall cease to accrue from and after said date,

(5) the name and address of Trustee and any Paying Agent for such Bonds, including the place where such Bonds are to be surrendered for payment of the Redemption Price;

provided, however, that failure to give any such notice or any defect therein with respect to any particular Bond will not affect the validity of any call for the redemption of any other Bonds.

Section 4.04. Proceedings for Redemption. If notice of redemption has been duly mailed to registered owners at their respective addresses as the same may appear in the registry books, or duly waived by the owners of all Bonds called for redemption, then the Bonds or portions thereof called for redemption shall be due and payable on the redemption date at the Redemption Price. Payment of the Redemption Price, together with accrued interest, shall be made by Trustee to or upon the order of the owners of the Bonds called for redemption upon surrender of such Bonds. The Redemption Price of and the interest accrued on the Bonds b being redeemed shall be paid out of the Bond Fund. If there shall be called for redemption less than all of a Bond, Issuer shall execute and deliver and Trustee shall authenticate, upon surrender of such Bond, and without charge to the owner thereof, for the unredeemed balance of the Bond so surrendered, Bonds of like maturity and interest payment dates.

From and after the redemption date designated in such notice or waiver, deposit of redemption moneys, or to the extent permitted in Article IX, "Governmental Obligations", as therein defined, having been made and notice given or waived as aforesaid, notwithstanding that any Bonds so called for redemption in whole or in part shall not have been surrendered for cancellation, no further interest shall accrue upon the principal of any of the Bonds or portions thereof so called for redemption. If the notice of redemption has been made, and if due provision for payment is made, all as provided above, such Bonds or portions thereof shall not be regarded as being Outstanding and shall cease to be entitled to any lien, benefit, or security under this Indenture, and the owners thereof shall have no rights in respect of such Bonds, or portions thereof, except to receive payment of the Redemption Price thereof and unpaid interest accrued to the date fixed for redemption.

Section 4.05. Redemption of Bonds. The Bonds shall be subject to redemption prior to their scheduled maturity in accordance with the following provisions and otherwise in the manner set forth in this Indenture:

(a) Optional Redemption. At the option of Issuer, to be exercised at the direction of Company, on July 1, 2000 or on any date thereafter, in whole or in part (and if in part in the manner specified in Section 4.02), upon acceleration of the payments by

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Company in accordance with the Agreement for any purpose and from any moneys available for such purpose other than for purposes or from moneys described in (b) or (c) below, upon payment of the applicable Redemption Price expressed as a percentage of the principal amount of the Bonds to be redeemed set forth in the schedule below, together with unpaid interest accrued to date of redemption, to wit:

| Redemption Date | Redemption Price |
|---|---|
| July 1, 2000 through June 30, 2001 | 102% |
| July 1, 2001 through June 30, 2002 | 101% |
| July 1, 2002 and thereafter | 100% |

The Bonds shall be called for redemption by Trustee pursuant to the foregoing paragraph (a) upon receipt by Trustee at least forty-five days prior to the redemption date of written notice from Company of the exercise of such option. Such notice shall specify the redemption date, the principal amount of the Bonds so to be called for redemption, and the applicable Redemption Price.

(b) Extraordinary Optional Redemption. At the option of Issuer, to be exercised at the direction of Company, at any time, in whole, on acceleration of the payments by Company in accordance with the Agreement, at a redemption price equal to the principal amount of the Outstanding Bonds, plus unpaid interest accrued to date of redemption, upon occurrence of any of the following events:

(i) in the reasonable judgment of Company unreasonable burdens or excessive liabilities shall have been imposed upon Issuer or Company with respect to the Facilities or the Plant, including without limitation (A) the imposition of any income or other taxes not being imposed on July 1, 1995 or (B) the imposition of any ad valorem property or other taxes (other than ad valorem property or other taxes being imposed on July 1, 1995 upon similarly assessed property within the same taxing jurisdiction);

(ii) the Facilities or the Plant shall have been damaged or destroyed to such extent that, in the opinion of Company, (A) within a period of six consecutive months following such damage or destruction, it is not practicable or desirable to rebuild, repair or restore the same, (B) Company will be thereby prevented from carrying on its normal operations of the Facilities or the Plant for a period of six consecutive months or (C) the cost of restoration would exceed by $1,500,000 or more the net proceeds of insurance thereon;

(iii) title to, or temporary use of, all or substantially all of the Facilities or the Plant shall have been taken under

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the exercise of the power of eminent domain;

(iv) changes in the economic availability of materials, labor, services, supplies (including fuel), equipment or other property, facilities or things necessary for the operation of the Facilities or the Plant shall have occurred, or technological, regulatory or other changes shall have occurred, which, in the opinion of Company, render the continued operation of the Facilities or the Plant uneconomic;

(v) any court or administrative body shall enter a judgment, order or decree requiring Company to cease, or dispose of, all or any substantial part of its operations of the Facilities or the Plant to such extent that, in the opinion of Company, it is or will be thereby prevented from carrying on its normal operations of the Facilities or the Plant for a period of six or more consecutive months; or

(vi) as a result of any change in the Constitution of the State of Texas or the Constitution of the United States of America or of any legislative or administrative action (whether state or federal) or of any final decree, judgment, or order of any court or administrative body (whether state or federal), the obligations of Company under the Agreement shall have become unenforceable or impossible of performance in any material respect in accordance with the intent and purpose of the parties as expressed in the Agreement.

The exercise of any such option shall be at the direction of Company which shall give written notice to Issuer and Trustee within one hundred twenty (120) days after the occurrence of an event described in clause (i), (ii), (iii), (iv), (v), or (vi) above, which notice shall specify that, as determined by Company, one or more of such events has occurred or one or more of such conditions is continuing and also shall specify a date for redemption not less than 45 nor more than 120 days after the date such notice is given.

(c) Special Mandatory Redemption. The Bonds are subject to mandatory redemption in whole or in part at any time (and if in part in the manner specified in Section 4.02) if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining Bonds Outstanding, at a redemption price equal to the principal amount thereof together with unpaid interest accrued to the date fixed for redemption, and without premium, if (i) a final decree or judgment of any federal court, in which Company participates to the extent it deems sufficient, or (ii) a final action by the Internal Revenue Service, in proceedings in which Company participates to the extent it deems sufficient, determines that the interest paid or payable on any such Bonds to other than, as

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provided in the Code, a "substantial user" of the Facilities or a "related person" is or was includable in the gross income of the owner thereof for federal income tax purposes under the Code, as a result of the failure by the Company to observe or perform any covenant, condition, or agreement on its part to be observed or performed under the Agreement or the inaccuracy of any representation by Company under the Agreement; provided, however, that no decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the Bondholder involved in such proceeding or action (A) gives Company and Trustee prompt notice of the commencement thereof and (B), if Company agrees to pay all expenses in connection therewith and to indemnify such Bondholder against all liabilities in connection therewith, offers Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Trustee not more than 180 days after the time of such final decree, judgment or action. The Trustee shall give the Issuer and Company not less than forty-five days written notice of such date.

Section 4.06.Trustee to Call Bonds. If Issuer exercises an option to call Bonds prior to stated maturities under Section 4.05, or if the Bonds are required to be redeemed prior to stated maturities, Trustee shall give notice of such redemption in accordance with Section 4.03 after receiving notice thereof in accordance with the provisions of Section 7.03 of the Agreement. Should the Trustee receive notice in writing from any owner of Bonds of an event requiring redemption of the Bonds, notice thereof shall be given to Company and Issuer.

## ARTICLE V

## Bond Fund

Section 5.01.The Bond Fund. There is hereby created the Bond Fund, which shall be held by Trustee. Concurrently with the delivery of Bonds to the purchasers thereof, there shall be paid to Trustee for deposit in the Bond Fund, from the proceeds of the sale of Bonds, the interest accrued on the Bonds to date of delivery to the initial purchasers, and such other amounts as may be specified by the Bond Resolution authorizing the issuance of such Bonds. Issuer hereby directs payment to Trustee of any and all amounts payable to Issuer under the Agreement (except certain payments for compensation and indemnification of Issuer to be paid to Issuer pursuant to Sections 4.04, 5.03, and 6.04 thereof). Trustee shall deposit in the Bond Fund such payments and other moneys required to be deposited therein pursuant to the provisions of the Agreement or this Indenture.

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Section 5.02. Payment from Bond Fund. Trustee shall pay from the moneys in the Bond Fund the interest on the Bonds as the same shall become due and the principal of the Bonds as the same shall mature or be called for redemption prior to stated maturity together with any premium due thereon at the time of redemption.

Section 5.03.(a) Bond Fund Requirement. In accordance with the Agreement all payments made by Company are to be made to Trustee for deposit to the credit of the Bond Fund. Such payments, together with other moneys available therefor in the Bond Fund, are calculated to include (i) all interest scheduled to accrue on all Outstanding Bonds as the same comes due, and (ii) the payment of the principal and premium, if any, of the Outstanding Bonds as they shall mature or be redeemed.

(b) Disposition of Prepayments. Any prepayments made by Company in accordance with Article VII of the Agreement shall be applied, as Company shall direct, in accordance with the provisions of Section 4.05 hereof or credited against payments required under Section 3.04 of the Agreement.

Section 5.04.(a) Funds Held in Trust. All moneys from time to time received by Trustee and held in the Bond Fund shall be held in trust by Trustee for the benefit of the owners of the Bonds entitled to be paid therefrom.

(b) Nonpresentment of Bonds. In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity, at the date fixed for redemption thereof, or otherwise, if funds sufficient to pay such Bond shall have been made available to Trustee for the benefit of the owner or owners thereof, all liability of Issuer to the owner thereof for the payment of such Bond shall thereupon cease and be completely discharged, and it shall be the duty of Trustee to hold such funds, without liability for interest thereon, for the benefit of the owner of such Bond, who shall thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under this Indenture or on, or with respect to, said Bond; provided, that any funds which shall be so held by Trustee, and which remain unclaimed by the owner of the Bond not presented for payment for a period of two (2) years after the date on which such Bond shall have become payable, shall upon request in writing by Company be paid to Company and thereafter the owner of such Bond shall look only to Company for payment and then only to the amount so received without any interest thereon and Trustee shall have no responsibility with respect to such moneys. To the extent applicable, Title 6 of the Texas Property Code will apply to unclaimed moneys.

Section 5.05. Investment of Moneys in Certain Funds. Issuer hereby gives its express written authority to Company to direct the investment of the moneys in the Bond Fund by Trustee as hereinafter provided. Issuer hereby finds and determines that the investment of any money held as part of the Bond Fund in obligations hereinafter permitted will yield the highest possible rate of return while providing necessary protection of the principal consistent with the needs for such money under

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this Indenture and the Agreement. Any money held as part of the Bond Fund shall be invested or reinvested by Trustee upon the written direction of Company acting through an Authorized Company Representative in:

(i) direct obligations of, or obligations guaranteed by, the United States of America, and any bonds or other obligations of the Federal National Mortgage Association (including Participation Certificates), Government National Mortgage Association, Federal Farm Credit System, Federal Home Loan Mortgage Corporation and Federal Home Loan Bank System;

(ii) money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAm-G; AAAm; or Aam;

(iii) as otherwise permitted by law for such funds and approved in writing by the Bond Insurer.

If not otherwise directed, Trustee shall invest cash balances in a money market fund described in (ii) above. Trustee is specifically authorized to implement its automated cash investment system to assure that cash on hand is invested and to charge its normal cash management fees, which may be deducted from income earned on investments.

In the event the laws of Texas are amended to allow investment of these funds in other investments and securities, such additional investments shall be authorized by this Section. The type, amount, and maturity of all investments shall be as specified to Trustee upon the direction of an Authorized Company Representative confirmed in writing. The Trustee may make any and all such investments through its own investment department or with any affiliate bank in each case acting in its commercial banking capacity.

The securities purchased or investments made with the moneys in the Bond Fund shall at all times be deemed a part of the Bond Fund. The interest, including realized discount on securities purchased, received on all such securities shall be deposited in or credited to the Bond Fund. All such securities and investments shall be deposited with Trustee. Trustee shall not be liable or responsible for any loss resulting from any such investments or resulting from the redemption or sale of any such investment as herein authorized. If at any time it shall become necessary that some or all of the securities purchased with the moneys in the Bond Fund be redeemed or sold in order to raise moneys necessary to comply with the provisions of this Indenture, Trustee shall, without further authorization than is herein contained, effect such redemption or sale.

Section 5.06.Moneys Secured. All moneys deposited with Trustee and not invested in securities by Trustee pursuant to the provisions hereof or to the extent not insured by the Federal Deposit Insurance Corporation or other federal agency, shall continuously be secured, for the benefit of Issuer and the owners of the Bonds, to the extent and as

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required by law for security of Issuer's funds. Such securities shall be deposited with Trustee.

Section 5.07.Bond Fund Balance. Except as provided in (b) of Section 5.04, any amounts remaining in the Bond Fund, after all of the Bonds shall be deemed to have been paid and discharged under the provisions of this Indenture and the fees, charges, and expenses of Issuer and the Trustee, and all other amounts required to be paid under this Indenture shall have been paid, shall, upon the request of the Company, be paid to Company, or to such person, body, or authority as may be entitled to receive the same.

Section 5.08.Exemption from Federal Income Taxation. Issuer will not knowingly take any action, or omit to take any action, which action or omission will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, and in the event of such action or omission will promptly, upon receiving knowledge thereof, take all lawful actions, based on advice of counsel and at the expense of Company, as may rescind or otherwise negate such action or omission.

Section 5.09.Special Rebate Fund. (a) A Special Rebate Fund is hereby established by Issuer. Such Special Rebate Fund shall be for the sole benefit of the United States of America and shall not be subject to the claim of any other person, including without limitation any Bondholder. The Special Rebate Fund is established for the purpose of complying with section 148 of the Code and the Regulations.

(b) On the fifth anniversary of the date of issuance of the Bonds and on each fifth anniversary thereafter, Trustee shall receive from Company a computation of the amount of Excess Earnings (as hereinafter defined), if any, for the period beginning on the date of delivery of the Bonds and ending at the close of each such fifth Bond Year (as hereinafter defined) and transfer an amount equal to the difference, if any, between the amount then in the Special Rebate Fund and the Excess Earnings so computed. The term "Bond Year" means with respect to the Bonds each one-year period ending on the anniversary of the date of delivery of the Bonds. If, at the close of any Bond Year, the amount in the Special Rebate Fund exceeds the amount that would be required to be paid to the United States of America under paragraph (d) below if the Bonds had been paid in full, such excess may be transferred from the Special Rebate Fund and paid to Company to be used for such purposes for which, or to be redeposited to such fund from which, such amounts were originally derived.

(c) In general, Excess Earnings for any period of time means the sum of

(i) the excess of --

(A) the aggregate amount earned during such period of time on all Nonpurpose Investments (including gains on the disposition of

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such obligations) in which Gross Proceeds of the issue are invested (other than amounts attributable to an excess described in this subparagraph (c)(i)), over

(B) the amount that would have been earned during such period of time if the Yield on such Nonpurpose Investments (other than amounts attributable to an excess described in this subparagraph (c)(i)) had been equal to the yield on the issue, plus

(ii) any income during such period of time attributable to the excess described in subparagraph (c)(i) above.

The terms Nonpurpose Investments, Gross Proceeds and Yield shall have the meanings given to such terms in Section 148 of the Code and the Regulations promulgated pursuant to such section.

(d) Trustee shall pay to the United States of America at least once every five years an amount that ensures that at least 90 percent of the Excess Earnings from the date of delivery of the Bonds to the close of the period for which the payment is being made will have been paid. Trustee shall pay to the United States of America not later than 60 days after the Bonds have been paid in full 100 percent of the amount then required to be paid under section 148(f) of the Code as a result of Excess Earnings.

(e) The amounts to be computed, paid, deposited or disbursed under this Section 5.09 shall be determined by Company within thirty days after each successive fifth anniversary date of the date of issuance of the Bonds. By such date, Company shall also notify, in writing, Trustee and Issuer of the determinations Company has made and the payment to be made pursuant to the provisions of this section. Upon written request of any registered owner of Bonds, Company shall furnish to such registered owner of Bonds a certificate (supported by reasonable documentation, which may include calculation by Bond Counsel or by some other service organization) showing compliance with this section and other applicable provisions of section 148 of the Code.

(f) Trustee shall maintain a record of the periodic determinations by Company of the Excess Earnings for a period beginning on the first anniversary date of the issuance of the Bonds and ending on the date six years after the final retirement of the Bonds.

(g) The provisions of this Section 5.09 shall not apply to Bonds to the extent that such Bonds qualify for the exceptions to rebate set forth in Section 148(f)(4)(B) of the Code.

ARTICLE VI

Application of Proceeds

Section 6.01.Application of Original Proceeds of Bonds. The

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proceeds of the Bonds delivered to Trustee hereunder shall be applied on the date of delivery of the Bonds by Trustee as follows:

(a) deposit in the Bond Fund, a sum equal to the accrued interest, if any, paid by the initial purchasers of the Bonds.

(b) transfer to the Prior Trustee for the 1984 Bonds, for deposit in a separate account of the bond fund established pursuant to Article V of the 1984 Indenture, for the purpose of refunding all of the outstanding 1984 Bonds, $68,870,000 of such proceeds.

(c) transfer to the Prior Trustee for the 1985A Bonds, for deposit in a separate account of the bond fund established pursuant to Article V of the 1985A Indenture, for the purpose of refunding all of the outstanding 1985A Bonds, $31,765,000 of such proceeds.

Section 6.02. Consideration for Refunding. Issuer hereby finds that the refunding of all of the outstanding 1984 Bonds and the outstanding 1985A Bonds will result in substantial gross savings and present value savings on debt service on the 1984 Bonds and 1985A Bonds.

ARTICLE VII

General Covenants

Section 7.01. Intentionally Omitted.

Section 7.02. Payment of Principal and Interest. Solely from the source pledged to the payment of the Bonds, Issuer will duly and punctually pay or cause to be paid the principal of, premium, if any, and interest on every Bond, on the date and at the place and in the manner specified in the Bonds according to the true intent and meaning thereof, and Issuer will faithfully do and perform and at all times fully observe any and all covenants, undertakings, and provisions contained herein or in any Bond.

Section 7.03. Authority of Issuer and Preservation of Rights. Issuer represents that it is a conservation and reclamation district, and a governmental agency and body politic and corporate, duly created, organized, and existing under the Constitution and laws of the State of Texas and a "district" as such term is defined in the Acts, and has proper authority to refund all or a portion of the Prior Bonds, to issue the Bonds, and to pledge the revenues in the manner and form as herein done or intended, and that all corporate action on its part to that end has been duly and validly taken; and will use its best efforts to maintain, preserve, and renew all the rights, powers, privileges, and franchises owned by it. Issuer will at all times maintain a lawful Board, and at all times function and act in the best interest of the Bondholders.

Section 7.04. Installment Payment Agreement. Issuer will comply with, and take all reasonable and lawful measures to enforce, the terms of

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the Agreement. So long as any Bond is Outstanding, Issuer will require Company to pay, or cause to be paid, all of the payments and other costs and charges payable by Company under the Agreement; Issuer will not enter into any agreement with Company amending the Agreement or any agreements supplemental thereto or constituting additional agreements which will effect any reduction in the payments required to be paid to Issuer thereunder; Issuer will require Company to observe faithfully all of its covenants and agreements under the Agreement and all agreements supplemental thereto, additional agreements, and agreements amending any of the foregoing; and, in case Company shall fail to make such payments or observe said covenants and agreements, Issuer will institute and prosecute all such legal proceedings as may be appropriate for the protection of the owners of the Bonds. Trustee shall have full right and authority to enforce the rights of Issuer under the Agreement assigned by this Indenture, and Issuer covenants that, prior to its bringing any action to enforce such rights, Issuer will give Trustee reasonable notice and Trustee shall have the right to participate in and, if it so desires, control such action.

Section 7.05.Further Assurances. Issuer covenants that it will from time to time execute and deliver such further instruments, will perform all covenants, undertakings, stipulations, and provisions contained in this Indenture and take such further action as may be reasonable and as may be required to carry out the purpose of this Indenture; provided, however, that no such instruments or action shall pledge the credit or taxing power of the State of Texas, Issuer, or any political subdivision of said State.

Section 7.06.Extension of Bonds. In order to prevent any accumulation of claims for interest after maturity, Issuer will not directly or indirectly extend or assent to the extension of the time of payment of any claims for interest on any of the Bonds and will not directly or indirectly be a party to or approve any such arrangement by purchasing or funding such claims for interest or in any other manner. In case any such claim for interest shall be extended or funded in violation hereof, such claim for interest shall not be entitled, in case of any default hereunder, to the benefit or security of this Indenture except subject to the prior payment in full of the principal of all other Bonds issued and Outstanding hereunder, and of all claims for interest which shall not have been so extended or funded.

Section 7.07.Reports. Issuer shall cause Company to furnish to Trustee a copy of its annual report to its preferred shareholders at the same time it is made available to such shareholders.

Section 7.08.Further Actions by Issuer and Trustee. Issuer and Trustee mutually covenant that they will, from time to time, each upon the written request of the other, take such further action as may be reasonable and as may be required by the other to carry out the purposes of this Indenture; provided, however, that no such action shall impose any personal liability on any director, officer, employee, agent, or

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representative of Issuer, and provided further, that Trustee shall have no obligation to take any action which, in the opinion of Trustee, would impose any personal or corporate liability on Trustee or any officer, employee, agent, or representative of Trustee.

Section 7.09.Paying Agents. Issuer hereby designates Trustee as the original Paying Agent under this Indenture. It shall not be necessary to name a Paying Agent or Paying Agents in addition to Trustee. Issuer may at any time, from time to time, appoint a different Paying Agent for the Bonds.

## ARTICLE VIII

## Defaults and Remedies

Section 8.01.Definition of "Event of Default". The following shall be "events of default" under this Indenture and the term "Event of Default" shall mean, whenever it is used in this Indenture, any one or more of the following events:

(a) payment of the principal of and premium, if any, on any of the Bonds shall not be made when the same shall become due and payable at maturity, upon redemption or otherwise;

(b) payment of an installment of interest on any of the Bonds shall not be made when the same shall become due and payable and such failure shall continue for a period of sixty (60) days;

(c) there shall be an Event of Default as defined in the Agreement; or

(d) Issuer shall default in the due and punctual performance of any other of the covenants, conditions, agreements, and provisions contained in the Bonds or in this Indenture on the part of Issuer to be performed, and such default shall continue for ninety (90) days after written notice specifying such default and requiring the same to be remedied shall have been given to Issuer and Company by Trustee, which may give such notice in its discretion and shall give such notice at the written request of the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding.

With regard to any Event of Default concerning which notice is given to Issuer and Company under Section 8.01(d), Issuer hereby grants Company full authority for the account of Issuer to the extent permitted by law to cure such default; provided, however, if said default be such that it cannot be corrected within the ninety (90) day period, it shall not constitute an Event of Default under Section 8.01(d) if corrective action is instituted by Issuer or Company within the ninety (90) day period and diligently pursued until the default is corrected. With regard to any Event of Default, Trustee shall immediately give telephonic notice confirmed by writing to Issuer and Company specifying such Event of

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Default.

Should any Event of Default occur and be continuing, then Trustee may, and upon written request of the owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall, provided that written notice of the default has been delivered to Issuer and Company by Trustee, declare the principal of all Bonds then Outstanding to be due and payable immediately, and upon such declaration the said principal, together with interest accrued thereon, shall become due and payable immediately at the place of payment provided therein without any presentment, protest, demand, or other notice of any kind, all of which are hereby waived by Issuer, anything in this Indenture or in said Bonds to the contrary notwithstanding, and interest shall accrue at the highest rate borne by any Outstanding Bonds to the extent permitted by law, on the amount declared to be due and payable from the date of such declaration until payment is made in full.

The above provisions, however, are subject to the condition that if, after the principal of said Bonds shall have been so declared to be due and payable, the principal of the Bonds and all arrears of interest upon the Bonds (except the principal of, and interest on, the Bonds which by such declaration shall have become due and payable), and interest on overdue installments of principal and interest, to the extent legally permissible, and all other sums payable under this Indenture shall have been paid by or on behalf of Issuer and Company, and Issuer and Company also shall have performed all other things in respect of which they may have been in default hereunder or under the Agreement and shall have paid or shall have caused to be paid the reasonable charges of Trustee and its counsel and of the owners of said Bonds, including reasonable attorney's fees paid or incurred, and all other Trustee Expenses shall have been paid, then and in every such case, such default may, but is not obligated to be waived and such declaration and its consequences rescinded and annulled by Trustee by written notice to Issuer and Company, provided, that if such declaration was requested by the owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Outstanding Bonds, such waiver, rescission, and annulment shall have been consented to by the owners of a majority in aggregate principal amount of the Bonds then Outstanding, which consent shall be binding upon Trustee and upon all owners of Bonds issued hereunder, but no such waiver, rescission, and annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Section 8.02.Declaration of Principal and Interest Due. In any case in which under the provisions of Section 8.01 Trustee has the right to declare the principal of all Bonds then Outstanding to be due and payable immediately, Trustee, as the assignee and pledgee of all the right, title, and interest of Issuer in and to the Agreement, may (a) enforce each and every right granted to Issuer under the Agreement and (b) pursue any other legal or equitable remedy as may, in the opinion of

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Trustee, be most effectual to protect and enforce the rights of the Bondholders and Trustee hereunder. In the event Trustee declares the principal of all Bonds then Outstanding to be due and payable, Trustee shall concurrently therewith declare all payments to be made under the Agreement to be due and payable, provided, Trustee has the authority to do so by virtue of the occurrence and continuance of an Event of Default under the Agreement.

Section 8.03.Enforcement of Indenture and Bonds. Upon the happening of any Event of Default then and in every such case Trustee in its discretion may, and upon the written request of the owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding and upon receipt of indemnity to its satisfaction shall, in its own right:

(a) by mandamus, or other suit, action, or proceeding at law or in equity, enforce all rights of the Bondholders, and require Issuer or Company to carry out any other agreements with or for the benefit of the Bondholders and to perform its or their duties under the Act, the Indenture and the Agreement;

(b) bring suit upon the Bonds;

(c) by action or suit at law or in equity require Issuer to account as if it were the trustee of an express trust for the Bondholders; or

(d) by action or suit at law or in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

Section 8.04. Restoration. In case any proceeding taken by Trustee on account of any default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to Trustee, then and in every case Issuer, Trustee, and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, and powers of Trustee shall continue as though no such proceeding had been taken.

Section 8.05. Direction by Majority in Principal Amount of Bondholders. (a) Anything in this Indenture to the contrary notwithstanding, the owners of a majority in aggregate principal amount of the Bonds then Outstanding hereunder shall have the right, by an instrument in writing executed and delivered to Trustee, to direct the method and place of conducting all remedial proceedings to be taken by Trustee hereunder. Such directive must be in accordance with law and this Indenture.

(b) In the event Trustee shall receive conflicting or inconsistent requests or indemnity from two or more groups of owners of the Bonds, each representing less than a majority of the aggregate

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principal amount of the Bonds then Outstanding, Trustee in its sole discretion may determine what action, if any, shall be taken, notwithstanding any other provision of this Indenture.

Section 8.06.Rights by Owner. (a) No owner of any of the Bonds shall have any right to institute any suit, action, or proceeding in equity or at law for the execution of any trust hereunder, or any other remedy hereunder or on said Bonds, unless such owner previously shall have given to Trustee written notice of an Event of Default as hereinabove provided and unless also the owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of Trustee, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted, or to institute such action, suit, or proceeding in its or their name; nor unless there also shall have been offered to Trustee security and indemnity satisfactory to it against the costs, expenses, fees, losses and liabilities to be incurred therein or thereby, and Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request, and offer of indemnity are hereby declared in every such case, at the option of Trustee, to be conditions precedent to the execution of the powers and trusts of this Indenture or to any other remedy hereunder; it being understood and intended that no one or more owners of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb, or prejudice the security of this Indenture, or to enforce any right hereunder or under the Bonds, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had, and maintained in the manner herein provided and for the equal and ratable benefit of all owners of Outstanding Bonds. Nothing contained in this Indenture shall, however, affect or impair the right of any Bondholder to enforce the payment of the principal of, premium, if any, and interest on any Bond at and after the maturity thereof, or the obligation of Issuer to pay the principal of and any premium and interest on each of the Bonds issued hereunder to the respective owners thereof at the time and place, from the source, and in the manner in said Bonds expressed.

(b) Notwithstanding any other provision of this Indenture to the contrary, any beneficial owner of the Bonds shall have the right to specifically enforce the obligation of Company to comply with Section 5.01 of the Agreement.

Section 8.07. Enforcement of Remedies without Possession of Bonds. All rights of action under this Indenture or under any of the Bonds secured hereby which are enforceable by Trustee may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceedings relative thereto, and any such suit, action, or proceeding instituted by Trustee shall be brought in its name for the equal and ratable benefit of the owners of the Bonds, subject to the provisions of this Indenture.

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Section 8.08.Remedies Not Exclusive. No remedy herein conferred upon or reserved to Trustee or to the owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statutes, including the Acts.

Section 8.09.Delay by Trustee. No delay or omission of Trustee or of any owner of the Bonds to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default, or an acquiescence therein; and every power and remedy given by this Article to Trustee and to the owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 8.10.Application of Moneys. Any moneys received by Trustee or by any receiver pursuant to this Article shall be applied:

First: to the payment of the fees, counsel fees, and advances and
expenses of Trustee and of the receiver, if any, and all costs and disbursements allowed by the court if there be any court action, and all other Trustee Expenses accrued hereunder.

Second: (a) in case the principal of the Bonds shall not have become due, to the payment of the interest in default, in the order of the maturity of the installments of such interest, with interest, so far as the same may be legally enforceable, on the overdue installments thereof at the rate borne by any Outstanding Bonds, and, if the amounts available shall be insufficient to pay in full any particular installment, then such payments to be made ratably according to the amounts due on such installment to the persons or parties entitled thereto, without discrimination or preference; or

(b) in case the principal of any of the Bonds shall have become due, by declaration or otherwise, first to the payment of the interest in default, in the order of the maturity of the installments of such interest, and thereafter to the payment of the principal of, and premium, if any, on all Bonds then due with interest, so far as the same may be legally enforceable, on the overdue interest and principal (including premium) at the rate borne by any Outstanding Bonds, and, if the amounts available shall not be sufficient to pay in full Bonds due on any particular date together with such interest, then such payments, respectively, to be made ratably according to the amount of principal due on such date to the persons or parties entitled thereto, without discrimination or preference.

Third: to the payment of Issuer's counsel fees and other expenses, if any.

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Fourth: to the payment of the surplus, if any, to whomever is lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Section 8.11.Unlawful Grants of Power. It is the purpose and intention of this Article to provide rights and remedies to Trustee and Bondholders which may be lawfully granted, but should any right or remedy herein granted be held to be unlawful, Trustee and the Bondholders shall be entitled, as above set forth, to every other right and remedy provided in this Indenture.

Section 8.12.Payments under Municipal Bond Insurance Policy. So long as the Municipal Bond Insurance Policy shall be in full force and effect, Issuer and Trustee hereby agree to comply with the following provisions:

(a) If Trustee has notice that any owner of the Bonds has been required to disgorge payments of principal or interest on the Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such owner of Bonds within the meaning of any applicable bankruptcy laws, then Trustee shall notify Bond Insurer or its designee of such fact by telephone, facsimile, telecopy or telegraphic notice, confirmed in writing by registered or certified mail.

(b) Trustee is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for owners of the Bonds as follows:

(i) If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, Trustee shall (A) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Municipal Bond Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing Bond Insurer as agent for such owners in any legal proceeding related to the payment of such interest and an assignment to Bond Insurer of the claims for interest to which such deficiency relates and which are paid by Bond Insurer, (B) receive as designee of the respective owners (and not as Trustee) in accordance with the tenor of the Municipal Bond Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (C) disburse the same to such respective owners; and

(ii) If and to the extent of a deficiency in amounts required to pay principal of the Bonds, Trustee shall (A) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument

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appointing Bond Insurer as agent for such owner in any legal proceeding relating to the payment of such principal and an assignment to Bond Insurer of any of the Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (B) receive as designee of the respective owners (and not as Trustee) in accordance with the tenor of the Municipal Bond Insurance Policy payment therefor from the Insurance Paying Agent, and (C) disburse the same to such owners.

(c) Payments with respect to claims for interest on and principal of Bonds disbursed by Trustee from proceeds of the Municipal Bond Insurance Policy shall not be considered to discharge the obligation of Issuer or Company with respect to such Bonds, and Bond Insurer shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(d) Irrespective of whether any such assignment is executed and delivered, Issuer and Trustee hereby agree for the benefit of Bond Insurer that:

(i) To the extent Bond Insurer makes payments, directly or indirectly (as by paying through Trustee), on account of principal of or interest on the Bonds, Bond Insurer will be subrogated to the rights of such owners to receive the amount of such principal and interest from Issuer, with interest thereon as provided and solely from the sources stated in this Indenture and the Bonds; and

(ii) They will accordingly pay Bond Insurer the amounts of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Municipal Bond Insurance Policy, which principal and interest shall be deemed past due and not have been paid), with interest thereon as provided in this Indenture and the Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Bonds to owners, and will otherwise treat Bond Insurer as the owner of such rights to the amount of such principal and interest.

## ARTICLE IX

## Defeasance

Section 9.01.Release of Indenture. When all of the Bonds shall

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have been paid, or provided for, and discharged, and there shall have been paid, or provision shall have been made for paying, all fees, expenses and charges of Trustee, Issuer, and any Paying Agent due or to become due through the date on which the last of the Bonds is retired, then this Indenture shall cease, terminate, and become null and void, and thereupon Trustee shall release this Indenture including the cancellation and discharge of the lien hereof, and execute and deliver to Issuer such instruments in writing as shall have been provided by the Issuer and be requisite to satisfy and discharge the lien hereof and to enter on the records such satisfaction and discharge as may be reasonably required by Issuer, and Trustee shall reassign and transfer, assign, and deliver to Issuer the Trust Estate at the time subject to the lien of this Indenture which may then be in its possession, except such moneys and/or "Governmental Obligations", hereinafter defined in Section 9.02, as are held by Trustee for the payment of the principal of, the interest on, and the premium, if any, due on the retirement of the Bonds. After such payment and discharge, the Bonds shall not be entitled to any benefits of this Indenture, except the right to be paid from the moneys and/or Governmental Obligations so held by Trustee for the payment thereof. If such payment and discharge, including the fees, expenses and charges indicated above, or provision therefor, have been made with respect to all the Bonds, the interest of Trustee hereunder shall cease in respect of such Bonds and such Bonds shall not be entitled to any benefits of this Indenture, except the right to be paid from the moneys and/or Governmental Obligations so held by Trustee for the payment thereof.

Notwithstanding the satisfaction and discharge of this Indenture, Trustee shall continue to be obligated to hold in trust any moneys or investments then held by Trustee for the payment of the principal of, premium, if any, and interest on the Bonds, to pay to the owners of Bonds the funds so held by Trustee as and when such payment becomes due, and to pay over to Company any amounts required to be paid to Company in accordance with Sections 5.04(b), 5.07, 8.10, and 9.02.

Notwithstanding the satisfaction and discharge of this Indenture, the provisions of Sections 2.07 and 2.08, and Article X hereof shall remain in full force and effect and Trustee shall, so long as the Bonds shall not have matured in accordance with their terms, upon redemption, or otherwise (and thereafter with respect to rights and liabilities accrued prior to such maturity), be entitled to exercise rights and remedies under the Agreement for the benefit of owners of the Bonds.

Section 9.02.(a) Satisfaction of Indenture. Bonds shall be deemed to have been paid and discharged within the meaning of Section 9.01:

(1) if Trustee and any Paying Agent shall hold, in trust for and irrevocably committed thereto, sufficient cash, and/or

(2) to the extent permitted by law, if Trustee shall hold, in

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trust for and irrevocably committed thereto, Governmental Obligations, as defined hereinafter in this Section, certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as hereinafter provided), be sufficient together with any moneys referred to in subsection (a)(1) above,

for the payment, at their maturity or redemption date, of the principal thereof, together with the premium, if any, and interest accrued to the date of maturity or redemption, as the case may be, or if default in such payments shall have occurred on such date then to the date of the tender of such payment; provided, that if any Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given or provision satisfactory to Trustee shall have been duly made for the giving of such notice. Any moneys held in accordance with the provisions of this Section shall be invested, at the request and upon the written direction of Issuer, after consultation with an Authorized Company Representative, subject to the limitations of (b) below, only in Governmental Obligations, as defined hereinafter in this Section, the maturities or redemption dates of which, when Trustee becomes the owner thereof, shall coincide as nearly as practicable with, but not later than, the time or times at which said moneys will be required for the aforesaid purposes.

(b) No Arbitrage. Issuer hereby covenants that no investment will be made or accepted hereunder and no use will be made of any moneys or such investments which would cause the Bonds to be classified as arbitrage bonds within the meaning of Section 148 of the Code.

(c) Advance Funding and Defeasance. For the purposes of this Article, the term "Governmental Obligations" shall mean direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America which are noncallable and which at the time of investment are legal investments under the laws of Texas for the moneys proposed to be invested therein.

Notwithstanding any provision of any other Article of this Indenture which may be contrary to the provisions of this Article, all moneys or Governmental Obligations set aside and held in trust pursuant to the provisions of this Article for the payment of Bonds (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any), or any Bonds exchanged pursuant to Section 2.07 or 2.10, with respect to which such moneys and Governmental Obligations have been so set aside in trust. When all the Bonds in respect of which such moneys and Governmental Obligations have been deposited shall be deemed to have been paid and discharged, all moneys and Governmental Obligations received

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or held pursuant to the provisions of this Article which, in the opinion of an independent public accounting firm of national reputation, are not needed for the payment of any other obligation hereunder, shall be applied in accordance with Section 5.07.

Section 9.03.Reliance on Discharge. Any discharge, satisfaction, and release of this Indenture and the lien thereof by the Trustee which recites it has been made pursuant to the provisions of this Article shall be conclusive evidence thereof, shall be binding upon the parties hereto and the owners of all Bonds then Outstanding hereunder, and may be relied upon by any persons whomsoever, without the production of the cancelled Bonds and without the necessity to inquire as to the power or authority of the Trustee to give such discharge, satisfaction, and release or to see the application of any moneys paid or deposited in respect thereof.

Section 9.04.Defeasance. Prior to any defeasance becoming effective under this Indenture, (i) the amounts required to be deposited pursuant to this Indenture and any escrow deposit agreement shall be invested only in Government Obligations and (ii) Bond Insurer and Trustee shall have received (a) any final official statement that may be delivered in connection with any refunding obligations, (b) a copy of the accountants' verification report, (c) a copy of an escrow deposit agreement, if any, in form and substance acceptable to Bond Insurer, and (d) a copy of an opinion of bond counsel, addressed to Bond Insurer and Trustee, to the effect that such Bonds have been paid within the meaning and with the effect expressed in this Indenture, and that the covenants, agreements and other obligations of Issuer to the holders of such Bonds have been discharged and satisfied.

## ARTICLE X

## Concerning the Trustee

Section 10.01. Acceptance of Trusts and Conditions of Acceptance. Trustee accepts and agrees to execute the trusts hereby created, but only upon the additional terms set forth in this Article, to all of which the parties hereto and the respective owners of the Bonds agree.

Section 10.02. Recitals Not Trustee's. The recitals, statements, and representations in this Indenture or in the Bonds contained, save only Trustee's authentication upon the Bonds, shall be taken and construed as made by and on the part of Issuer, and not by Trustee, and Trustee assumes and shall be under no responsibility or obligation for the correctness of same.

Section 10.03. Advice. Trustee may execute any of the trusts

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or powers hereof and perform the duties required of it by or through attorneys, agents, receivers, or employees, and shall be entitled to advice of counsel concerning all matters of trust hereof and its duty hereunder, and Trustee shall not be answerable for the default or misconduct of any such attorney, agent, or employee selected by it with reasonable care. Trustee shall not be answerable for the exercise of any discretion or power under this Indenture nor for anything whatsoever in connection with the Trust Estate except only its own willful misconduct or negligence.

Section 10.04. Fees. Issuer has agreed with Company in the Agreement that Company is to pay to Trustee:

(i) an amount equal to the annual fee of Trustee, as trustee, for the ordinary services of Trustee to be rendered and its ordinary expenses to be incurred, under the Indenture during the next succeeding twelve-month period;

(ii) the reasonable fees, expenses and charges of Trustee, as Bond Registrar and Paying Agent, as provided in the Indenture during each twelve-month period, including reasonable fees and expenses of counsel of its selection; and

(iii) the reasonable fees, expenses and charges of Trustee, including reasonable fees and expenses of counsel of its selection, for necessary extraordinary services rendered by it and extraordinary expenses incurred by it under this Indenture as and when the same become due, including, without limitation, any fees, expenses or charges due to any change from the book-entry only system described in Sections 2.12 and 2.13 hereof; provided, that Company may, without creating a default under the Agreement, contest in good faith the necessity for any such extraordinary services and extraordinary expenses and the reasonableness of any such fees, charges, or expenses.

Therefore, all payments due Trustee for fees or services hereunder and for expenses incurred shall be received from Company, and no such fees or expenses shall be payable by Issuer. Notwithstanding anything to the contrary contained herein; Trustee shall have a lien and security interest, with right of payment prior to payment on the Bonds, upon the Trust Estate for the payment of the Trustee Expenses and may, to the extent the same have not been paid by Company, reimburse itself out of the Trust Estate for the Trustee Expenses.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Article VIII, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

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The provisions of this Section shall survive the termination of this Indenture.

Section 10.05. Insurance. Trustee shall be under no duty to effect or to renew any policies of insurance, or to report or file claims or proofs of loss for any loss or damage insured against or which may occur; nor shall Trustee be liable as an insurer.

Section 10.06. Notice. Trustee shall not be required to take notice, or in the absence of actual knowledge, be deemed to have notice of any default under this Indenture, other than a default under Section 8.01(a) or (b), unless specifically notified in writing of such default by the owners of at least twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding, and in the absence of any such notice, Trustee may conclusively assume there is no such default. Trustee may, however, at any time, in its discretion, require of Issuer full information and advice as to the performance of any of the covenants, conditions, and agreements contained herein, and require of Company full information and advice as to the performance of any of the covenants, conditions, and agreements contained in the Agreement.

Section 10.07. Request; Indemnity. Trustee shall be under no obligation to take any action in respect of any default or otherwise, or toward the execution or enforcement of any of the trusts hereby created, or to institute, appear in, or defend any suit or other proceeding in connection therewith, unless requested in writing so to do by the owners of at least twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding and, if in its opinion such action may tend to involve it in expense or liability, unless furnished, from time to time as often as it may require, with security and indemnity satisfactory to it; but the foregoing provisions are intended only for the protection of Trustee, and shall not affect any discretion or power given by any provisions of this Indenture to Trustee to take action in respect of any default without such notice or request from the Bondholders, or without such security or indemnity.

Section 10.08. Reliance by Trustee. Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition, or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of this Indenture, and Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. Trustee shall not be bound to recognize any person as an owner of any Bond or to take any action at his request unless such Bond shall be deposited with Trustee or

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satisfactory evidence of the ownership of such Bond is furnished to Trustee.

Section 10.09. Ownership of Bonds. Trustee may in good faith buy, sell, own, hold, and deal in any of the Bonds issued hereunder and secured by this Indenture, and may join in any action which any Bondholder may be entitled to take with like effect as if Trustee were not a party to this Indenture. Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with Issuer or Company, and may act as depository, trustee, or agent for, any committee or body of Bondholders secured hereby or other obligations of Issuer as freely as if it were not Trustee hereunder.

Section 10.10. Interest on Moneys Held. Trustee may allow and credit interest upon any moneys which it may at any time receive under any of the provisions of this Indenture, at such rate, if any, as it customarily allows upon similar funds of similar size and under similar conditions. All interest allowed on any such moneys shall be credited as provided in Article V with respect to interest on investments.

Section 10.11. Construction. Trustee may construe any of the provisions of this Indenture insofar as the same may appear to be ambiguous or inconsistent with any other provision hereof, and any construction of any such provisions hereof by Trustee in good faith shall be binding upon the Bondholders.

Section 10.12. Resignation of Trustee. Trustee may resign and be discharged of the trusts created by this Indenture by executing an instrument in writing resigning such trust and specifying the date when such resignation shall take effect, and filing the same with the Secretary of Issuer and with the Secretary of Company not less than sixty (60) days before the date specified in such instrument when such resignation shall take effect, and by giving notice to the registered owner of each of the Outstanding Bonds of such resignation by first class mail, in a sealed envelope, postpaid, addressed to each registered owner at his address recorded on the bond registration books not less than three (3) weeks prior to the date specified in such notice when such resignation shall take effect. Such resignation shall take effect on the day specified in such instrument and notice, unless previously a successor trustee shall be appointed as hereinafter provided, in which event such resignation shall take effect immediately on the appointment of such successor trustee.

Section 10.13. Removal of Trustee. Trustee or any trustee hereafter appointed hereunder may be removed at any time by an instrument in writing, appointing a successor trustee, filed with the trustee so removed and executed by the owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Section 10.14. Appointment of Successor Trustee. In case at any time Trustee, or any trustee hereafter appointed, shall resign, or shall be removed, or shall be dissolved, or if its property or affairs

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shall be taken under the control of any state or federal court or administrative body because of insolvency, or for any other reason, a vacancy shall forthwith and ipso facto exist in the office of trustee, a successor may be appointed by the owners of a majority in aggregate principal amount of the Bonds then Outstanding, by an instrument or instruments in writing filed with the Secretary of the Board of Issuer, signed by such Bondholders or by their attorney-in-fact duly authorized. Copies of each instrument shall be promptly delivered by Issuer to the predecessor trustee and to the trustee so appointed.

Until a successor trustee shall be appointed by the Bondholders as herein authorized, Issuer, by an instrument authorized by resolution of its Board, may appoint a trustee to fill such vacancy. After any appointment by Issuer or the Bondholders, Issuer shall cause notice of such appointment to be immediately mailed to the registered owner of each of the Outstanding Bonds by first class mail, in a sealed envelope, postpaid, addressed to each registered owner at his address recorded on the bond registration books. Any new trustee so appointed by Issuer shall immediately and without further act be superseded by a trustee appointed by the Bondholders in the manner above provided.

Section 10.15. Qualification of Successor Trustee. Every successor in the trust appointed in pursuance of the foregoing provisions of this Article shall be a trust company, a bank and trust company or a national bank with trust powers, having a combined capital and surplus of at least Two Hundred Fifty Million Dollars ($250,000,000) if there be such a trust company, bank and trust company, or national bank willing and able to accept the trust on reasonable and customary terms.

Section 10.16. Court Appointment. In case at any time Trustee or any trustee hereafter appointed shall resign and no appointment of a successor trustee shall be made pursuant to the foregoing provisions of this Article prior to the date specified in the notice of resignation as the date when such resignation shall take effect, the retiring trustee may forthwith apply to a court of competent jurisdiction for the appointment of a successor trustee. If, in a proper case, no appointment of a successor trustee shall be made pursuant to the foregoing provisions of this Article within two (2) months after a vacancy shall have occurred in the office of Trustee, the retiring Trustee or any Bondholder may apply to any court of competent jurisdiction to appoint a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper, prescribe and appoint a successor trustee.

Section 10.17. Transfer to Successor Trustee. Any successor trustee appointed hereunder shall execute, acknowledge, and deliver to Issuer an instrument accepting such appointment hereunder, and thereupon such successor trustee, without any further act, deed, or conveyance, shall become duly vested with all the estates, property, rights, powers, trusts, duties, and obligations of its predecessor in the trust hereunder,

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with like effect as if originally named Trustee herein. Upon request of such trustee, the trustee ceasing to act and Issuer shall execute and deliver an instrument transferring to such successor trustee all the estates, property, rights, powers, and trusts hereunder of the trustee so ceasing to act; and the trustee so ceasing to act shall, after payment of all fees and expenses due it, pay over to the successor trustee all moneys and other assets at the time held by it hereunder.

Section 10.18. Merger or Consolidation of the Trustee. Any corporation into which any trustee hereunder may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which any trustee hereunder shall be a party, shall be the successor trustee under this Indenture, without the execution or filing of any paper or any further act on the part of the parties hereto, anything to the contrary notwithstanding.

Section 10.19. Prudent Man Rule. Notwithstanding any other provisions of this Article, Trustee shall, during the existence of an Event of Default known to Trustee, exercise such of the rights and powers vested in it by this Indenture and use the same degree of skill and care in their exercise as a prudent man would use and exercise under the circumstances in the conduct of his own affairs.

Section 10.20. Notice of Default to Registered Owners. Upon the occurrence of an Event of Default hereunder (or an event which with the passage of time or giving of notice or both would be an Event of Default) to the knowledge of Trustee, Trustee shall within thirty (30) days give written notice thereof by mail to each registered owner of Bonds then Outstanding at his last address appearing upon the Bond registry books of Issuer kept by Trustee, unless such Event of Default shall have been cured before the giving of such notice.

Section 10.21. Judicial Proceedings. In any judicial proceeding to which Issuer is party and which in the opinion of Trustee and its counsel has a substantial bearing on the interests of the Bondholders, Trustee, if permitted by the court having jurisdiction in the premises, may, but shall not be obligated to, intervene on behalf of the owners of the Bonds and shall, upon receipt of indemnity satisfactory to it, do so if requested in writing by the owners of at least twenty-five per cent (25%) in aggregate principal amount of Bonds then Outstanding.

Section 10.22. Trustee's Performance. The duties and obligations of Trustee shall be determined solely by the express provisions of this Indenture, and Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against Trustee. Trustee is not a party to the Agreement and notwithstanding any provision herein or therein, Trustee shall have no duty or obligation to Company except as may be expressly set forth in this Indenture.

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Section 10.23. Trustee to Record. Trustee shall (1) at closing, cause the Agreement, this Indenture, any additional security instruments filed with Trustee as additional security for the Bonds, each amendment and supplement to any such instrument, and a memorandum, financing statement, or continuation statement with respect to such instruments, amendments, or supplements to be filed, registered, and recorded and to be refiled, reregistered, and rerecorded in such manner and in such places as may be required by any present or future law in order to publish notice of and fully to protect the lien of this Indenture and to publish notice of and to protect the rights and security of the owners of the Bonds and the rights of Trustee under the Agreement and this Indenture and (2) perform or cause to be performed from time to time any other act as required by law, and execute and file or cause to be executed and filed any and all instruments of further assurance (including financing statements with respect to any of such instruments) that may be necessary for such publication and protection. Issuer shall, when so requested by Trustee, execute all such instruments, memoranda, or statements necessary to maintain, protect, or preserve the interests assigned to Trustee under this Indenture. It is specifically agreed that Trustee may rely upon opinions of counsel as to what, if any, filings are necessary under this Section.

Issuer covenants that it will do, execute, acknowledge, and deliver, or cause to be done, executed, acknowledged, and delivered, such indentures supplemental hereto and such further acts, instruments, and transfers as Trustee may reasonably require for the better assigning, pledging, and confirming unto Trustee the Trust Estate assigned and the revenues pledged hereunder.

## ARTICLE XI

## Modification of This Indenture and Supplemental Indenture

Section 11.01. Modification by Issuer and Trustee. With consent of Company, Issuer, when authorized by resolution of the Board, and Trustee from time to time and at any time, subject to the conditions and restrictions in this Indenture contained, may, without the consent of the Bondholders, enter into an indenture or indentures supplemental hereto, which thereafter shall form a part hereof, for any one or more of the following purposes:

(a) To add to the covenants and agreements of Issuer contained in this Indenture other covenants and agreements thereafter to be observed, and to surrender any right or power herein reserved to or conferred upon Issuer;

(b) To modify any of the provisions of this Indenture or relieve Issuer from any of the obligations, conditions, or restrictions herein contained; provided, that no such modification shall be or become operative or effective which shall in any manner

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impair any of the rights of the Bondholders or of Trustee; and provided further, that Trustee may in its sole discretion decline to enter into any such supplemental indenture which does not afford adequate protection to Trustee when the same shall become operative;

(c) To cure any ambiguity or to cure, correct, or supplement any defect or inconsistent provision contained in this Indenture or in any supplemental indenture in a manner which, in the opinion of Bond Counsel, is not adverse to the interests of the Bondowners;

(d) To make such provision in regard to matters or questions arising under this Indenture as may be necessary or desirable and not inconsistent with this Indenture and not, in the opinion of Bond Counsel, adverse to the interests of the Bondholders; or

(e) To make any other change which, in the opinion of Bond Counsel, does not materially adversely affect the rights of Issuer or any Bondholder;

and Issuer hereby covenants that it will perform all the requirements of any such supplemental indentures which may be in effect from time to time; but no restriction or obligation imposed hereby or by any supplemental indenture upon Issuer in respect of any of the Bonds then Outstanding under this Indenture may, except as otherwise provided in Section 11.02, be waived or modified by such supplemental indentures, or otherwise. Nothing in this Article contained shall affect or limit the right or obligation of Issuer to execute and deliver to Trustee any instrument of further assurance or other instrument which elsewhere in this Indenture it is provided shall be delivered to Trustee.

Section 11.02. Consent by Bondholders. Exclusive of the purposes set forth in Section 11.01, from time to time the owners of not less than a majority in aggregate principal amount of the Bonds affected and at the time Outstanding, by an instrument or instruments in writing signed by such owners and filed with Trustee, shall have power to assent to and authorize any modification or alteration of any of the provisions of this Indenture that shall be proposed by Issuer and consented to by Trustee and Company; and any action herein authorized to be taken, with the assent or authority given as aforesaid, shall be binding upon all of the Bondholders hereby secured and upon Trustee as fully as though such actions were specifically and expressly authorized by the terms of this Indenture; provided that, without the consent of all Bondholders affected and at the time Outstanding, no such modification or alteration shall permit:

(a) the reduction of the percentage of Bonds, the consent of the owners of which is required for any such modification or alteration;

(b) the extension of the time or times of payment of the principal of, premium, if any, or interest on any of the Bonds, or

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the reduction in the principal amount thereof or in the rate of interest or the amount of any premium thereon or any other modification in the terms of payment of the principal thereof or interest or premium thereon;

(c) the creation by Issuer of any lien ranking prior to or on a parity with the lien of this Indenture;

(d) the giving of any preference of any Bond over any other Bond; or

(e) the extension of any waiver of default to subsequent defaults.

Any modification of the provisions of this Indenture so made as aforesaid shall be set forth in a supplemental indenture between Trustee and Issuer which shall, if deemed advisable by counsel, be recorded in the same manner as this Indenture.

Section 11.03.Bond Insurer to be Deemed Bondowner; Rights of Bond Insurer; Payments by Bond Insurer in Advance of Scheduled Maturity Dates; Notices. (a) Notwithstanding any provision of this Indenture to the contrary, Bond Insurer shall at all times be deemed the exclusive owner of all Bonds for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies. No acceleration of the Bonds shall be permitted, and no Event of Default relating to the Bonds shall be waived, without Bond Insurer's consent. Subject to Section 10.07, Bond Insurer shall have the right to direct all remedies pursuant to this Indenture.

(b) No amendment or supplement shall be made to this Indenture or to the Agreement without the prior written consent of Bond Insurer to such amendment or supplement, except amendments or supplements made pursuant to Section 11.01 hereof. A copy of such amendment or supplement shall be sent by Trustee to Standard & Poor's Corporation, 25 Broadway, 21st Floor, New York, New York 10004.

(c) To the extent that Bond Insurer makes payment of the principal of or interest on the Bonds, it shall become the owner of such Bonds, appurtenant coupons or right to payment of such principal of or interest on such Bonds and shall be fully subrogated to all of the registered owners' rights to payment thereof. To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note Bond Insurer's rights as subrogee on the registration books of Issuer maintained by Trustee upon receipt of proof from Bond Insurer as to payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, Trustee shall note Bond Insurer's rights as subrogee on the registration books of Issuer maintained by Trustee upon surrender of the Bonds by the registered owners thereof to the Insurance Paying Agent.

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(d) In the event that the principal of and/or interest on the Bonds shall be paid by Bond Insurer pursuant to the terms of the Municipal Bond Insurance Policy, (i) such Bonds shall continue to be Outstanding under this Bond Indenture, (ii) the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of Issuer to the registered owners shall continue to exist, and Bond Insurer shall be fully subrogated to all of the rights of such registered owners in accordance with the terms and conditions of subparagraph (c) above and the Municipal Bond Insurance Policy, and (iii) the Company shall reimburse Bond Insurer for the amounts paid by Bond Insurer under the policy. Amounts paid to Bond Insurer as bond owner and subrogee shall, to the extent of such payment, be credited against the amounts to be paid to Bond Insurer pursuant to clause (iii).

(e) In the event that Bond Insurer shall make any payments of principal of, and/or interest on, any of the Bonds pursuant to the terms of the Municipal Bond Insurance Policy, and the Bonds are accelerated, Bond Insurer may, at any time and at its sole option, pay to the owners of the Bonds all or any portion of amounts due under the Bonds prior to the stated maturity dates thereof.

(f) Bond Insurer shall be notified (i) in advance of the execution of any supplemental indenture and of any amendment, change or modifications of the Agreement in the event consent of the owners of Bonds is not required, (ii) immediately upon the occurrence of any Event of Default or of any event that with notice and/or with the lapse of time could become an Event of Default, and (iii) of any redemption of Bonds at the same time that the owners of the Bonds to be redeemed are notified. In addition, all notices, reports, certificates and opinions to be delivered to or by Bond Trustee or to the owners of Bonds or available at the request of the owners of the Bonds shall also be delivered to Bond Insurer or made available at Bond Insurer's request, as the case may be.

(g) Trustee shall also notify Bond Insurer immediately upon the resignation or removal of Trustee or the appointment of a successor Trustee. Any notice that is required to be given to the owners of the Bonds or to the Trustee pursuant to this Indenture, any supplemental indenture and the Agreement shall also be provided to Bond Insurer. All notices required to be given to Bond Insurer under this Indenture shall be in writing and shall be sent by registered or certified mail or by overnight delivery, addressed to Manager, Surveillance Department, MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504.

Section 11.04. Execution of Supplemental Indentures. In executing, or accepting the additional trust created by, any supplemental indenture permitted by this Article or the modification thereby of the trusts created by this Indenture, Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. Trustee may, but shall not be obligated to,

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enter into any such supplemental indenture which affects Trustee's own rights, duties or immunities under this Indenture or otherwise.

ARTICLE XII

Miscellaneous

Section 12.01. Successors and Assigns. In the event of the dissolution of Issuer, all of the covenants, stipulations, promises, and agreements in this Indenture contained, by or on behalf of, or for the benefit of, Issuer, shall bind or inure to the benefit of the successors of Issuer from time to time and any officer, board, commission, agency, or instrumentality to whom or to which any power or duty of Issuer shall be transferred.

Section 12.02. Parties, the Company and Bondholders Alone Have Rights Under Indenture. Except as herein otherwise specifically provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person, firm, or corporation other than the parties hereto, the Company and the owners of the Bonds issued hereunder, any right, remedy, or claim by reason of this Indenture, said Indenture being intended to be for the sole and exclusive benefit of the parties hereto, the Company and the owners of the Bonds issued hereunder.

Section 12.03. Survival of Valid Bonds. In case any one or more of the provisions of this Indenture or of the Bonds issued hereunder shall, for any reason, be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Indenture or of said Bonds, but this Indenture and the Bonds shall be construed and enforced as if such illegal or invalid provisions had not been contained therein.

Section 12.04. Personal Liability. No covenant or agreement contained in the Bonds or in this Indenture shall be deemed to be the covenant or agreement of any member, agent, or employee of Issuer or Trustee in his individual capacity, and neither the members of the Board nor any official executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 12.05. Notices. All notices, certificates, requests, or other communications hereunder shall be sufficiently given and shall be deemed given, unless otherwise required by this Indenture, when mailed by first class mail, postage prepaid, addressed as follows: if to Issuer, Matagorda County Navigation District Number One, 209 Fifth Street, Palacios, Texas 77465, attention: General Manager; if to Company at the

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address set forth in the Agreement; and if to Trustee, The Bank of New York, 101 Barclay Street, 21st Floor, New York, New York 10286, attention: Corporate Trust Trustee Administration.

A duplicate copy of each notice, certificate, request, or other communication given hereunder to Issuer, Company, or Trustee shall also be given to the others. Company, Issuer, and Trustee may, by written notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, requests, or other communication shall be sent.

Section 12.06. Counterparts. This Indenture may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 12.07. Construction. The laws of the State of Texas shall govern the construction of this Indenture and of all Bonds issued hereunder except that the rights, duties and obligations of Trustee shall be governed by the laws of the State of New York.

Section 12.08. Holidays. Whenever in this Indenture a duty or payment is required to be performed or made or a notice given on a given day of the month, and such day is not a Business Day, the required duty shall be performed on the next succeeding day which is a Business Day.

Section 12.09. Instruments by Bondholders and Proof of Ownership of Bonds. Any request, direction, consent, or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondholders may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Bondholders in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of Trustee with regard to any action taken by it under such instrument if made in the following manner:

(a) The fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgements within such jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution.

(b) The fact of the holding of the Bonds hereunder by any Bondholder and the amount and the numbers of such Bonds and the date of his holding the same shall be proved by the registration books kept under the provisions of Article II.

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Nothing contained in this Article shall be construed as limiting Trustee to such proof, it being intended that Trustee may accept any other evidence of the matters herein stated which to it may seem sufficient. Any request or consent of the owners of any Bond shall bind every future owner of the same Bond in respect of anything done by Trustee in pursuance of such request or consent.

Section 12.10. Alternative Notice to Bondholders. In case it shall for any reason be impracticable to publish or mail any notice required by any provision of this Indenture to be published or sent to Bondholders, then such method of publication or notification as shall be made with the approval of Trustee shall constitute sufficient notice.

IN WITNESS WHEREOF, MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE, acting through its Board of Navigation and Canal Commissioners, has caused this Indenture to be executed in its name by its Chairman and attested by its Secretary, and approved by its General Manager, and its corporate seal hereto affixed and THE BANK OF NEW YORK, to evidence its acceptance of the trusts hereby created and vested in it, has caused this Indenture to be executed in its behalf by one of its Vice Presidents, all as of the day and in the year first above written.

MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE

By__________________________________
Chairman, Board of Navigation and Canal Commissioners

(SEAL)

ATTEST:

By ____________________________
Secretary

APPROVED:

By ____________________________
General Manager

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THE BANK OF NEW YORK

By:________________________________

Title:_____________________________

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EXHIBIT 3(a)

# BOND PURCHASE AGREEMENT

MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE

$100,635,000

6.10% Pollution Control Revenue Refunding Bonds
(Central Power and Light Company Project)
Series 1995

BOND PURCHASE AGREEMENT (this "Purchase Agreement") dated July 13, 1995 between MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE, a governmental agency and body politic and corporate of the State of Texas (the "Issuer") and MORGAN STANLEY & CO. INCORPORATED, GOLDMAN, SACHS & CO. and J.P. MORGAN SECURITIES INC. (the "Underwriters").

1. Background

(a) Subject to the terms and conditions herein set forth, the Underwriters hereby agree to jointly and severally purchase from the Issuer, and the Issuer hereby agrees to sell and deliver to the Underwriters, the Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 (the "Refunding Bonds") in the principal amounts set forth in Schedule I hereto. The Refunding Bonds shall be dated, shall mature and shall bear interest from time to time at the rate per annum as set forth in Section 2 hereof and the Refunding Bonds shall otherwise have such terms and provisions as set forth in the Official Statement and the Indenture (as hereinafter defined).

(b) The Refunding Bonds will be issued pursuant to resolutions adopted by the Board of Directors of the Issuer on June 1, 1995 (the "Resolution"), and under an Indenture of Trust dated as of July 1, 1995 (the "Indenture") between the Issuer and The Bank of New York, as trustee (the "Trustee"). The Refunding Bonds are to be issued to provide funds for the redemption and cancellation of all outstanding Matagorda County Navigation District Number One 10-1/8% Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1984 (the "Series 1984 Bonds") and all outstanding Matagorda County Navigation District Number One 9-3/4% Collateralized Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1985A (the "Series 1985A Bonds"). The Series 1984 Bonds and the Series 1985A Bonds were issued to provide funds for the acquisition, construction and improvement of certain

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pollution control and solid waste disposal facilities (the "Facilities") at the South Texas Project Nuclear Generating Plant (the "Plant") located in Matagorda County, Texas. The Company owns a 25.2% undivided interest in the Plant. In connection with the issuance of the Refunding Bonds, the Issuer and the Company have entered into an Installment Payment Agreement dated as of July 1, 1995 (the "Installment Agreement"), which obligates the Company to pay amounts designed to be sufficient to pay the principal of, premium, if any, and interest on the Refunding Bonds. The Issuer has assigned the right to receive such payments from the Company to the Trustee pursuant to the Indenture.

(c) MBIA Insurance Corporation ("MBIA") has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Bonds effective as of the date issuance of the Bonds. The Municipal Bond Insurance Policy will insure payment only as principal or interest payments become due but are not paid.

(d) Concurrently with the execution and delivery of this Purchase Agreement, the Company is delivering to the Issuer and the Underwriters its Letter of Representation dated of even date herewith in substantially the form of Appendix A hereto (the "Letter of Representation") indicating its approval of the terms and provisions of this Purchase Agreement and acknowledging that the Issuer will sell the Refunding Bonds to the Underwriters and the Underwriters will jointly and severally purchase the Refunding Bonds and make a public offering thereof in reliance upon the representations, covenants and indemnities contained in the Letter of Representation.

(e) The Facilities constitute solid waste disposal facilities or air or water pollution control facilities for purposes of Section 103(b)(4)(E) or (F) of the Internal Revenue Code of 1954, as amended. The Refunding Bonds will be obligations described in Section 1313 of the Tax Reform Act of 1986 so that interest on the Refunding Bonds will not be includible in gross income for federal tax purposes (except as noted in the opinion of Bond Counsel included as Appendix B to the Official Statement) and the Underwriters may offer the Refunding Bonds for sale without registration under the Securities Act of 1933, as amended (the "Securities Act"), or qualification of the Indenture under the Trust Indenture Act of 1939, as amended (the "Trust Act").

(f) A Preliminary Official Statement dated May 31, 1995, including all Appendices thereto and all documents incorporated therein by reference (the "Preliminary Official Statement"), has been prepared for use in the offering of the Refunding Bonds, and a final Official Statement dated as of the date hereof, including all Appendices thereto and all documents incorporated therein by reference (the "Final Official Statement"), has been delivered by the Issuer to the Underwriters. The Final Official Statement, as it may be amended or supplemented with the consent of the Issuer, the Underwriters and the Company, is hereinafter referred to as the "Official Statement."

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2. Purchase, Sale and Closing. Subject to the terms and conditions herein set forth, the Underwriters agree to jointly and severally purchase from the Issuer, and the Issuer agrees to sell to the Underwriters, Refunding Bonds in the principal amount set forth opposite each Underwriter's name on Schedule I hereto at a purchase price equal to 100% of the principal amount thereof, plus accrued interest from July 1, 1995 through the day preceding the date of Closing (as herein defined). The Refunding Bonds shall be dated July 1, 1995, shall mature on July 1, 2028 and shall bear interest from time to time at the rate of 6.10% per annum. Payment shall be made in immediately available Federal funds payable to the order of the Trustee for the account of the Issuer. Closing (the "Closing") will be at the offices of Milbank, Tweed, Hadley & McCloy, 1 Chase Manhattan Plaza, New York, New York at 10:00 A.M., New York time, on July 27, 1995 (the "Closing Date"), or at such other date, time or place as may be agreed on by the Issuer, the Company and the Underwriters. Refunding Bonds will be delivered to The Depository Trust Company at least 24 hours before Closing; the Refunding Bonds will be registered in the name of CEDE & Co. in the denomination of $100,635,000.

3. Issuer's Representations. The Issuer makes the following representations and warranties, all of which shall survive Closing:

(a) The information with respect to the Issuer contained in the Preliminary Official Statement and in the Final Official Statement is, and, as such information may be amended or supplemented as of the Closing Date will be, true and correct in all material respects, and such information does not, and as it may be amended or supplemented as of the Closing Date will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements in the Preliminary Official Statement and the Official Statement relating to the Issuer, in the light of the circumstances under which they were made, not misleading. The copies of the Final Official Statement delivered to the Underwriters on the date hereof have been duly signed and delivered by the Issuer.

(b) The Issuer is a duly constituted and validly existing governmental agency and body politic and corporate of the State of Texas, with full legal right, power and authority under and pursuant to Chapters 30, 60 and 62, Texas Water Code (the "Enabling Legislation"), to execute and deliver this Purchase Agreement, the Installment Agreement and the Indenture, to sign and deliver the Official Statement, to carry out and consummate the transactions contemplated by each of the foregoing and all other agreements relating thereto, and to issue, sell and deliver the Refunding Bonds for the purpose of refunding all or any part of outstanding bonds of the Issuer.

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(c) The Issuer has full legal right, power and authority and has taken all necessary action and has complied with all applicable provisions of law required (i) to adopt the Resolution, (ii) to execute and deliver this Purchase Agreement, the Installment Agreement, the Refunding Bonds and the Indenture, (iii) to issue and sell the Refunding Bonds to the Underwriters pursuant hereto and to the Indenture and (iv) to carry out and consummate all other transactions contemplated by each of such documents, and the Issuer has complied with all applicable provisions of law in all matters relating to such transactions.

(d) The Issuer has duly authorized (i) the delivery and due performance of the Resolution and the execution, delivery and due performance of this Purchase Agreement, the Installment Agreement, the Refunding Bonds and the Indenture, including, without limitation, the issuance and sale of the Refunding Bonds to the Underwriters, (ii) the execution and delivery of the Official Statement by the Issuer and the distribution of the Preliminary Official Statement and the Official Statement and (iii) the taking of any and all such action as may be required on the part of the Issuer to carry out, give effect to and consummate the transactions contemplated by each of the foregoing. None of the proceedings or actions taken by the Issuer with respect to any of the Refunding Bonds, the Indenture, the Installment Agreement, the Preliminary Official Statement, the Official Statement or this Purchase Agreement have been repealed, rescinded or revoked. The Official Statement is deemed final by the Issuer for purposes of Rule 15c2-12 ("Rule 15c2-12") under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(e) The Issuer has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the Issuer is a bond issuer whose arbitrage certifications may not be relied upon.

(f) The Resolution has been duly adopted by the Issuer, is in full force and effect and constitutes the legal, valid and binding act of the Issuer. This Purchase Agreement has been duly executed and delivered by the Issuer and constitutes the legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally and to the effect of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law). The Installment Agreement and the Indenture each will be duly executed by the Issuer and, when

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delivered, each will constitute the legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally and to the effect of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(g) When delivered to and paid for by the Underwriters at Closing in accordance with the provisions of this Purchase Agreement, the Refunding Bonds initially delivered will have been duly approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas, and the Refunding Bonds will be duly authorized, executed, issued and delivered and will constitute legal, valid, binding and enforceable special obligations of the Issuer in accordance with their terms and in conformity

with the Enabling Legislation and will be entitled to the benefit and security of the Installment Agreement, the Resolution and the Indenture.

(h) No approval, permit, consent or authorization of any governmental or public agency, authority or person not already obtained (other than the approval of the Attorney General of the State of Texas with respect to the Refunding Bonds, the registration of the Refunding Bonds by the Comptroller of Public Accounts of the State of Texas and the order of the Securities and Exchange Commission (the "Commission") under the Public Utility Holding Company Act of 1935 (the "1935 Act") authorizing the Company's obligations with respect to the Refunding Bonds and the Installment Agreement, which approvals and orders shall be obtained on or prior to the Closing Date, the receipt of which are expressly made a condition to the Issuer's, the Underwriters' and the Company's respective obligations to issue, sell and purchase the Refunding Bonds hereunder and under the Letter of Representation; and other than any approvals that might be required under the Blue Sky or securities laws of any jurisdiction) is required in connection with the issuance and sale of the Refunding Bonds, the adoption of the Resolution or the execution and delivery by the Issuer of the Refunding Bonds, the Installment Agreement, the Indenture or this Purchase Agreement or the performance of its obligations under any of such instruments.

(i) The adoption of the Resolution, the issuance and sale of the Refunding Bonds, the acceptance of the Letter of Representation, the execution and delivery by the Issuer of

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this Purchase Agreement, the Installment Agreement, the Refunding Bonds and the Indenture, the execution and delivery by the Issuer of the Official Statement and compliance with the provisions hereof and thereof, will not conflict with, violate or result in a breach of any provision of, or constitute a default (or an event which with notice or passage of time, or both, would constitute a default) on the part of the Issuer under, any indenture, commitment, agreement or other instrument to which the Issuer is a party or by which it is bound, or under any provision of the Texas Constitution or any existing law, rule, regulation, judgment, ordinance, order or decree to which the Issuer (or any of its directors or officers in their respective capacities as such) is subject, or result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property, assets or revenues of the Issuer, except as provided in the Refunding Bonds and the Indenture.

(j) The Issuer is solvent and since its creation, the Issuer has not been in default in the payment of principal of, premium, if any, or interest on, or otherwise been in default with respect to, any of its bonds, notes or other securities or any legally authorized obligation issued or guaranteed by it; and no bankruptcy or insolvency proceedings have been taken by or against the Issuer.

(k) Payments under the Installment Agreement, the Indenture, the Resolution and the Refunding Bonds, and the interest on the Refunding Bonds, are not subject to taxation in the State of Texas. No legislation, ordinance, rule or regulation has been enacted by, or is currently pending before, any governmental body, department or agency of the State of Texas, nor has any decision been rendered by any court of competent jurisdiction of the State of Texas, which would adversely affect the exemption from all taxation in the State of Texas of (i) any payments under the Installment Agreement, the Indenture, the Resolution or the Refunding Bonds and the interest on the Refunding Bonds or (ii) all bonds and obligations of the general character of the Refunding Bonds. There are no stamp, documentary, transfer or like taxes in the State of Texas which would be applicable to the original issuance or subsequent transfers of the Refunding Bonds.

(l) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board, governmental agency or body or arbitrator, pending or, to the best of the knowledge of the Issuer, threatened (nor to the best of the knowledge of the Issuer is there any basis therefor), which in any way questions the

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validity of the Enabling Legislation, the powers of the Issuer referred to in paragraphs (b) and (c) of this Section 3 above, or the validity of any proceedings taken by the Issuer in connection with the issuance and sale of the Refunding Bonds, or wherein an unfavorable decision, ruling or finding might adversely affect the transactions contemplated hereby or by the Installment Agreement, the Indenture or the Official Statement or which, in any way, might adversely affect the validity or enforceability of the Refunding Bonds, the Resolution, the Installment Agreement, the Indenture or this Purchase Agreement (or of any other instrument required or contemplated for use in consummating the transactions contemplated thereby or hereby) or the exclusion from gross income for federal income tax purposes of interest on the Refunding Bonds.

4. Covenants and Agreements of the Issuer. The Issuer covenants and agrees with the Underwriters that it will:

(a) Furnish or cause to be furnished to each of the Underwriters (i) on the date of the execution of this Purchase Agreement, two copies of the Final Official Statement and, on the date of any amendment or supplement thereto, two copies of such amendment or supplement, prepared in a manner consistent with (b) below, in each case signed by or on behalf of the Issuer by its Chairman and (ii) on or prior to the Closing Date, two specimens of the form of Refunding Bond, two certified copies of the Resolution and two executed copies of the Indenture and of the Installment Agreement (which documents shall be in the forms previously delivered to each of the Underwriters, subject to such changes as the Underwriters shall approve); the Issuer agrees that the Company may at its expense furnish to each of the Underwriters, without charge, as many copies of the Official Statement and any amendment or supplement thereto as such Underwriter may reasonably request.

(b) Before amending or supplementing the Official Statement, furnish to each of the Underwriters two copies and the Company two copies of each proposed amendment or supplement. No amendment or supplement to the Official Statement will contain material information different from that contained in the Final Official Statement which is reasonably unsatisfactory to the Underwriters or the Company.

(c) During such period as the Underwriters believe delivery of the Official Statement is necessary or desirable in connection with sales of the Refunding Bonds by any Underwriter or a dealer, if any event shall occur as a result of which it may be necessary to amend or supplement the Official Statement in order to make the statements therein, in

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the light of the circumstances when the Official Statement is delivered to a purchaser, not misleading, immediately notify the Underwriters and the Company of such event and cooperate at the request of the Underwriters in the preparation of amendments or supplements to the Official Statement which in the judgment of the Underwriters are necessary so that the statements in the Official Statement as so amended or supplemented will not, in light of the circumstances when the Official Statement is delivered to a purchaser, be misleading.

(d) Cooperate in qualifying the Refunding Bonds for offer and sale and in determining their eligibility for investment under the laws of such jurisdictions as the Underwriters may reasonably request, provided that the Issuer shall not be required to qualify to do business or consent to general service of process in any state or jurisdiction other than the State of Texas.

(e) Apply the proceeds from the issuance and sale of the Refunding Bonds in the manner set forth in the Official Statement, and not take any action which will adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Refunding Bonds.

(f) Promptly make or cause to be made under the Uniform Commercial Code of the State of Texas, or under any other applicable law, at such times as may be required, all filings, if any, required in order to establish, maintain, protect or preserve the interest of the Trustee in the rights assigned to it under the Resolution, the Installment Agreement and the Indenture.

(g) The Issuer will refrain from knowingly taking any action with regard to which the Issuer may exercise control that would result, or could reasonably be expected to result, in the loss of the exclusion from gross income for federal income tax purposes of the interest on the Refunding Bonds referred to under the caption "Tax Matters" in the Official Statement.

5. Survival of Representations, Warranties and Agreements. The respective covenants, agreements, representations, warranties and other statements of each of the Issuer and the Underwriters, as set forth in this Purchase Agreement or made by them pursuant to this Purchase Agreement, shall remain in full force and effect, regardless of any investigation made by or on behalf of the Issuer or any Underwriter or any officer, director or controlling person thereof, and shall survive the termination of this Purchase Agreement and the delivery of and payment for the Refunding Bonds.

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6. Conditions of Underwriters' Obligations. The Underwriters' obligation to purchase and pay for the Refunding Bonds at Closing is subject to the performance by the Issuer of its obligations and agreements to be performed hereunder and under the Installment Agreement, the Resolution and the Indenture at or prior to Closing and the performance by the Company of the obligations to be performed by it under the Letter of Representation and the Installment Agreement at or prior to Closing and to the fulfillment of the following conditions at or prior to Closing:

(a) The Company shall have executed and the Issuer shall have accepted the Letter of Representation and the representations and warranties of the Issuer herein and of the Company in the Letter of Representation shall be true and correct on and as of the Closing Date;

(b) Each of the Indenture and the Installment Agreement shall have been duly authorized, executed and delivered by the respective parties thereto and shall be in full force and effect, and each shall not have been amended, modified or supplemented since the date hereof except as may have been agreed to by the Underwriters;

(c) Neither the Issuer nor the Company shall be in default in the performance of any of their covenants and agreements herein or in the Letter of Representation, respectively;

(d) Subsequent to the execution of this Purchase Agreement, there shall not have been any downgrading of any rating by Moody's Investors Service, Inc. or Standard & Poor's Corporation of any securities issued by the Company or of any bonds issued by the Issuer with respect to the Facilities of the Company in Matagorda County or of the Refunding Bonds;

(e) The Underwriters shall have received:

(i) The Final Official Statement signed on behalf of the Issuer by its Chairman, together with any amendments or supplements thereto to the Closing Date;

(ii) Opinions of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel"), dated the Closing Date, substantially in the forms attached hereto as Exhibit A-1 and Exhibit A-2;

(iii) An opinion, dated the Closing Date, of Mayfield & Mayfield ("Issuer's Counsel"), counsel for the Issuer, substantially in the form attached hereto as Exhibit B;

(iv) An opinion, dated the Closing Date, of Milbank, Tweed, Hadley & McCloy, special counsel for the Company, substantially in the form attached hereto as Exhibit C;

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(v) An opinion, dated the Closing Date, of Vinson & Elkins L.L.P., special counsel for the Company, substantially in the form attached hereto as Exhibit D;

(vi) An opinion, dated the Closing Date, of Sidley & Austin, counsel for the Underwriters, substantially in the form attached hereto as Exhibit E;

(vii) A letter, dated the Closing Date, from Arthur Andersen LLP, independent certified public accountants of the Company, in form and substance satisfactory to the Underwriters and their counsel and covering the matters set forth in Exhibit F hereto;

(viii) A certificate, dated the Closing Date, signed by the Chairman of the Issuer or other appropriate official satisfactory to the Underwriters, to the effect that each of the representations and warranties of the Issuer set forth in this Purchase Agreement is true and correct on and as of the Closing Date as if made on and as of the Closing Date and that all agreements to be complied with and obligations to be performed by the Issuer hereunder and under the Installment Agreement, the Resolution and the Indenture on or prior to the Closing Date or as contemplated hereby or thereby have been complied with and performed;

(ix) A certificate, dated the Closing Date, signed by a Vice President or the Treasurer of the Company to the effect that, (A) the representations and warranties contained in the Letter of Representation or in any certificate delivered by the Company hereunder or thereunder is true and correct in all material respects on and as of the Closing Date as if made on and as of the Closing Date, (B) all agreements to be complied with and obligations to be performed by the Company pursuant to the Letter of Representation or as contemplated by the Letter of Representation, the Resolution, the Installment Agreement or the Indenture on or prior to the Closing Date have been complied with and performed and (C) there has been no material adverse change in the Company's financial condition or any adverse development concerning its business or assets which would result in a material adverse change in its prospective financial condition or results of operations from that described in or contemplated by the Official Statement or, if such change has occurred, full information with respect thereto;

(x) A certificate, satisfactory in form and substance to the Underwriters, of one or more duly authorized officers of the Trustee, dated the Closing Date, as to the due authentication and delivery of the Refunding Bonds by the Trustee under the Indenture;

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(xi) Arbitrage certifications, satisfactory in form to the Underwriters and Underwriters' counsel, by the Company and the Issuer (which may be in the form of a single document);

(xii) Evidence, satisfactory to the Underwriters, of the ratings on the Refunding Bonds;

(xiii) Such additional certificates (including appropriate no litigation certificates), instruments or other documents as the Underwriters or Underwriters' counsel may reasonably request to evidence compliance with applicable law, the authority of the Trustee to act under the Indenture, and the due performance and satisfaction by the Company at or prior to such date of all agreements then to be performed and all conditions then to be satisfied by it, in connection with this Purchase Agreement, the Letter of Representation, the Installment Agreement, the Resolution and the Indenture, and to evidence that the interest on the Refunding Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions on the Closing Date, and the status of the offering under the Securities Act, the 1935 Act and the Trust Act;

(xiv) An opinion, dated the Closing Date, of a Vice President and Assistant General Counsel of MBIA, substantially in the form attached hereto as Exhibit G; and

(xv) A copy of the Municipal Bond Insurance Policy, as issued by MBIA and delivered to the Trustee, substantially in the form of Exhibit C to the Official Statement, together with evidence satisfactory to the Underwriters that all general and special conditions to the effectiveness of the Municipal Bond Insurance Policy have been satisfied.

(f) At Closing there shall not have been any material adverse change in the financial condition of the Company or any adverse development concerning the business or assets of the Company which would result in a material adverse change in the prospective financial condition or results of operations of the Company from that described in the Official Statement which, in the sole judgment of the Underwriters, makes it inadvisable to proceed with the sale of the Refunding Bonds;

(g) The Commission shall have issued an order under the 1935 Act, authorizing the Company's obligations with respect to the Refunding Bonds and the Installment Agreement; the Attorney General of the State of Texas shall have examined the Refunding Bonds and the records relating to their issuance, shall have certified as to their validity and shall have

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approved the Refunding Bonds; and the Refunding Bonds shall have been registered by the Comptroller of Public Accounts of the State of Texas;

(h) All matters relating to this Purchase Agreement, the Official Statement, the Refunding Bonds and the sale thereof, the Installment Agreement, the Indenture, the Resolution, the Letter of Representation, and the consummation of the transactions contemplated hereby or thereby shall be satisfactory to and approved by the Underwriters as of the Closing, which approval shall not be unreasonably withheld. Any certificate signed by or on behalf of the Issuer or the Company and delivered at the Closing shall be a representation and warranty by the Issuer or the Company, as the case may be, to the Underwriters as to the statements made therein;

(i) The Underwriters shall have received from the Company payment on the Closing Date by wire transfer of the Underwriters' fees (.820% of the principal amount of the Refunding Bonds) as set forth in Section 5 of the Letter of Representation; and

(j) Subsequent to the dates as of which information is given in the Official Statement, there shall not have been any change or decrease specified in the letter required by subsection (e)(vii) which is, in the judgment of the Underwriters, so material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Refunding Bonds as contemplated in the Official Statement.

7. Events Permitting the Underwriters to Terminate. The Underwriters may terminate their several obligations to purchase the Refunding Bonds at any time before Closing if any of the following occurs:

(a) A legislative, executive or regulatory action (including the introduction or proposal for adoption of legislation, executive orders or regulations) or a court decision which, in the sole judgment of any of the Underwriters, casts sufficient doubt on the legality of, or the tax-free status of interest on, obligations of the general kind and character as the Refunding Bonds so as to materially impair the marketability or materially lower the market price thereof or would make it impractical to market the Refunding Bonds on the terms and in the manner contemplated in the Official Statement;

(b) Any action by the Commission, any other governmental agency, or a court which, directly or indirectly, would require, in the reasonable judgment of the Underwriters, (i) registration of the Refunding Bonds under the Securities Act or (ii) qualification of an indenture in respect of the Refunding Bonds under the Trust Act, or any such action or legislative, executive or regulatory action with the purpose or effect of otherwise prohibiting the issuance, offering or sale of the Refunding Bonds as contemplated hereby or by the Official Statement or of obligations of the general character of the Refunding Bonds;

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(c) (i) Any general suspension or material limitation on trading in securities on the New York Stock Exchange or by the Commission or by any federal or state agency or by the decision of any court, any limitation on prices for such trading or any restrictions on the distribution of securities, (ii) trading in any securities of the Company shall have been suspended by the Commission or a national securities exchange, (iii) a general banking moratorium on commercial banking activities in New York shall have been declared either by federal or New York State authorities, (iv) the rating assigned by any nationally recognized securities rating agency to any securities of the Company as of the date of this Purchase Agreement shall have been lowered since that date or (v) there shall have occurred any outbreak or material escalation of hostilities or other calamity or crisis, the effect of which on the financial markets of the United States is such as to make it, in the judgment of the Underwriters, impracticable to market the Refunding Bonds; or

(d) Any event or condition not expressly contemplated in the Official Statement which, in the sole judgment of the Underwriters, renders untrue or incorrect, in any material adverse respect as of the time to which the same purports to relate, the information, including the financial statements, contained in the Official Statement, including Appendices thereto and documents incorporated therein by reference, or which requires that information not reflected in such Official Statement should be reflected therein in order to make the statements and information contained therein not misleading in any material respect at such time, which, in either event, in the sole judgment of the Underwriters, makes it inadvisable to proceed with the sale of the Refunding Bonds; provided, however, that the Underwriters shall not exercise the termination right provided in this subparagraph (d) (i) until they shall have consulted with the Company with respect to the event or condition at issue and (ii) so long as the Company and the Underwriters shall reasonably believe that such event or condition can be eliminated or cured prior to the Closing Date.

8. Execution in Counterparts. This Purchase Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Purchase Agreement by signing any such counterpart.

9. Notices and Other Actions. All notices, requests, demands and formal actions hereunder will be in writing mailed, telegraphed or delivered to:

The Underwriters:

Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020

Attention: Municipal Department

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The Issuer:

Matagorda County
Navigation District Number One
209 Fifth Street
Palacios, Texas 77465

Attention: General Counsel and Manager

10. Governing Law. This Purchase Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

11. Successors. This Purchase Agreement will inure to the benefit of and be binding upon the parties and their respective successors, and will not confer any rights upon any

[Remainder of page intentionally left blank.]

other person. The term "successor" shall not include any holder of any Refunding Bonds merely by virtue of such holding.

MATAGORDA COUNTY NAVIGATION

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DISTRICT NUMBER ONE

By:_________________________
Chairman

MORGAN STANLEY & CO. INCORPORATED
GOLDMAN, SACHS & CO.
J.P. MORGAN SECURITIES INC.

By: Morgan Stanley & Co. Incorporated

By:__________________________________
Francis J. Sweeney
Principal

SCHEDULE I

| Underwriters | Principal Amount of Refunding Bonds |
|---|---|
| Morgan Stanley & Co. Incorporated. . . . . . | 34,635,000 |
| Goldman, Sachs & Co. . . . . . . . . . . . . | 33,000,000 |
| J.P. Morgan Securities Inc. . . . . . . . . . | 33,000,000 |
| Total | $100,635,000 |

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EXHIBIT A-1
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July 27, 1995

MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE
POLLUTION CONTROL REVENUE REFUNDING BONDS
(CENTRAL POWER AND LIGHT COMPANY PROJECT)
SERIES 1995

WE HAVE EXAMINED into the validity of the bonds described above (the "Bonds"), issued by the Matagorda County Navigation District Number One (the "Issuer"), initially dated as of July 1, 1995, in the aggregate principal amount of $100,635,000, maturing July 1, 2028 (unless the Bonds shall become due or shall be redeemed prior to their scheduled maturity in accordance with the terms and conditions stated in the text of the Bonds), and bearing interest from the dates specified therein until maturity or redemption, at the rates and payable on the dates and in the manner described in the text of the Bonds. The Bonds are in registered form in denominations of $5,000 and integral multiples thereof.

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the purpose of rendering an opinion with respect to the authorization, issuance, delivery, legality, and validity of the Bonds under the laws and Constitution of the State of Texas, with respect to any exemption of the interest on the Bonds from federal income taxes, and for the other limited purposes set forth herein and in a supplemental opinion of even date herewith. We have not been requested to examine, and have not investigated or verified, any statements, records, material, or other matters relating to the financial condition or capabilities of the corporation hereinafter described, and we express no opinion with respect thereto.

WE HAVE EXAMINED the Constitution and laws of the State of Texas under which the Issuer was created and exists and pursuant to which it has authorized and issued the Bonds; certified copies of the proceedings of the governing body of said Issuer; certificates of Central Power and Light Company, a Texas corporation (the "Company"); the Installment Payment Agreement dated as of July 1, 1995 (the "Agreement"), between the Issuer and the Company; the Indenture of Trust dated as of July 1, 1995 (the "Indenture"), between the Issuer and The Bank of New York (the "Trustee"); resolutions of the Issuer, including the resolution authorizing the issuance of the Bonds, adopted June 1, 1995 (the "Bond Resolution"); certificates, resolutions, and representations of the Company and the Trustee, including certificates and representations with respect to certain material facts which are solely within the knowledge of

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the party rendering such certificates and representations; and the opinions of Milbank, Tweed, Hadley & McCloy and Vinson & Elkins L.L.P., counsel to the Company, upon which certifications, representations, and opinions we rely to the extent we consider appropriate; and other instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond R-1).

THE BONDS are secured by the Indenture whereunder the Trustee, or its successor as Trustee, is custodian of the Bond Fund created therein, and is obligated to enforce the rights of the owners of the Bonds, and to perform other duties, in the manner and under the conditions stated in the Indenture.

BASED ON SAID EXAMINATION, it is our opinion that the Issuer is a governmental agency and body politic and corporate of the State of Texas, validly operating and existing as a conservation and reclamation district and a navigation district under Texas law with full power and authority to enter into and carry out the terms of the Agreement and the Indenture.

IT IS FURTHER OUR OPINION that the Bond Resolution has been duly and lawfully adopted and that the Bonds have been duly and validly authorized, issued, executed, authenticated, and delivered in accordance with law and the Indenture, and constitute valid, legal, binding, and enforceable special obligations of the Issuer in accordance with their terms and the terms of the Indenture, with the principal of, premium, if any, and interest on the Bonds being payable from, and secured by a first lien on and pledge of all of the right, title, and interest of the Issuer in and to the Agreement, together with all moneys payable thereunder, excluding certain rights relating to certain payments for expenses and indemnification of the Issuer. Pursuant to the Agreement, the Company has agreed to make payments to the Trustee for deposit into the Bond Fund established by the Indenture in amounts sufficient to pay and redeem, or provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due as required by the Indenture.

THE RIGHTS OF THE ISSUER under the Agreement have been duly and legally assigned in the Indenture to the Trustee and have been pledged to the payment of the principal of, premium, if any, and interest on the Bonds. It is our opinion that the Agreement has been duly and lawfully authorized, executed, and delivered by the Issuer, and is a legal, valid, binding, and enforceable obligation of the Issuer in accordance with its terms and conditions. Milbank, Tweed, Hadley & McCloy and Vinson & Elkins L.L.P., counsel for the Company, have rendered their respective opinions of even date herewith to the effect that the Agreement has been duly and lawfully authorized, executed, and delivered by the Company, and that it is a legal, valid, binding, and enforceable obligation of the Company. We note that said counsel each has stated that the enforceability of the Agreement is subject to applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting creditors' rights generally.

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IT IS FURTHER OUR OPINION that the Indenture has been duly and lawfully authorized, executed, and delivered, that it is in full force and effect, that it is legal, valid, binding, and enforceable in accordance with its terms and conditions, and that it creates the valid pledge which it purports to create.

THE ISSUER has reserved the right to amend the Indenture as provided therein and subject to the restrictions therein stated.

THE OPINIONS HEREINABOVE expressed are qualified to the extent that the obligations of the Company, the Trustee, and the Issuer, and the enforceability thereof, with respect to the Bonds, the Agreement, the Bond Resolution, and the Indenture are subject to applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting creditors' rights generally.

IN OUR OPINION, except as discussed below, the interest on the Bonds will be excludable from the gross income of the owners of the Bonds for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. The exceptions are as follows:

(1) interest on the Bonds will be includable in the gross income of the owner thereof during any period that such Bonds are owned by either a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such user, as provided in section 103(b)(13) of the Internal Revenue Code of 1954, as amended;

(2) interest on the Bonds will be included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax and the environmental tax imposed on corporations by sections 55 and 59A of the Internal Revenue Code of 1986, as amended (the "Code");

(3) interest on the Bonds will be subject to the branch profits tax imposed on foreign corporations by section 884 of the Code; and

(4) interest on the Bonds will be subject to the tax imposed by section 1375 of the Code on the excess net passive income of certain S corporations that have Subchapter C earnings and profits.

Section 57(a)(5) of the Code includes as an individual and corporate alternative minimum tax preference item, the interest on certain "private activity bonds," other than bonds issued after August 7, 1986, to currently refund such bonds. In our opinion, the interest on the Bonds is not an alternative minimum tax preference item under such section.

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IN EXPRESSING THIS OPINION as to the exclusion from gross income of interest, we have (a) relied upon information furnished by the Company, and particularly written representations of officers of the Company with respect to certain material facts which are solely within their knowledge, relating to the Facilities, as defined in the Agreement, and the use of the proceeds of the Bonds and the prior bonds, and (b) assumed continuing compliance with covenants of the Company, the Issuer and the Trustee with respect to certain matters, including arbitrage and the application of Bond proceeds. Failure to comply with certain of these representations and covenants may cause interest on the Bonds to become includable in gross income retroactively to the date of their issuance.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

Respectfully,

EXHIBIT A-2

July 27, 1995

SUPPLEMENTAL OPINION

Central Power and Light Company
P. O. Box 2121
Corpus Christi, Texas 78403

Matagorda County Navigation District
Number One
209 Fifth Street
Palacios, Texas 77465

Morgan Stanley & Co. Incorporated
Goldman, Sachs & Co.
J. P. Morgan Securities Inc.
c/o Morgan Stanley & Co. Incorporated

The Bank of New York,
as trustee
101 Barclay Street, 21st Floor
New York, New York 10286

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1221 Avenue of the Americas
New York, New York 10020

Re: Matagorda County Navigation District Number One Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 (the "Bonds")

Gentlemen:

At your request, and in our capacity as Bond Counsel for the Matagorda County Navigation District Number One (the "Issuer") in connection with the issuance of the Bonds, we have examined, to the extent indicated and
deemed necessary in order to render this opinion, the Installment Payment Agreement, dated as of July 1, 1995 between the Issuer and Central Power and Light Company (the "Company"), relating to the Bonds (the "Agreement"); the resolution authorizing the Bonds adopted by the Issuer on June 1, 1995 (the "Resolution"); the Indenture of Trust dated as of July 1, 1995 (the Indenture"), between the Issuer and The Bank of New York, as Trustee (the "Trustee"), relating to the Bonds; Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); the Official Statement dated July 13, 1995 (the "Official Statement"), executed by the Issuer, exclusive of the information contained in Appendix A thereto; the Bond Purchase Agreement dated July 13, 1995, between the Issuer and the Underwriters referred to therein relating to the Bonds (the "Bond Purchase Agreement"); an opinion of even date herewith of Messrs. Milbank, Tweed, Hadley & McCloy, New York, New York, Special Counsel to the Company; an opinion of even date herewith of Vinson & Elkins L.L.P., Dallas, Texas, Special Texas Counsel to the Company; Section 3(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"); and Section 304(a)(4)(B) of the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

Based on such information, it is our opinion that:

1. The Issuer has full legal right, power, and authority to issue, sell, and deliver the Bonds to the Underwriters as provided in the Bond Purchase Agreement, and to carry out and consummate all other transactions to be carried out and consummated by it as contemplated by the Bond Purchase Agreement, and the Issuer has complied with all applicable provisions of law, in all matters relating to such transactions.

2. The Issuer has duly authorized (A) the execution, delivery, and due performance of the Bond Purchase Agreement, the Agreement, and the Indenture, (B) the signing and delivery of the Official Statement by the Issuer and the distribution of the Preliminary Official Statement and the Official Statement, and (C) the taking of any and all such action as may be required on the part of the Issuer to carry out, give effect to, and

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consummate the transactions to be carried out and consummated by the Issuer as contemplated by each of said instruments.

3. Each of the Bond Purchase Agreement, the Agreement, and the Indenture has been duly authorized, executed and delivered by the Issuer and constitutes the legal, valid, and binding obligation of the Issuer.

4. No filing, registering, recording, or refiling or rerecording of any document is required in order to establish, protect, and preserve the interest of the Trustee in the rights assigned to it under the Indenture or to perfect or maintain the security interest created thereby.

5. All authorizations, consents, and approvals of, and registrations or filings with, governmental bodies or agencies (other than approvals that might be required under the securities or Blue Sky laws of any jurisdiction) required in connection with the execution and delivery of the Bonds, the Bond Purchase Agreement, the Indenture, and the Agreement and the adoption of the Resolution, or in connection with the carrying out by the Issuer of its obligations thereunder, have been obtained or made and are in full force and effect, including, without limitation, the approval of the Bonds by the Attorney General of the State of Texas and registration of the Bonds upon initial issuance by the Comptroller of Public Accounts of the State of Texas.

6. Payments to the owners of the Bonds under the Indenture, the Agreement, and the Bonds, and interest on the Bonds, are, under current law, not subject to taxation in the State of Texas, except for the possible applicability of ad valorem and inheritance taxes.

7. It is not necessary in connection with the public offering and sale of the Bonds to register the Bonds, the Resolution, the Indenture or the Bond Purchase Agreement under the Securities Act or to qualify the Indenture under the Trust Indenture Act.

8. The statements contained in the Official Statement, including any amendments or supplements thereto, under the captions "The Bonds" (except for the subcaption "Book-Entry Only System"),"The Agreement" and "The Indenture", insofar as such statements summarize the provisions of the documents referred to therein, accurately and fairly present the information purported to be shown. The statements in the Official Statement, including any amendments or supplements thereto, under the captions "The Issuer" and "Tax Matters" are accurate statements or summaries of the matters therein set forth and fairly present the information purported to be shown.

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The opinions herein expressed are (a) subject to applicable bankruptcy, insolvency, and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); and (b) qualified to the extent the indemnification or contribution provisions contained in the instruments covered by such opinions may be limited by applicable securities laws and public policy.

In our capacity as Bond Counsel, we have rendered our opinion of even date herewith as to the validity and enforceability of the Bonds and the status of interest on the Bonds under federal income tax law. You are authorized to rely on such opinion as if it were expressly addressed to you.

This opinion may be relied upon only by the addressees hereof and by other persons to whom written permission to rely hereon is granted by us.

Respectfully,

EXHIBIT B
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Form of Opinion of Mayfield and Mayfield

[Letterhead of Mayfield and Mayfield]

July 27, 1995

Morgan Stanley & Co. Incorporated
Goldman, Sachs & Co.
J.P. Morgan Securities Inc.
c/o Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020

The Bank of New York
101 Barclay Street
21st Floor
New York, New York 10286

Central Power and Light Company
P. O. Box 2121
Corpus Christi, Texas 78403

Re: Matagorda County Navigation District Number One Pollution

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Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 (the "Bonds")

Gentlemen:

At your request, and in our capacity as General Counsel for the Matagorda County Navigation District Number One (the "Issuer") in connection with the issuance of the Bonds, we have examined, to the extent indicated and deemed necessary in order to render this opinion, the Installment Payment Agreement, dated as of July 1, 1995 between the Issuer and Central Power and Light Company (the "Company"), relating to the Bonds (the "Agreement"); the resolutions authorizing the Bonds adopted by the Issuer on March 2, 1974 and June 1, 1995 (collectively, the "Resolution"); the Indenture of Trust dated as of July 1, 1995, between the Issuer and The Bank of New York, as Trustee, relating to the Bonds (the "Indenture"); the Preliminary Official Statement dated May 31, 1995 (the "Preliminary Official Statement"); the Official Statement dated July 13, 1995 (the "Official Statement"), issued by the Issuer, exclusive of the Appendices thereto; the Bond Purchase Agreement dated July 13, 1995, between the Issuer and the Underwriters referred to therein relating to the Bonds (the "Bond Purchase Agreement"), including the Letter of Representation (the "Letter of Representation") included as Appendix A thereto; an opinion of even date of Messrs. Milbank, Tweed, Hadley & McCloy, New York, New York and Vinson & Elkins L.L.P., Counsel to the Company; and the opinions of even date of Messrs. McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Unless otherwise indicated herein, capitalized terms used herein shall have the meanings given in the Bond Purchase Agreement.

IN OUR OPINION:

1. The Issuer is a duly constituted and validly existing governmental agency and body politic and corporate of the State of Texas, with full legal right, power and authority to finance the Project, to issue, sell and deliver the Bonds pursuant to the Bond Purchase Agreement and the Indenture, to execute and deliver the Bond Purchase Agreement, the Agreement and the Indenture, to sign and deliver the Official Statement and to carry out and consummate all other transactions contemplated by each of the aforesaid instruments, and the Issuer has taken all necessary action and has complied with all applicable provisions of law required to duly authorize and make the Bond Purchase Agreement, the Agreement, the Indenture and the Bonds the valid and binding obligations they purport to be, including, without limitation, due adoption of the Resolution.

2. The Agreement, the Indenture, the Bonds and the Bond Purchase Agreement have been duly authorized, executed and delivered by the Issuer and each constitutes a legal, valid and binding agreement of the Issuer, enforceable in accordance with its terms. The signing of the Official Statement and the acceptance of the Letter of Representation have been duly authorized, and the Official Statement and the Letter of Representation have been duly signed and delivered, by the Issuer.

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3. To the best of our knowledge, none of the adoption of the Resolution, the issuance and sale of the Bonds, the execution and delivery by the Issuer of the Agreement, the Indenture, the Bond Purchase Agreement or the Bonds, the acceptance of the Letter of Representation, the signing and delivery of the Official Statement (and authorization of the distribution of the Preliminary Official Statement and the Official Statement), nor compliance with the provisions thereof or the consummation of the transactions contemplated thereby by the Issuer conflicts with or results in a breach of any provisions of, or constitutes a default under, any indenture, commitment, agreement or other instrument to which the Issuer is a party or by which it is bound or under any provision of the Texas Constitution or any existing law, rule, regulation, judgment, ordinance, order or decree to which the Issuer (or any of its officers in their respective capacities as such) is subject, or results in the creation of any lien, charge or other security interest or incumbrance of any nature whatsoever upon any of the property or assets of the Issuer, except as provided by the Bonds and the Indenture.

4. There is no action, suit, proceeding or investigation, at law or in equity, before or by any court, governmental agency or body or arbitrator, pending or, to the best of our knowledge, threatened against or affecting the Issuer, which in any way questions the validity of the Enabling Legislation or the transactions contemplated by the Bond Purchase Agreement, the Agreement, the Indenture or the Official Statement, or the validity of any proceedings taken by the Issuer in connection with the issuance and sale of the Bonds, or wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Bond Purchase Agreement, the Agreement, the Indenture or the Official Statement, or which, in any way, would adversely affect the validity or enforceability of the Bonds, the Agreement, the Indenture or the Bond Purchase Agreement or any agreement or instrument to which the Issuer is a party and which is used or contemplated for use in the consummation of the transactions contemplated by any of the foregoing or the exemption from taxation of the Bonds as set forth in the approving opinion of McCall, Parkhurst & Horton L.L.P.

5. Nothing has come to our attention which leads us to believe that the information set forth in the Preliminary Official Statement or the Official Statement with respect to the Issuer and the transactions of the Issuer contemplated thereby contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

6. The Issuer has not granted a security interest in any amounts payable to the Issuer under the Agreement, nor have any such amounts been otherwise pledged or encumbered, to secure any outstanding indebtedness of the Issuer other than the Bonds.

7. None of the proceedings or actions taken by the Issuer

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with respect to any of the Bonds, the Resolution, the Indenture, the Agreement, the Preliminary Official Statement, the Official Statement or the Bond Purchase Agreement have been repealed, rescinded or revoked.

The opinions herein expressed are (A) subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principals of equity (regardless of whether enforcement is sought in a proceeding in equity or at law), and (B) qualified to the extent that the indemnification and contribution provisions contained in the agreements covered by such opinions may be limited by applicable securities laws and public policy.

The opinions expressed herein may be relied upon by you, your counsel and Milbank, Tweed, Hadley & McCloy, special counsel for the Company.

Respectfully yours,

MAYFIELD AND MAYFIELD

EXHIBIT C
---------

[Letterhead of Milbank, Tweed, Hadley & McCloy]

July 28, 1995

Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020

J.P. Morgan Securities Inc.
60 Wall Street
New York, New York 10260

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Goldman, Sachs & Co.
85 Broad Street
New York, New York 10004

Re: Matagorda County Navigation District Number One (Texas)
__% Pollution Control Revenue Refunding Bonds
(Central Power and Light Company Project)
Series 1995

Dear Sirs:

We have acted as special counsel for Central Power and Light Company (the "Company") in connection with the purchase by you from Matagorda County Navigation District Number One (Texas) (the "Issuer") pursuant to the Bond Purchase Agreement dated June __, 1995 (the "Purchase Agreement"), of $100,635,000 aggregate principal amount of __% Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 (the "Bonds"), issued under and pursuant to an Indenture of Trust, dated as of July 1, 1995 (the "Indenture"), between the Issuer and The Bank of New York, as Trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to such terms in the Purchase Agreement.

We have examined originals, or copies certified to our satisfaction, of such corporate records of the Company, indentures, agreements and other instruments, certificates of public officials, certificates of officers and representatives of the Company and of the Trustee and other documents as we have deemed it necessary to require as a basis for the opinions hereinafter expressed. In such examination we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us as originals and the conformity with the originals of all documents submitted to us as copies. As to various questions of fact material to such opinions we have, when relevant facts were not independently established, relied upon certifications by officers of the Company and other appropriate persons and statements contained in the Official Statement, including Appendix A thereto (the "Official Statement").

Based upon the foregoing, and having regard to legal considerations which we deem relevant, we are of the opinion that:

1. The Company is a corporation validly existing and in good standing under the laws of the State of Texas.

2. The Installment Agreement has been duly and validly authorized by all necessary corporate action of the Company, has been duly and validly executed and delivered by the Company, and is a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization,

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moratorium or other similar laws of general applicability relating to or affecting the enforcement of creditors' rights generally and to the effects of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law), including without limitation (a) the possible unavailability of specific performance, injunctive relief or any other equitable remedies and (b) concepts of materiality, reasonableness, good faith and fair dealing.

3. The order dated June 15, 1995 of the Securities and Exchange Commission (the "Commission") under the Public Utility Holding Company Act of 1935, as amended (the "1935 Act"), granting and permitting to become effective the Form U-1 Application-Declaration, as amended, of the Company (File No. 70-8597) with respect to the Bonds and the Installment Agreement has been entered and to the best of our knowledge is in full force and effect. No further consent, approval, authorization, or order of, or registration or filing with, any Federal commission, court, governmental or regulatory body or authority is necessary with respect to the Company for the approval of the Resolution by the Company, the execution, delivery and performance by the Company of the Installment Agreement and the Letter of Representation, the approval by the Company of the terms and provisions of the Purchase Agreement or the consummation by the Company of the transactions contemplated by the Installment Agreement, the Letter of Representation, the Purchase Agreement and the Official Statement.

4. The Company has duly approved the forms of the Resolution, the Indenture and the Purchase Agreement; the Purchase Agreement has been duly authorized and accepted by the Company and the Letter of Representation has been duly authorized, executed and delivered by the Company. The Company has duly authorized the taking of all action necessary to carry out and give effect to the transactions contemplated to be performed by it by the Official Statement, the Installment Agreement, the Letter of Representation and the Purchase Agreement.

5. The Official Statement and any amendment or supplement thereto and each document relating to the Company incorporated by reference in the Official Statement, as such document was originally filed pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") (except for the financial statements and schedules and other financial and statistical data included or incorporated by reference therein, as to which we express no opinion), appear on their face to be appropriately responsive in all material respects to the requirements of the Exchange Act and the Securities Act of 1933, as amended (the "Act"), and the rules and regulations of the Commission thereunder applicable to prospectuses contained in registration statements on Form S-3 as if the Act, rules and regulations were

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applicable to the Official Statement.

6. The offer, sale and delivery of the Bonds to the public are not required to be registered under the Act and no qualification of the Indenture is required under the Trust Indenture Act of 1939, as amended, in connection with such transactions.

7. Except as may be specifically set forth in the Official Statement and except for the proceedings relating to the opinion of the Attorney General of the State of Texas on the Bonds and to the registration of the Bonds upon initial issuance by the Comptroller of Public Accounts of the State of Texas, to the best of our knowledge there is no action, suit, proceeding or investigation, at law or in equity, before or by any court, governmental agency or body or arbitrator, involving the Company or the Facilities, pending or threatened (i) which might reasonably be expected to materially and adversely affect (x) the condition (financial or otherwise), results of operations or properties of the Company or (y) the operation, condition or feasibility of the Facilities or (ii) wherein any unfavorable decision, ruling or finding would materially and adversely affect (x) the transactions contemplated to be performed by the Company by the Letter of Representation, the Installment Agreement or the Official Statement or (y) the validity or enforceability of the Bonds, the Installment Agreement, the Indenture, the Purchase Agreement or the Letter of Representation. We express no opinion as to any proceeding to which the Issuer is a party and the Company is not.

8. The approval of the Resolution, the Indenture, and the Purchase Agreement, the execution and delivery of the Letter of Representation and the Installment Agreement, and compliance with the provisions thereof or consummation of the transactions contemplated thereby by the Company will not result in a violation of any of the terms or provisions of any indenture, mortgage, deed of trust, commitment, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which it is bound, or any existing order of which we have knowledge of any court or any Federal regulatory body or administrative agency or other Federal governmental body having jurisdiction over the Company or any of its properties, nor will such action result in any violation of the provisions of the Restated Articles of Incorporation or By-laws of the Company or any Federal laws of the United States or to the best of our knowledge result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Company (except the lien, if any, created by the Installment Agreement).

As to the financial statements included in the Official Statement, we have made no examination of the Company's books of account

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and we therefore express no opinion. As to the statements under the headings "The Bonds" (other than under the sub-heading "Book-Entry Only System"), "The Agreement", and "The Indenture" (except for the financial statements and schedules and other financial and statistical data included or incorporated by reference therein, as to which we express no opinion), we are of the opinion that the statements are accurate in all material respects and do not omit any material fact necessary to make such statements, in light of the circumstances under which they were made, not misleading. As to other matters we have not undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement. We have, however, participated in the preparation of the Official Statement and we have reviewed such of the corporate records of the Company as we deemed advisable. None of the foregoing disclosed to us any information which gave us reason to believe that the Official Statement (except for the financial statements and other financial and statistical data included or incorporated by reference therein, as to which we express no opinion) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

This opinion is subject to the interest on the Bonds being excluded from gross income of holders thereof for Federal income tax purposes, as to which you have received opinions of McCall, Parkhurst & Horton L.L.P. and with respect to which we express no opinion.

In rendering the opinions hereinabove expressed, we have relied upon the opinion of even date hereof, delivered to you concurrently herewith, of Messrs. Vinson & Elkins L.L.P., Dallas, Texas, counsel for the Company, as to all matters governed by Texas law, and as to such matters, the opinions hereinabove expressed are subject to all qualifications, limitations, assumptions and reliances, and other considerations, therein set forth.

We do not express any opinion as to matters governed by any laws other than the laws of the State of New York, the Federal laws of the United States of America and, to the extent hereinabove stated, in reliance on the opinion of counsel for the Company, the laws of the State of Texas.

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Very truly yours,

MILBANK, TWEED, HADLEY & MCCLOY

EXHIBIT D
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FORM OF VINSON & ELKINS L.L.P. OPINION

July 28, 1995

Morgan Stanley & Co. Incorporated
Goldman Sachs & Co.
J.P. Morgan Securities Inc.
c/o Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020

Central Power and Light Company
539 North Carancahua Street
Corpus Christi, Texas 78401

McCall, Parkhurst & Horton L.L.P.
717 North Harwood
Ninth Floor
Dallas, Texas 75201

Ladies and Gentlemen:

We have acted as special Texas counsel for Central Power and Light Company, a Texas corporation (the "Company"), in connection with the issuance and sale by the Matagorda County Navigation District Number One (the "Issuer") of its Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 (the "Refunding Bonds") to be issued and sold pursuant to the terms of the Bond Purchase Agreement dated July 13, 1995 (the "Purchase Agreement") between the Issuer and Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and J.P. Morgan Securities Inc. (the "Underwriters"). This opinion is being furnished to you pursuant to Paragraph 6(e)(v) of the Purchase Agreement. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Purchase Agreement.

We have examined originals or certified copies of all such corporate records of the Company, indentures, agreements and other instruments, certificates of public officials, certificates of officers and representatives of the Company and other documents that we considered necessary and proper in order to render the opinions hereinafter expressed. In our examination we have assumed the genuineness of all signatures, the accuracy and completeness of all documents submitted to us, the authenticity of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as certified or photostatic copies. As to factual matters material to the opinions herein stated, we have relied to the extent we deem such reliance

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proper upon certificates given or representations made by public officials and duly authorized representatives of the Company.

Based upon the foregoing, and subject to the qualifications hereinafter set forth, we are of the opinion that:

1. The Company is a corporation, duly incorporated, validly existing and in good standing under the laws of the State of Texas.

2. The Company is a public utility (as defined in the Public Utility Regulatory Act ("PURA") of the State of Texas), duly authorized by its Restated Articles of Incorporation, filed with the Secretary of State of the State of Texas (the "Texas Secretary of State") on January 30, 1990, as amended through the date hereof, to conduct the business of generating and supplying gas, electric light and motor power to the public. The Company is authorized under the laws of the State of Texas to operate as an electric utility (as defined in PURA) in the areas of the State of Texas in which it currently does so, except where the failure to be so authorized could not reasonably be expected to result in a material adverse change in the financial condition, results in operations or business of the Company (a "Material Adverse Effect").

3. The Company has valid and subsisting municipal franchises, licenses or permits authorizing it to operate as an electric utility in all of the municipalities listed on Exhibit A hereto (which municipalities the Company has certified to us are all the municipalities served by it from which the Company derives a material amount of electric operating revenues) wherein such a franchise, license or permit is required.

4. Except as set forth in the Official Statement, including Appendix A thereto and the documents incorporated by reference in Appendix A, there is no litigation or other legal proceedings applying the laws of the State of Texas pending to which the Company is a party or to which the property of the Company or the Facilities is subject that (i) could reasonably be expected to result in a Material Adverse Effect or (ii) wherein any unfavorable decision, ruling or finding might reasonably be expected to (x) adversely affect the transactions contemplated to be performed by the Company by the Letter of Representation, by the Purchase Agreement, by the Installment Agreement or by the Official Statement or (y) adversely affect the validity of the Refunding Bonds, the Installment Agreement, the Indenture, the Resolution, the Purchase Agreement, or the Letter of Representation, and, to the best of our knowledge, no such litigation or proceedings have been threatened.

5. Each of the Installment Agreement and the Letter of Representation has been duly authorized, executed and delivered by the Company and constitutes a valid and binding obligation of the Company enforceable in accordance with its terms.

6. The terms of the Purchase Agreement have been approved by the Company.

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7. No approval, authorization, consent, certificate or order of any commission or regulatory authority of the State of Texas (other than the opinion of the Attorney General of the State of Texas on the Refunding Bonds, the registration of the Refunding Bonds upon initial issuance by the Comptroller of Public Accounts of the State of Texas, the certification of the appropriate governmental agencies that the Facilities are in furtherance of the purpose of abating or controlling atmospheric pollutants or contaminants or water pollution or in connection with the "blue sky" or securities laws or regulations of the State of Texas) is necessary with respect to the execution, delivery and performance by the Company of the Letter of Representation, the Installment Agreement, or the consummation by the Company of the transactions contemplated by the Letter of Representation, the Installment Agreement, the Purchase Agreement or the Official Statement.

Before rendering the opinions set forth herein, in our role as special Texas counsel to the Company in connection with the offering of the Refunding Bonds, we reviewed the Official Statement; however, we did not participate in its preparation. Although we have not independently verified, and do not warrant or pass upon the accuracy or completeness of the statements contained in the Official Statement (relying, with respect to materiality, to the extent we deem such reliance proper, upon the opinions of officers and other representatives of the Company) no facts have come to our attention as a result of the foregoing review which lead us to believe that the Official Statement, as amended and supplemented through the date hereof, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Notwithstanding the foregoing, we express no belief as to (a) the financial statements and schedules and other financial and statistical data included in the Official Statement or any amendment or supplement thereto or (b) regulatory and other legal matters not governed by the laws of the State of Texas.

With respect to the opinions contained in paragraph 1. above regarding the valid existence of the Company, we have relied solely upon (i) certificates provided by officials of the State of Texas or (ii) telegraphic or oral confirmation therefrom where such certificates were unavailable as of the date hereof.

With respect to the opinions contained in paragraph 4. above, we have relied solely upon certificates of officers of the Company and searches as of recent dates of our files, the Company's records and court records of the following courts: The state district courts for Dallas County, Travis County, Matagorda County and Nueces County, Texas; and the federal district courts for the Southern District (Corpus Christi and Galveston Divisions) and the Northern District (Dallas Division) of Texas.

The opinions contained in paragraph 5. above to the extent such

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opinions relate to enforceability are limited by the following: (i) principles of equity which may limit the availability of certain equitable remedies; and (ii) bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws applicable to creditors' rights or the collection of debtors' obligations generally.

We are licensed to practice law in the State of Texas and do not hold ourselves out to be experts on the laws of any jurisdiction other than the State of Texas. We express no opinion with regard to any matter which may be governed by the laws of any state or other jurisdiction (including the United States of America) other than the State of Texas.

This opinion is limited to the matters stated herein and no opinion is implied or may be inferred beyond the matters herein expressly stated.

Except as provided otherwise in a written consent signed by us, the opinions expressed herein are for the sole benefit of, and may only be relied upon by, you, your counsel and Milbank, Tweed, Hadley & McCloy, special counsel for the Company, and the opinions herein expressed are not to be used, circulated, quoted or otherwise referred to in any manner other than as specifically provided in the Purchase Agreement and the Indenture, or by or to any other person.

Very truly yours,

VINSON & ELKINS L.L.P. OPINION

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EXHIBIT A

MUNICIPALITIES

Alice
Bay City
Beeville
Corpus Christi
Del Rio
Eagle Pass
Edinburg
Harlingen
Ingleside
Kingsville
Laredo
McAllen
Mission
Pharr
Rockport
Uvalde
Victoria
Weslaco

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EXHIBIT E
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Letterhead of Sidley & Austin

July 18, 1995

Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York  10020

Goldman, Sachs & Co.
85 Broad Street
New York, New York  10004

J. P. Morgan Securities Inc.
Corporate Finance - 33rd Floor
60 Wall Street
New York, New York 10260

Re: Matagorda County Navigation District Number One
__% Pollution Control Revenue Refunding Bonds
(Central Power and Light Company Project)
Series 1995 (the "Refunding Bonds")

Gentlemen:

We have acted as your counsel in connection with the Bond Purchase Agreement dated June __, 1995 (the "Purchase Agreement") between you, as underwriters, and Matagorda County Navigation District Number One (the "Issuer"), your purchase pursuant thereto of $100,635,000 aggregate principal amount of the Refunding Bonds and the Letter of Representation

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dated June __, 1995 (the "Letter of Representation") between you and Central Power and Light Company, a Texas corporation (the "Company"). Capitalized terms not defined herein have the meanings specified in the Purchase Agreement.

As your counsel, we have, among other things, participated with officers and representatives of the Company, including its counsel and independent public accountants, and your representatives in the preparation of the Official Statement dated July __, 1995 (the "Official Statement") relating to the Refunding Bonds.

Pursuant to the requirement of Section 6(e)(vi) of the Purchase Agreement, this will advise you that in our opinion:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Texas.

2. The terms of the Purchase Agreement have been approved by the Company, and the Letter of Representation has been duly authorized, executed and delivered by the Company.

3. The Installment Payment Agreement dated as of July _, 1995 (the "Installment Agreement") between the Company and the Issuer has been duly authorized, executed and delivered by the Company, and (assuming that the Installment Agreement has been duly authorized, executed and delivered by, and constitutes a valid and binding agreement of, the Issuer) constitutes a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally and to the effects of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

4. The Refunding Bonds are exempted securities under Section 3(a)(2) of the Securities Act of 1933, as amended (the "Act"), to the extent provided in the Act, and the offer and sale thereof do not require registration under the Act or qualification of the Indenture under the Trust Indenture Act of 1939, as amended.

5. The statements in the Official Statement under the headings "The Bonds" (other than under the subheading "The Bonds - Book-Entry Only System"), "The Agreement" and "The Indenture," and any other statements therein which purport to describe or summarize the Refunding Bonds, the Indenture and the Installment Agreement, (except for the financial statements and schedules and other financial and statistical data included or

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incorporated by reference therein, as to which we express no belief), insofar as such statements constitute summaries of the provisions of the documents or securities referred to therein, are accurate in all material respects.

During the course of the preparation of the Official Statement, we have participated in conferences with your representatives and officers and representatives of the Company, including its counsel and independent public accountants, during the course of which we discussed the affairs of the Company and the contents of the Official Statement. We have also reviewed the documents incorporated by reference in Appendix A to the Official Statement. Except as stated in paragraph 5 above, we have not independently checked the accuracy or completeness of, or otherwise verified, and accordingly are not passing upon, and do not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in the Official Statement; and we have relied as to materiality, to a large extent, upon the judgment of officers and representatives of the Company. However, as a result of such participation and review, nothing has come to our attention which causes us to believe that the Official Statement, including the aforementioned documents incorporated therein by reference, (other than the financial statements, financial data, statistical data and supporting schedules included or incorporated by reference therein, as to which we express no belief), includes any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

We have reviewed the opinions dated the date hereof pursuant to the Purchase Agreement by Mayfield and Mayfield, counsel for the Issuer; McCall, Parkhurst & Horton L.L.P., Bond Counsel; Milbank, Tweed, Hadley & McCloy, special counsel for the Company; and Vinson & Elkins L.L.P., counsel for the Company in the State of Texas. We believe that you are justified in relying on such opinions. We have also examined the letter to you dated the date hereof from Arthur Andersen LLP relating to the financial statements and schedules and certain other matters with respect to the Company. We participated in discussions with representatives of Arthur Andersen LLP and with your representatives relating to the form of such letter, and we believe that the letter delivered to you is substantially in the agreed form.

For the purpose of rendering the foregoing opinions, we have relied, as to various questions of fact material to such opinions, upon the representations made in the Purchase Agreement and in the Letter of Representation and upon certificates of officers of the Company and the Issuer. We also have examined originals, or copies of originals certified to our satisfaction, of such agreements, documents, certificates and other statements of government officials and other instruments, have examined such questions of law and have satisfied ourselves as to such matters of fact as we have considered relevant and necessary as a basis for this opinion. We have assumed the authenticity of all documents submitted to

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us as originals, the genuineness of all signatures, the legal capacity of all natural persons and the conformity with the original documents of any copies thereof submitted to us for our examination.

In rendering the opinions hereinabove expressed, we have relied exclusively with your permission upon the aforesaid opinions of Mayfield & Mayfield, Vinson & Elkins L.L.P. and McCall, Parkhurst & Horton L.L.P., as to all matters governed by Texas law, and, as to all such matters, the opinions hereinabove expressed are subject to all the qualifications, limitations, assumptions, reliances and other considerations therein set forth.

This opinion is limited to the laws of the United States of America and the State of New York and, to the extent stated in the preceding paragraph, is given in reliance on the opinions therein mentioned.

This opinion assumes that interest on the Refunding Bonds is excludable from gross income of holders thereof for federal income tax purposes to the extent described in the Official Statement, as to which you are receiving the opinion of McCall, Parkhurst & Horton L.L.P. and with respect to which we express no opinion.

This opinion is being delivered solely for the benefit of the persons to whom it is addressed; accordingly, it may not be quoted, filed with any governmental authority or other regulatory agency or otherwise circulated or utilized for any other purpose without our prior written consent.

Very truly yours,

SIDLEY & AUSTIN

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EXHIBIT F
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Form of letter of Arthur Andersen LLP,
independent public accountants to the Company.

The letter will confirm that with respect to the Company that they are independent public accountants within the meaning of Rule 101 of the Code of Professional Ethics of the American Institute of Certified Public Accountants and as would be required under the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations thereunder were the Securities Act, rules and regulations applicable to the Official Statement, and shall be to the effect that:

(i) in their opinion, the financial statements of the Company examined by them and incorporated by reference in the Official Statement comply as to form in all material respects with the accounting requirements of the Securities Act, and the published rules and regulations thereunder which would be applicable if the issuance of the securities were subject to the accounting requirements for registration statements on Form S-3 under the Securities Act;

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(ii) on the basis of a reading of the 1995 minutes of the meetings of the stockholder and the Board of Directors of the Company as set forth in the minute books through a specified date not more than five business days prior to the date of the letter, a reading of the unaudited financial statements of the Company included or incorporated by reference in the Official Statement and also the latest available financial statements of the Company, and inquiries of certain officials of the Company who have responsibility for financial and accounting matters (which procedures do not constitute an examination made in accordance with generally accepted auditing standards), nothing came to their attention that caused them to believe that:

(1) if any unaudited financial statements of the Company are included by incorporation in the Official Statement, that they do not comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the published rules, regulations and releases under such acts or said financial statements are not fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included by incorporation in the Official Statement,

(2) if any unaudited amounts of total operating revenue and net income of the Company are set forth or incorporated in the Official Statement, including amounts set forth under "Selected Financial Information" or a similar caption, that they have not been prepared in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included by incorporation in the Official Statement,

(3) there was any decrease, at the date of the latest available financial statements, in the net assets of the Company (other than decreases resulting from regular dividends on preferred or common stock) as compared to the net assets as shown on the December 31, 1994 balance sheet included by incorporation in the Official Statement,

(4) there has been any decrease in operating revenues, operating income or net income for common stock or ratio of earnings to fixed charges for the twelve months ended on the date of the latest available financial statements of the Company, as compared with the audited amounts thereof and

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such ratio for the twelve months ended December 31, 1994, set forth in the income statement of the Company for the twelve months ended that date identified elsewhere in such letter, except in all instances as set forth or incorporated in or contemplated by the Official Statement or, except as disclosed in such letter, or

(5) there has been during the period from the date of the latest available financial statements through a specified date not more than five business days prior to the date of their letter, (a) any decrease in the net assets of the Company (other than decreases resulting from regular dividends on preferred or common stock) or (b) any decrease in operating revenues, operating income or net income for common stock as compared with the same prior year period for the Company, except in all instances as set forth or incorporated in or contemplated by the Official Statement or, except as disclosed in such letter; and

(iii) they have recalculated the ratios contained in "Ratio of Earnings to Fixed Charges" and "Selected Financial Information" or similar captions in the Official Statement from dollar amounts derived directly from the general accounting records of the Company or from schedules prepared by the Company or derived directly form such records or schedules by analysis or computation, and have found the calculation of such ratios to be mathematically correct and such ratios to be in agreement, except in both cases as otherwise stated in such letter.

EXHIBIT G
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[Letterhead of MBIA Insurance Corporation]

July 21, 1995

Matagorda County Navigation District Number One
1616 Woodall Rodgers Freeway
Dallas, Texas 75202

Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020

$100,635,000
Matagorda County Navigation District Number One

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Pollution Control Revenue Refunding Bonds
(Central Power and Light Company Project)
Series 1995

Ladies and Gentlemen:

I am Assistant General Counsel of the MBIA Insurance Corporation, a New York corporation (the "Corporation"), and have acted as counsel to the Corporation in connection with the issuance of Financial Guaranty Insurance Policy No. 19061 (the "Policy") relating to $100,635,000 Matagorda County Navigation District Number One, Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project), Series 1995.

In so acting, I have examined a copy of the Policy and such other relevant documents as I have deemed necessary.

Based upon the foregoing, I am of the following opinion:

1. The Corporation is a stock insurance corporation, duly incorporated and validly existing under the laws of the State of New York and is licensed and authorized to issue the Policy under the laws of the State of New York and the State of Texas.

2. The Policy has been duly executed and is a valid and binding obligation of the Corporation enforceable in accordance with its terms except that the enforcement of the Policy may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, receivership and other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,

Assistant General Counsel

[specimen]

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EXHIBIT 4(a)

APPENDIX A

CENTRAL POWER AND LIGHT COMPANY
LETTER OF REPRESENTATION

$100,635,000

Matagorda County Navigation District Number One
Pollution Control Revenue Refunding Bonds
(Central Power and Light Company Project)
Series 1995

July 13, 1995

Matagorda County Navigation District Number One
209 Fifth Street
Palacios, Texas 77465

Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020

Goldman, Sachs & Co.
85 Broad Street
New York, New York 10004

J.P. Morgan Securities Inc.
Corporate Finance-33rd Floor
60 Wall Street
New York, New York 10260

Dear Sirs:

1. Introduction and Background. Pursuant to a Bond Purchase Agreement of even date herewith (the "Purchase Agreement") between Matagorda County Navigation District Number One (the "Issuer") and Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and J.P. Morgan Securities Inc. (the "Underwriters"), the Issuer has agreed to sell to the Underwriters, and the Underwriters have jointly and severally agreed to purchase from the Issuer and to offer for sale the bonds described above (the "Refunding Bonds"), by means of the Final Official Statement of even

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date herewith, as it may be amended or supplemented with the consent of the Underwriters, the Issuer and Central Power and Light Company, a Texas corporation (the "Company"), describing the definitive terms and provisions of the Refunding Bonds and containing in Appendix A thereto information concerning the Company, which Appendix A, including all documents incorporated therein by reference, shall for all purposes hereof be deemed to be a part of the Official Statement, all on terms approved by the Company. Unless otherwise defined herein, all capitalized terms used herein shall have the meanings assigned thereto in the Purchase Agreement.

The Company hereby (i) approves the terms and provisions of the Purchase Agreement and of the Refunding Bonds, (ii) requests the Issuer to issue and sell the Refunding Bonds and (iii) acknowledges that the Issuer and the Underwriters are entering into the Purchase Agreement and agreeing to sell and purchase the Refunding Bonds on the terms and subject to the conditions therein set forth, in reliance on the representations, covenants and agreements of the Company contained in this Letter of Representation.

2. Representations by the Company. The Company makes the following representations and warranties, all of which shall survive the termination of the Purchase Agreement and the sale and delivery of the Refunding Bonds to the Underwriters.

(a) That the Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas, with full corporate power and authority to engage in the business and activities conducted by it as described in the Official Statement and, subject to the opinion of the Attorney General of the State of Texas approving the Refunding Bonds and the registration of the Refunding Bonds upon initial issue by the Comptroller of Public Accounts of the State of Texas, the receipt of which are expressly made a condition to the Company's obligations under the Installment Agreement, has full power and authority to execute and deliver and to carry out and perform its obligations under this Letter of Representation and the Installment Agreement.

(b) That the Company has duly approved the forms of the Resolution, the Indenture and the Purchase Agreement. The Installment Agreement has been duly authorized, executed and delivered by the Company and is a legal, valid and binding obligation of the Company enforceable in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law). The Company has duly authorized the taking of all action necessary to carry out and give effect to the transactions contemplated to be performed by it by the Official Statement, the Installment Agreement, the Purchase Agreement and this Letter of Representation. The Commission has issued an order (the "Order") under the 1935 Act authorizing the Company's obligations with respect to this

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Letter of Representation, the Installment Agreement, the Refunding Bonds and the Purchase Agreement, such order being subject, however, to the condition, among others, that the Company comply with such supplemental order, if any, as the Commission may enter thereunder. A copy of such order heretofore entered by the Commission has been or will be delivered to the Underwriters.

(c) That this Letter of Representation has been duly executed and delivered by the Company.

(d) The approval of the Resolution, the Indenture and the Purchase Agreement, the execution and delivery of this Letter of Representation and the Installment Agreement and compliance with the provisions of such instruments and consummation of the transactions contemplated hereby and thereby, do not and will not conflict with, violate or result in a breach of any provision of or constitute a default (or an event which with notice or passage of time, or both, would constitute a default) on the part of the Company under its Restated Articles of Incorporation or By-laws, under any indenture, commitment, agreement or other instrument to which the Company is a party or by which it is bound or under any existing law, rule, regulation, judgment, ordinance, order or decree to which the Company is subject; nor will such approval, execution, delivery, compliance or consummation result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Company (except the lien, if any, created by the Installment Agreement).

(e) No consent, approval, authorization or order of any court or governmental agency or body is required in respect of the approval of the Resolution by the Company, the approval of the terms of the Purchase Agreement, the valid execution, delivery and performance by the Company of this Letter of Representation and the Installment Agreement or the consummation by the Company of the transactions contemplated by the Purchase Agreement, this Letter of Representation, the Installment Agreement and the Official Statement, except (i) the Order, (ii) the approving opinion of the Attorney General of the State of Texas relating to the Refunding Bonds, (iii) the registration of the Refunding Bonds upon initial issuance by the Comptroller of Public Accounts of the State of Texas and (iv) such as may be required under securities or Blue Sky laws of any jurisdiction in connection with the offering and sale of the Refunding Bonds.

(f) That the information with respect to it (including Appendix A) and the Facilities and the use of the proceeds from the issuance and sale of the Refunding Bonds included in the Indenture, the Resolution, the Purchase Agreement and the Refunding Bonds and the information (other than under the captions "The Issuer", "The Bonds - Book-Entry Only System", "Tax Matters" and "Underwriting") contained or incorporated by reference in the Official Statement (including any amendments or supplements thereto) is true and correct in all material respects and does not include, and the Preliminary Official Statement as of its date did not

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include, any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made; that it has approved the Official Statement and consents to the use thereof by the Underwriters in connection with the offering of the Refunding Bonds; that the Official Statement is deemed final by the Company for purposes of Rule 15c2-12 under the Exchange Act; and that the financial statements relating to it included or incorporated by reference in the Official Statement (including Appendix A thereto) and the Preliminary Official Statement (including Appendix A thereto) have been prepared in accordance with generally accepted accounting principles applied on a consistent basis (except as otherwise disclosed in the notes to such financial statements) and fairly present its financial condition and the results of its operations at the dates and for the respective periods indicated therein.

(g) That any document, certificate or other written statement furnished by the Company to the Underwriters or McCall, Parkhurst & Horton L.L.P., Bond Counsel, or Sidley & Austin, counsel to the Underwriters, relating to the Company, the Facilities or the Refunding Bonds is true and correct in all material respects and does not or will not, as the case may be, include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made.

(h) Except as may be specifically set forth in the Official Statement and except for the proceedings relating to the opinion of the Attorney General of the State of Texas on the Refunding Bonds and to the registration of the Refunding Bonds upon initial issuance by the Comptroller of Public Accounts of the State of Texas, there is no action, suit, proceeding or investigation, at law or in equity, before or by any court, governmental agency or body or arbitrator, involving the Company or the Facilities, pending or, to the best knowledge of the Company, threatened (i) which might reasonably be expected to (x) materially and adversely affect the condition (financial or otherwise), results of operations, business or properties of the Company or (y) materially and adversely affect the operation, condition or feasibility of the Facilities or (ii) wherein any unfavorable decision, ruling or finding might reasonably be expected to (x) adversely affect the transactions contemplated to be performed by the Company hereby, by the Purchase Agreement, by the Installment Agreement or by the Official Statement or (y) adversely affect the validity or enforceability of the Refunding Bonds, the Installment Agreement, the Indenture, the Resolution, the Purchase Agreement or this Letter of Representation or any agreement or instrument to which the Company is a party and which is used or contemplated for use in the consummation of the transactions contemplated hereby or thereby.

(i) Arthur Andersen LLP, are independent public accountants with respect to the Company, as would be required under the Securities Act and the rules and regulations thereunder if the Securities Act and the rules

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and regulations thereunder were applicable to the Official Statement.

(j) That (i) the Facilities consist of either land or property of a character subject to depreciation for federal income tax purposes and will be used to abate or control air and water pollution or contamination by removing, altering, disposing or storing pollutants, contaminants, wastes or heat or to collect, store or treat sewage or solid wastes prior to final disposal thereof; (ii) the Facilities will not result in an increase in production or capacity, production efficiencies, the production of a by-product, the extension of the useful life of any manufacturing or production facility or any part thereof at the Plant or other property which is not part of the Plant, which would jeopardize the exclusion of the interest on the Refunding Bonds from the gross income of the recipients thereof for federal income tax purposes, and none of the Facilities would have been installed but for the purpose of disposing of sewage or solid waste or controlling pollution; and (iii) all other information supplied by the Company in connection with the transactions contemplated hereby and by the Official Statement with respect to the exclusion from gross income for federal income tax purposes of interest on the Refunding Bonds is correct and complete.

(k) That all required certificates that the Facilities (other than the solid waste disposal facilities that require no certifications), as designed, are in furtherance of the purpose of abating or controlling air or water pollution have been obtained from the Texas Air Control Board and the Texas Department of Water Resources, respectively, and remain in full force and effect.

(l) That the Company is eligible as an issuer to file registration statements on Form S-3 under the Securities Act, and each document filed by it under the Exchange Act and incorporated (or to be incorporated) in the Preliminary Official Statement or the Official Statement by reference complied when so filed (or will comply when so filed) in all material respects with the act under which it was so filed, and, during the period that an Official Statement is required to be delivered, no such document hereafter so filed will include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(m) That there has been no material adverse change in the Company's financial condition or any adverse development concerning the Company's business and assets which would reasonably be expected to result in a material adverse change in its prospective financial condition or results of operations from that shown in the Official Statement.

(n) That no event of default or event which, with notice or passage of time, or both, would constitute an event of default or a default under any agreement or instrument to which the Company is a party or by which it is or may be bound or to which any of its property or assets is or may be subject and which would materially and adversely affect the transactions contemplated by the Installment Agreement, the

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Official Statement, the Purchase Agreement or this Letter of Representation has occurred and is continuing.

3. Covenants of the Company. The Company will:

(a) Notify the Underwriters of any material adverse change in its business, properties or financial condition occurring before Closing or within three months thereafter which would require revision of the information in the Official Statement in order to make the representations set forth in Section 2(f) hereof true and correct.

(b) Refrain from taking any action, or from permitting any action, with regard to which it may exercise control, to be taken, that (i) would in any way cause the proceeds from the sale of the Refunding Bonds to be applied in a manner other than as provided in the Resolution, the Installment Agreement, the Indenture and discussed in the Official Statement, (ii) would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Refunding Bonds, or (iii) it has reason to believe will adversely jeopardize the continued validity and effectiveness of such exemption.

(c) Deliver to the Underwriters upon request copies of documents of the Company incorporated by reference into the Official Statement and all documents to which Section 3(d) hereof refers at such times and in such quantities as are necessary to enable the Underwriters to satisfy requests for such information, and enable the Underwriters to make such documents available for inspection, as described in the Official Statement.

(d) During the period commencing on the date hereof and ending upon completion of the distribution of the Refunding Bonds (but in no event later than 90 days after the date of the Closing), the Company will, promptly after filing any document with the Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act, furnish a copy thereof to the Underwriters and the Issuer.

(e) Comply with and perform its obligations set forth in its Rule 15c2-12 Undertakings attached hereto as Exhibit 1, which is hereby incorporated by reference herein.

4. Indemnification; Contribution. (a) The Company agrees to indemnify and hold harmless the Issuer, its officials, directors, members, officers, employees and agents and each of the Underwriters, their respective officers, directors, officials, employees and each person, if any, who controls any of the Underwriters within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (collectively, "Indemnified Parties") from and against any and all losses, claims, damages or liabilities to which such Indemnified Party may become subject under the Securities Act, the Exchange Act or the common law or otherwise, and to reimburse each such Indemnified Party for any reasonable legal or other expenses (including reasonable counsel fees) incurred by it or them

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in connection with defending against any such losses, claims, damages or liabilities, arising out of or in connection with the offering and sale of the Refunding Bonds (i) on the ground that the Preliminary Official Statement or the Final Official Statement (except with respect to the Issuer for the information relating to the Issuer under the caption "The Issuer" and with respect to any such Underwriter for information under the caption "Underwriting" and any information furnished in writing by such Underwriter specifically for use therein) includes any untrue statement or an alleged untrue statement of material fact or any omission or an alleged omission to state a material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made, or (ii) arising by virtue of the failure to register the Refunding Bonds under the Securities Act or to qualify the Indenture under the Trust Act.

(b) By acceptance hereof each of the Underwriters agrees to indemnify and hold harmless the Issuer, its officers, directors, employees and agents and the Company, its officers, directors and employees, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (collectively, "Indemnified Parties"), from and against any and all losses, claims, damages or liabilities to which such Indemnified Party may become subject under the Securities Act, the Exchange Act or the common law or otherwise, and to reimburse each such Indemnified Party for any reasonable legal or other expenses (including reasonable counsel fees) incurred by it or them in connection with defending against any such losses, claims, damages or liabilities, arising out of or in connection with the offering and sale of the Refunding Bonds on the grounds that the information under the caption "Underwriting" or the information furnished by such Underwriter in writing specifically for use in the Preliminary Official Statement or the Final Official Statement includes any untrue statement or alleged untrue statement of a material fact or an omission or an alleged omission to state a material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made.

(c) Promptly after the commencement of any action against an Indemnified Party hereunder in respect of which indemnity is to be sought against the Company or any Underwriter, as the case may be (the "Indemnifying Party"), such Indemnified Party will notify the Indemnifying Party in writing of such action and the Indemnifying Party may participate in, and, to the extent that it may wish, jointly with any other Indemnifying Party similarly notified, assume the defense thereof, including the employment of counsel and the payment of all expenses; but the omission so to notify the Indemnifying Party will not relieve the Indemnifying Party from any liability which it may have to any Indemnified Party otherwise than hereunder. The Indemnifying Party shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Indemnifying Party or if there is a final judgment for the plaintiff in any such action, the Indemnifying Party will indemnify and hold harmless any Indemnified Party from and against any loss or liability by reason of such settlement or judgment.

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The indemnity agreements contained herein shall include reimbursement for expenses reasonably incurred by an Indemnified Party in investigating the claim and in defending it if the Indemnifying Party declines to assume the defense and shall survive termination of the Purchase Agreement, this Letter of Representation and the delivery of the Refunding Bonds.

(d) If the indemnification provided for in this Section 4 is unavailable to or insufficient to hold harmless an Indemnified Party under Subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then the Company shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and the Indemnified Party on the other in connection with the statements or omissions or other matters which resulted in such losses, claims, damages and liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. Relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Indemnified Party on the other and each such party's relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Subsection (d) were determined solely by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Subsection (d). The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this Subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. No Indemnified Party guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from the Company if the Company is not guilty of such fraudulent misrepresentation. The obligations of the Company under this Subsection (d) shall be in addition to any liability which the Company may have otherwise than under this Section 4.

5. Payment of Costs and Expenses. All expenses and costs of the authorization, issuance, sale and delivery of the Refunding Bonds (including, without limitation: the preparation and furnishing to the Underwriters of the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto, and the preparation and execution of the Indenture, the Refunding Bonds, the Installment Agreement, the Resolution, the Letter of Representation and the Purchase Agreement; rating agency fees, the issuance and closing fees of the Issuer, the fees and disbursements of Bond Counsel, Counsel to the Issuer, the financial advisor to the Issuer and Counsel to the Company; the expenses, including the legal fees of Counsel to the Underwriters incurred

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in connection with qualifying the Refunding Bonds for sale under the securities laws of various jurisdictions and preparing Blue Sky memoranda) shall be paid by the Company. In addition, the Company shall pay to the Underwriters on the Closing Date by wire transfer the fees of the Underwriters in connection with the offering of the Refunding Bonds in an amount equal to .820% of the principal amount of the Refunding Bonds. Each Underwriter will pay its own costs and expenses, including advertising and legal expenses (except as noted in this Section 5).

6. Execution in Counterparts. This Letter of Representation may be executed and accepted in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute and accept this Letter of Representation by signing any such counterpart.

7. Notices. All notices, requests, demands and formal actions hereunder will be in writing mailed, telegraphed or delivered to:

The Underwriters:

Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020

Attention: Municipal Department

The Issuer:

Matagorda County
Navigation District Number One
209 Fifth Street
Palacios, Texas 77465

Attention: General Counsel and Manager

The Company:

c/o Central and South West Corporation
1616 Woodall Rodgers Freeway
Dallas, Texas 75202

Attention: Director, Finance

8. Successors. This Letter of Representation will inure to the benefit of and be binding upon the parties and their successors and each other Indemnified Party and will not confer any rights upon any other person. The term "successor" shall not include any holder of any Refunding Bonds merely by virtue of such holding.

9. Survival of Agreements and Representations. The indemnity and other agreements contained and the representations and warranties of the

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Company set forth in this Letter of Representation shall remain operative and in full force and effect regardless of (i) any termination of the Purchase Agreement, (ii) any investigation made by or on behalf of the Underwriters or any person controlling the Underwriters or by or on behalf of the Company, its directors or officers or any person controlling the Company, and (iii) sale and delivery of the Refunding Bonds.

10. Governing Law. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of New York, except that the rights, privileges, duties and immunities of the Issuer shall be governed by the laws of the State of Texas.

Very truly yours,

CENTRAL POWER AND LIGHT COMPANY

By:______________________________
Name:
Title:

Accepted:

MATAGORDA COUNTY NAVIGATION
DISTRICT NUMBER ONE

By:_________________________
Name:
Chairman

Accepted:

MORGAN STANLEY & CO. INCORPORATED
GOLDMAN, SACHS & CO.

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J.P. MORGAN SECURITIES INC.

By: Morgan Stanley & Co. Incorporated

By:___________________________________
Francis J. Sweeney
Principal

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EXHIBIT 5(a)

NEW ISSUE -- BOOK-ENTRY ONLY

$100,635,000
Matagorda County Navigation
District Number One (Texas)
6.10% Pollution Control Revenue Refunding Bonds
(Central Power and Light Company Project)
Series 1995

Dated: July 1, 1995 Due: July 1, 2028

The Bonds are limited obligations of the Issuer and do not constitute an indebtedness, or a charge against the general credit or taxing powers, of the Issuer or the State of Texas. The Bonds are payable from, and secured by a pledge of, the revenues to be received by the Issuer under an Installment Payment Agreement from

Central Power and Light Company

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The Bonds will be issuable only as fully registered bonds without coupons and when initially issued are expected to be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depositary for the Bonds. Purchases of beneficial ownership interests in the Bonds will be made in book-entry form only in denominations of $5,000 or any integral multiple thereof. Purchasers of beneficial ownership interests will not receive certificates representing their interests in the Bonds. Principal of, premium, if any, and interest on the Bonds (payable on January 1 and July 1, commencing January 1, 1996), will be paid in the manner described herein. See "THE BONDS--Book-Entry Only System" herein. The Bonds are subject to redemption prior to maturity as described herein.

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MBIA

Payment of the principal and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds. See "The MBIA Insurance Corporation Insurance Policy" herein.

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Price 100%

(Plus accrued interest from July 1, 1995)

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions, except as explained under "TAX MATTERS" herein, and will not be treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations. For further information, see "TAX MATTERS".

The Bonds are offered, subject to prior sale, when, as and if issued by the Issuer and accepted by the Underwriters, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton, L.L.P., Bond Counsel, the approval of certain other legal matters by Sidley & Austin, counsel for the Underwriters, and certain other conditions. It is expected that delivery of the Bonds will be made in New York, New York on or about July 27, 1995.

MORGAN STANLEY & CO. Incorporated

GOLDMAN, SACHS & CO.

J.P. MORGAN SECURITIES INC.

Dated: July 13, 1995

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, salesman or any other person is authorized to give any information or to make any representation not contained in this Official Statement, and any information not contained herein must not be relied upon as having been authorized by Matagorda County Navigation District Number One, Central Power and Light Company or any Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of Matagorda County Navigation District

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Number One or Central Power and Light Company since the date hereof.

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$100,635,000
MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE
POLLUTION CONTROL REVENUE REFUNDING BONDS
(Central Power and Light Company Project)
Series 1995
Due July 1, 2028

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INTRODUCTION

This Official Statement is provided to furnish information regarding the issuance by Matagorda County Navigation District Number One, a governmental agency and body politic and corporate of the State of Texas (the "Issuer"), of its Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 (the "Bonds") in the aggregate principal amount of up to $100,635,000.

The issuance and sale of the Bonds has been authorized by a

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Resolution adopted by the Board of Navigation and Canal Commissioners of the District on June 1, 1995 (the "Resolution") and will be issued pursuant to an Indenture of Trust to be dated as of July 1, 1995 (the "Indenture") between the Issuer and The Bank of New York, as trustee (the "Trustee").

The proceeds of the Bonds will be used to refund all of the outstanding (i) $68.87 million of the Issuer's outstanding 10-1/8% Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1984 (the "Series 1984 Bonds") and (ii) $31.765 million of the Issuer's outstanding 9-3/4% Collateralized Pollution Control Revenue Bonds (Central Power and Light Company Project) Series 1985A (the "Series 1985A Bonds" and, together with the Series 1984 Bonds, the "Prior Bonds"), which were issued to finance the cost of the acquisition, construction and improvement of certain pollution control and solid waste disposal facilities, as hereinafter described, at the South Texas Project Electric Generating Station (the "Plant") located between Bay City, Texas and Palacios, Texas. Central Power and Light Company, a Texas business corporation (the "Company"), owns a 25.2% undivided interest in the Plant. Except where the context otherwise indicates, the term "Facilities" herein refers to the Company's portion of certain of the pollution control and solid waste disposal facilities at the Plant.

Pursuant to an Installment Payment Agreement to be dated as of July 1, 1995 (the "Agreement") between the Issuer and the Company, the Company will be obligated to make payments at such times and in such amounts as shall be required to pay, when due, the principal of, premium, if any, and interest on, the Bonds. Neither the Facilities nor the Plant constitutes security for the Bonds, which will be secured only by the assignment and pledge of the Agreement, the moneys deposited or required to be deposited under the Indenture (other than moneys deposited to the Special Rebate Fund), and the Company's absolute, irrevocable and unconditional obligation to make payments thereunder.

There follows in this Official Statement brief descriptions of the Issuer, the Facilities, the Use of Proceeds, the Bonds, the Agreement, the Indenture and the MBIA Insurance Corporation Insurance Policy. Such descriptions do not purport to be complete and are qualified in their entirety by reference to each specific document so described. See "MISCELLANEOUS" herein for information with respect to obtaining copies of such documents. Terms not defined herein have the meanings set forth in such documents. Appendix A to this Official Statement has been furnished by, and contains information concerning, the Company, including certain financial statements and other information incorporated therein by reference.

## THE ISSUER

Matagorda County Navigation District Number One is a governmental agency and body politic and corporate of the State of Texas

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created as a conservation and reclamation district pursuant to Article XVI, Section 59, of the Constitution of the State of Texas and by Chapters 60 and 62 of the Texas Water Code (the "Act"). The principal office of the Issuer is in Palacios, Texas.

## THE FACILITIES

The Facilities consist of various systems which are designed for the abatement and control of pollution and the treatment and disposal of sewage and solid waste resulting from the operation of the Plant. The Plant is a nuclear generating station consisting of two units with the capability of generating a total of 2500 megawatts of power. Unit 1 of the Plant began commercial operation on August 25, 1988, and Unit 2 began commercial operation on June 19, 1989.

## USE OF PROCEEDS

The Bonds are being issued by the Issuer for the purpose of providing funds for the redemption of all outstanding Prior Bonds. The proceeds to be received by the Issuer from the issuance and sale of the Bonds will be deposited into a separate account within the debt service funds with respect to the Prior Bonds maintained by NationsBank of Texas, N.A., Dallas, Texas (successor to RepublicBank Dallas, National Association) ("NationsBank"), pursuant to an Indenture of Trust dated as of October 15, 1984 between the Issuer and NationsBank with regard to the Series 1984 Bonds and pursuant to an Indenture of Trust dated as of July 1, 1985 between the Issuer and NationsBank with regard to the Series 1985A Bonds. The Company will provide any additional funds required to refund all of the Prior Bonds from either internally generated funds or short-term borrowings.

## THE BONDS

The Bonds will be issuable only as fully registered bonds without coupons in denominations of $5,000 or any integral multiple thereof. Bonds may be transferred or exchanged without cost, except for any tax or other governmental charge.

The Bonds initially will be dated July 1, 1995. The Bonds will mature on July 1, 2028 and will bear interest at the rate of 6.10% per annum. Principal of and premium, if any, on the Bonds will be payable at the corporate trust office of the Trustee in New York, New York. Interest on the Bonds will be payable semi-annually on January 1 and July 1 of each year, commencing January 1, 1996, and will be paid by check mailed to the registered owners thereof of record as of the fifteenth day of the month prior to such interest payment date. Each such payment date is hereinafter referred to as an "Interest Payment Date".

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Limited Obligations of the Issuer

The Bonds will be limited obligations of the Issuer, payable solely from, and secured equally and ratably by, a first lien on and pledge of all the right, title and interest of the Issuer in and to the Agreement, including all moneys payable thereunder (except for certain rights of the Issuer relating to expenses and indemnification). The Bonds will not be secured by any lien or other interest in the Facilities or the Plant. The Company is absolutely, irrevocably and unconditionally obligated under the Agreement to pay to the Trustee, for the account of the Issuer, an amount sufficient to pay, or provide for the payment of, the principal of, premium, if any, and interest on the Bonds when due (whether upon maturity, redemption or otherwise), and to pay certain other charges. Neither the credit nor the taxing power of the State of Texas, the Issuer or any other political subdivision of the State of Texas is pledged for the payment of the principal of, premium, if any, or interest on the Bonds. The Bonds shall not be deemed a general obligation of the State of Texas, the Issuer or any other political subdivision of the State of Texas. None of the State of Texas, the Issuer or any other political subdivision of the State of Texas will be liable for the payment of the principal of, premium, if any, or interest on the Bonds, except from those revenues to be derived by the Issuer pursuant to the Agreement and pledged to such payment. No holder of a Bond will have the right to demand payment from moneys derived by taxation or any revenues of the Issuer, except the funds pledged to the payment of the Bonds.

Notwithstanding its authorization of the Bonds and its approval of this Official Statement, the Issuer does not endorse, or in any manner guarantee or promise, directly or indirectly, to pay any obligations on the Bonds from any source of funds other than as described herein, nor does the Issuer guarantee, warrant or endorse the creditworthiness or credit standing of the Company or in any manner guarantee, warrant or endorse the investment quality or value of the Bonds.

Redemption

The Bonds are subject to redemption prior to maturity as follows:

Optional Redemption The Bonds will be subject to redemption prior to maturity at the option of the Issuer, to be exercised at the direction of the Company, on or after July 1, 2000, in whole or in part at any time (and, if in part, in the manner specified in the Indenture) upon prepayment by the Company of amounts due under the Agreement relating to the Bonds for any purpose and from moneys available for such purpose at the redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed) set forth in the table below, plus, in each case, accrued interest to the redemption date:

| Redemption Date (dates inclusive) | Redemption Price |
| --- | --- |

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| | |
|---|---|
| July 1, 2000 through June 30, 2001 | 102% |
| July 1, 2001 through June 30, 2002 | 101% |
| July 1, 2002 and thereafter | 100% |

The Bonds will be called for redemption by the Trustee upon receipt by the Trustee at least 45 days prior to the redemption date of a written notice from the Company exercising such optional redemption and specifying the redemption date, the principal amount of the Bonds to be called for redemption and the applicable redemption price.

Extraordinary Optional Redemption The Bonds are subject to redemption, at the option of the Issuer, to be exercised at the direction of the Company, at any time, in whole upon acceleration of the payments by the Company relating to the Bonds in accordance with the Agreement, at the principal amount thereof plus accrued interest to the redemption date and without premium, upon the occurrence of any one or more of the following events:

(a) in the reasonable judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Facilities or the Plant, including, without limitation, (i) the imposition of any income or other taxes not imposed on July 1, 1995 or (ii) the imposition of any ad valorem property or other taxes (other than ad valorem property or other taxes imposed on July 1, 1995 upon similarly assessed property within the same taxing jurisdiction);

(b) the Facilities or the Plant shall have been damaged or destroyed to such extent that, in the opinion of the Company, (i) within a period of six consecutive months following such damage or destruction, it is not practicable or desirable to rebuild, repair or restore the same, (ii) the Company will be thereby prevented from carrying on its normal operations of the Facilities or the Plant for a period of six consecutive months or (iii) the cost of restoration would exceed by $1,500,000 or more the net proceeds of insurance thereon;

(c) title to, or temporary use of, all or substantially all the Facilities or the Plant shall have been taken under the exercise of the power of eminent domain;

(d) changes in the economic availability of materials, labor, services, supplies (including fuel), equipment or other property, facilities or things necessary for the operation of the Facilities or the Plant shall have occurred, or technological, regulatory or other changes shall have occurred, which, in the opinion of the Company, render the continued operation of the Facilities or the Plant uneconomic;

(e) any court or administrative body shall enter a judgment, order or decree requiring the Company to cease, or dispose of, all or any substantial part of its operations of the Facilities or the Plant to such extent that, in the opinion of the Company, it is or will be thereby

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prevented from carrying on its normal operations of the Facilities or the Plant for a period of six or more consecutive months; or

(f) as a result of any change in the Constitution of the State of Texas or the Constitution of the United States of America or of any legislative or administrative action (whether state or federal), or of any final decree, judgment or order of any court or administrative body (whether state or federal), the obligations of the Company under the Agreement shall have become unenforceable or impossible of performance in any material respect in accordance with the intent and purpose of the parties as expressed in the Agreement as specified in the Indenture.

The Company must give written notice to the Issuer and the Trustee of its direction to the Issuer to exercise an extraordinary option to redeem within 120 days after the occurrence of an event specified above giving rise to such option, which notice shall specify a date for redemption not less than 45 nor more than 120 days after the date such notice is given.

Special Mandatory Redemption The Bonds are subject to mandatory redemption in whole or in part at any time, (and, if in part, in the manner specified in the Indenture) if such partial redemption will preserve the exclusion from gross income for federal income tax purposes of interest on the remaining Bonds Outstanding, at a redemption price equal to 100% of the principal amount thereof plus unpaid interest accrued to the redemption date and without premium, if (a) a final decree or judgment of any federal court, in which the Company participates to the extent it deems sufficient, or (b) a final action by the Internal Revenue Service, in proceedings in which the Company participates to the extent it deems sufficient, determines that the interest paid or payable on any Bonds to other than, as provided in the Internal Revenue Code of 1954, as amended (the "1954 Code"), a "substantial user" of the Facilities or a "related person" is or was includable in the gross income of the owner thereof for federal income tax purposes, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Agreement or the inaccuracy of any representation by the Company under the Agreement; provided, however, that no decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the bondholder involved in such proceeding or action (i) gives the Company and the Trustee prompt notice of the commencement thereof and (ii) if the Company agrees to pay all expenses in connection therewith and to indemnify such bondholder against all liabilities in connection therewith, offers the Company the opportunity to control the defense thereof. Any such redemption shall be made not more than 180 days after the date of such final decree, judgment or action.

Notice of Redemption If any Bonds or portions thereof are called for redemption, notice thereof will be given by mailing the same by first-class mail, postage prepaid, not more than 60 nor less than 30 days prior to the date fixed for redemption to each registered holder thereof

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at his address, as the same may appear on the registration books of the Trustee, unless waived by the holders of all Bonds called for redemption; however, the failure to mail such notice or any defect therein with respect to any particular Bond will not affect the validity of any call for the redemption of any other Bonds.

No further interest will accrue on the principal of any Bond, or portion thereof, called for redemption after the redemption date if notice of redemption has been duly given or waived and payment therefor has been duly provided by the Company.

Legal Holidays

Whenever under the Bonds or the Indenture a duty, notice or payment is required to be performed, given or paid on a given day of a month and such day is not a Business Day, as defined in the Indenture, the required duty, notice or payment will be performed, given or paid on the next succeeding Business Day.

Book-Entry Only System

The Depository Trust Company ("DTC") will act as securities depositary for the Bonds. The ownership of the Bonds will be registered in the name of Cede & Co., as nominee for DTC. One fully-registered bond certificate will be issued for the Bonds, in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

The DTC Participants will receive a credit balance in the records of DTC to evidence their ownership of the Bonds, if any. The ownership interest of each actual purchaser of each Bond (a "Beneficial Owner") will be recorded through the records of the DTC Participant. Beneficial Owners are expected to receive a written confirmation of their purchase from the DTC Participant providing details of the Bond acquired. Transfers of ownership interests in the Bonds will be accomplished by book

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entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the holder or registered holder of the Bonds means Cede & Co. and not the Beneficial Owners of the Bonds.

DTC may determine to discontinue providing its service with respect to the Bonds at any time by giving notice to the Issuer and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, Bond certificates are required to be delivered as described in the Indenture. Each Beneficial Owner, upon registration of certificates representing Bonds held in such Beneficial Owner's name, will become the registered holder of such Bonds.

The Issuer may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depositary) is no longer desirable. In such event, Bond certificates will be delivered as described in the Indenture.

The Issuer and the Trustee will recognize DTC or its nominee as the registered holder for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Principal, premium, if any, and interest payments on the Bonds will be made to DTC or its nominee, Cede & Co., as registered holder of the Bonds. Upon receipt of moneys, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Underwriters, the Company, the Trustee or the Issuer, subject to any statutory and regulatory requirements as may be in effect from time to time.

The information above concerning DTC and the book-entry-only system has been obtained from DTC and is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by the Issuer, the Trustee, the Company or the Underwriters.

The Issuer makes no assurances that DTC, the DTC Participants, the Indirect Participants or other nominees of the Beneficial Owners will act in accordance with the procedures described above or in a timely

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manner.

## THE AGREEMENT

### Installment Payments

Under the Agreement, the Company agrees to make installment payments in immediately available funds directly to the Trustee for deposit in the Bond Fund established under the Indenture on each day on which any payment of principal of, premium, if any, or interest on the Bonds ("Debt Service") shall become due (whether at maturity or upon redemption or acceleration or otherwise) in an amount which, together with other money held by the Trustee under the Indenture, will enable the Trustee to make such payment of Debt Service in full when due.

All the obligations of the Company under the Agreement are absolute, irrevocable and unconditional, and the Company will make the payments required by the Agreement free of any deductions and without abatement or setoff.

### Prepayment of Installment Payments

The Company may prepay the installment payments in whole or in part at any time and, in the circumstances requiring redemption of the Bonds (see "THE BONDS -- Redemption"), must prepay the installment payments in an amount sufficient to effect the redemption of the required principal amount of the Bonds. Optional prepayments may, at the Company's direction, be used to redeem the Bonds pursuant to the optional redemption provisions of the Indenture or credited against required installment payments for Debt Service.

### Tax Covenants of the Company

The Company covenants to refrain from any action which would adversely affect, or to take such action to assure, the treatment of the Bonds as obligations described in Section 103 of the Internal Revenue Code of 1986 (the "Code") or Section 1313 of the Tax Reform Act of 1986, the interest on which is not includable in the gross income of the owner, except to the extent that the Bonds are held by a substantial user of the Facilities or a related person thereto, as those terms are used in Section 103(b)(13) of the 1954 Code, for purposes of federal income taxation.

The Company also covenants that it will restrict the use of the proceeds of the Bonds and take other actions so that the Bonds will not constitute "arbitrage bonds" under Section 148 of the Code. The Company also agrees to remit to the Trustee any funds, to the extent not already held by the Trustee, to be rebated to the United States pursuant to Section 148 of the Code.

### Defaults and Remedies under the Agreement

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Any one or more of the following events will constitute an "Event of Default" under the Agreement:

(a) failure by the Company to make the installment payments required by the Agreement at or prior to the time when such payment is required to be made and which failure, if with respect to the payment of interest on the Bonds, shall continue for a period of 60 days;

(b) failure by the Company to observe or perform, or the breach by the Company of, any representation, covenant or agreement in the Agreement on its part to be observed or performed, other than as referred to in subparagraph (a) above, for a period of 90 days after written notice of such failure has been given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if such failure can, in the reasonable judgment of the Company, be corrected, but not within the 90 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Company within the applicable period and the Company notifies the Issuer and the Trustee of such corrective action and undertakes to pursue and pursues the corrective action until the failure is corrected; or

(c) certain events of dissolution, liquidation, insolvency, bankruptcy or reorganization involving the Company.

The provisions of subparagraph (b) above are subject to the limitation that if, by reason of force majeure described in the Agreement, the Company is unable in whole or in part to carry out its obligations under the Agreement, the Company will not be deemed in default during the continuance of such inability. The Company, however, has agreed to use its best efforts to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company. The occurrence of any event of force majeure will not suspend or otherwise abate, and the Company will not be relieved from, any obligation under the Agreement to the extent that the Company's failure would result in the failure to pay when due the principal of, premium, if any, and interest on the Bonds or would result in the interest on any Bonds becoming includable in the gross income of the holders thereof for federal income tax purposes. See "THE INDENTURE--Defaults and Remedies under the Indenture" for information regarding the curing of defaults by the Company with the consent of the Trustee and, in certain instances, the holders of a majority in aggregate principal amount of Outstanding Bonds.

Whenever an Event of Default under the Agreement shall have occurred and be continuing, (i) the Trustee, as provided in the Indenture, may declare all installment payments payable for the remainder of the term of the Agreement to be immediately due and payable and (ii) the Trustee or the Issuer (subject to certain limitations), at the option of either, may

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take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and thereafter to become due or to enforce performance and observance of any representation, agreement or covenant of the Company under the Agreement. Any amounts collected pursuant to action taken upon the happening of an Event of Default will be paid into the Bond Fund created under the Indenture and applied in accordance with the provisions of the Indenture. See "THE INDENTURE -- Defaults and Remedies under the Indenture."

Modifications and Amendments

Prior to payment or provision for payment of the Bonds and all expenses of the Trustee and the Issuer, the Agreement cannot be amended so as to reduce or postpone the payments required to be made by the Company to the Trustee, and cannot otherwise be amended, except to reflect a change in the Company's ownership percentage in the Facilities or any additional Facilities, without the prior written consent of the Trustee.

Corporate Existence; Exceptions

The Company has agreed that, during the term of the Agreement, (a) it (or its permitted successors or assigns) will continue to be a corporation duly qualified to do business in the State of Texas and (b) it will not dispose of all or substantially all of its assets as an entirety (whether by liquidation, dissolution or otherwise) and will not merge into or consolidate with any other corporation unless the resulting, surviving or transferee corporation, if other than the Company, irrevocably and unconditionally assumes the due and punctual performance of the Company's obligations under the Agreement.

## THE INDENTURE

Assignment and Pledge

For the purpose of securing the payment of the principal of, premium, if any, and interest on the Bonds, the Issuer has pledged and assigned to the Trustee all the right, title and interest of the Issuer in the Agreement, together with all moneys payable thereunder, other than certain rights of the Issuer relating to certain payments for expenses and indemnification. See "THE BONDS -- Limited Obligations of the Issuer."

Bond Fund

In accordance with the Agreement, all payments made by the Company thereunder will be made to the Trustee for deposit in the Bond Fund established under the Indenture. All moneys from time to time received by the Trustee and held in the Bond Fund will be held in trust by the Trustee for the benefit of the holders of the Bonds entitled to be paid therefrom.

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Investment of Fund Moneys

Any moneys held as part of the Bond Fund will be invested or reinvested by the Trustee, at the request and direction of the Company, (i) in direct obligations of, or obligations guaranteed by, the United States of America, and any bonds or other obligations of the Federal National Mortgage Association (including Participation Certificates), Government National Mortgage Association, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Mortgage Corporation and Federal Home Loan Banks, (ii) in interest-bearing certificates of deposit secured by obligations described in the foregoing clause (i) in a national or state bank or a trust company (which may be the Trustee) which has a combined capital and surplus aggregating not less than $250,000,000, (iii) in any obligation secured by a pooling of one or more of the foregoing, (iv) in any obligation described in Section 103(a) of the Code or (v) as otherwise permitted by law.

The Company and the Issuer have agreed in the Agreement that the proceeds of the Bonds and any investment thereof will not be used directly or indirectly so as to cause all or any of the Bonds to be or become "arbitrage bonds" within the meaning of Section 148 of the Code or any regulations or rulings pertaining thereto.

Defaults and Remedies under the Indenture

Any one or more of the following events will constitute an "Event of Default" under the Indenture:

(a) payment of the principal of and premium, if any, on any of the Bonds shall not have been made when the same shall become due and payable at maturity, upon redemption or otherwise;

(b) payment of an installment of interest on any of the Bonds shall not have been made when the same shall become due and payable and such failure shall continue for a period of 60 days;

(c) there shall be an "Event of Default" as defined in the Agreement (see "THE AGREEMENT -- Defaults and Remedies under the Agreement"); or

(d) the Issuer shall default in the due and punctual performance of any other covenant, condition, agreement or provision contained in the Bonds or in the Indenture on the part of the Issuer to be performed, and such default shall continue for 90 days after written notice specifying the default and requiring the same to be remedied shall have been given to the Issuer and the Company by the Trustee. Such notice may be given by the Trustee in its discretion and shall be given at the written request of the holders of not less than 25 percent in aggregate principal amount of the Bonds then Outstanding; provided, however, that if said default cannot be corrected within 90 days, it shall not constitute

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an Event of Default if corrective action is instituted by the Issuer or the Company within 90 days and diligently pursued until the default is corrected.

Upon the occurrence and continuation of any Event of Default, the Trustee may, and upon the written request of the holders of not less than 25 percent in aggregate principal amount of the Bonds then Outstanding shall, provided that written notice of the Event of Default has been delivered to the Issuer and the Company by the Trustee, declare the principal of and accrued interest on all Outstanding Bonds immediately due and payable.

However, if, after the principal of the Bonds has been declared to be due and payable, the principal of the Bonds and all arrears of interest thereon (except the principal of, and interest on, the Bonds which by such declaration have become due and payable), and interest on overdue installments of principal and interest, to the extent legally permissible, and all other sums payable under the Indenture shall have been paid by or on behalf of the Issuer and the Company, and the Issuer and the Company shall have performed all other things in respect of which they may have been in default under the Indenture or under the Agreement, and have paid or caused to be paid the reasonable charges of the Trustee and of the holders of Bonds, including reasonable attorneys' fees paid or incurred and all other expenses of the Trustee, then and in every such case, such default may, in the Trustee's discretion, be waived and such declaration and its consequences rescinded and annulled by the Trustee by written notice to the Issuer and the Company; provided, that, if such declaration was requested by the holders of not less than 25 percent in aggregate principal amount of the Bonds Outstanding, such waiver, rescission and annulment shall have been consented to by the holders of a majority in aggregate principal amount of the Bonds then Outstanding. No such waiver, rescission and annulment will extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Upon the happening of any Event of Default, the Trustee may, and upon the written request of the holders of not less than 25 percent in aggregate principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction shall, in its own right, (i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the holders of the Bonds and require the Issuer or the Company to carry out any agreements with or for the benefit of the holders of the Bonds; (ii) bring suit upon the Bonds; (iii) by action or suit at law or in equity require the Issuer to account as if it were the trustee of an express trust for the holders of the Bonds; or (iv) by action or suit at law or in equity enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds.

All rights of action with respect to the Indenture shall be exercised only by the Trustee, and no holder of a Bond shall have any right to institute any suit, action or proceeding at law or in equity for

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the execution of any trust or for any other remedy under the Indenture or on the Bonds, unless: such suit, action, proceeding or remedy shall be with respect to an Event of Default as to which the Trustee shall have been given written notice by the holder of a Bond; the Trustee shall have received the written request (after the power to exercise such powers or rights of action, as the case may be, shall have accrued) of the holders of not less than 25 percent in aggregate principal amount of the Bonds then Outstanding to institute such suit, action, proceeding or remedy; the Trustee shall have been afforded a reasonable opportunity either to proceed to exercise its powers granted in an Event of Default or to institute such action, suit, proceeding or remedy in the name of the Trustee or of the holders of the Bonds; the Trustee shall have been offered security and indemnity satisfactory to it; and the Trustee shall have refused or neglected to comply with such request within a reasonable time. However, each holder of a Bond shall have a right of action to enforce the payment of the principal of, premium, if any, and interest on any Bond held or owned by such holder at and after the maturity thereof, or the obligation of the Issuer to pay the principal of and any premium and interest on each such Bond at the time and place, from the source and in the manner in said Bond expressed. The holders of a majority in aggregate principal amount of the Bonds Outstanding shall have the right to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

MBIA Insurance Corporation Deemed to be a Bondholder

Notwithstanding any provision of the Indenture to the contrary, MBIA Insurance Corporation (the "Bond Insurer") shall at all times be deemed the exclusive owner of all Bonds for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies. No acceleration shall be permitted, and no Event of Default shall be waived, without the Bond Insurer's consent. The Bond Insurer shall have the right to direct all remedies pursuant to the Indenture.

Defeasance

When all the Bonds shall have been paid, or their payment provided for, and discharged, and there shall have been paid, or provision shall have been made for paying, all fees and charges of the Trustee, the Issuer and any other paying agents due or to become due through the date on which the last of the Bonds is or is to be retired, then the Indenture shall cease, terminate and become null and void; and thereupon the Trustee shall release the Indenture and shall cancel and discharge the lien thereof; and the Trustee shall reassign and deliver to the Issuer any part of the Trust Estate which may then be in its possession and subject to the lien of the Indenture, except such moneys and/or "Governmental Obligations" as are held by the Trustee for the payment of the principal of, premium, if any, and interest due on the retirement of the Bonds. After such payment and discharge, including the fees and charges indicated above, or provision therefor, have been made with respect to all the Bonds, the interest of the Trustee under the Indenture shall cease in

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respect of such Bonds, and such Bonds shall not be entitled to any benefits of the Indenture, except the right to be paid from the moneys and/or "Governmental Obligations" so held by the Trustee for the payment thereof. Bonds shall be deemed to have been paid (a) if the Trustee and any other paying agents shall hold, in trust, sufficient moneys or (b) if the Trustee shall hold, in trust, "Governmental Obligations" of such maturities and interest payment dates and bearing interest at such rates as will, without further reinvestment of principal or the interest thereon, be sufficient, together with any moneys referred to in (a) above, for payment of the principal, premium, if any, and interest in respect of such Bonds as they become due; provided, that, if any of such Bonds are to be redeemed prior to maturity, notice of redemption in accordance with the Indenture shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice. "Governmental Obligations" shall mean any of the following which are noncallable and which, at the time of investment, are legal investments under the laws of the State of Texas for the moneys proposed to be invested therein: (i) direct general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America; or (ii) bonds, debentures or notes issued by any of the following federal agencies: Government National Mortgage Association, Federal Banks for Cooperatives, Federal Farm Credit Banks, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Home Loan Mortgage Corporation or Federal National Mortgage Association (including Participation Certificates).

The Trustee; Successors

The Trustee may invest in and treat itself as any other holder of the Bonds. The Trustee may resign at any time after notice to the Issuer and the Company and notice by first class mail to each registered holder of Bonds, and may also be removed at any time by the holders of a majority in aggregate principal amount of the Bonds then Outstanding. A successor trustee may be appointed by the holders of a majority in aggregate principal amount of the Bonds then Outstanding; provided, that the Issuer may appoint a temporary trustee until the appointment of such successor. Every successor trustee shall be a trust company, a bank and trust company or a national bank with trust powers and having a combined capital and surplus of at least $250,000,000, if there be such a trust company, bank and trust company or national bank with trust powers willing and able to accept the trust on reasonable and customary terms.

Supplemental Indentures

The Issuer and the Trustee, with the consent of the Company but without the consent of the holders of the Bonds, may enter into supplemental indentures, in respect of the Bonds, for any of the following purposes:

(a) to add to the covenants and agreements of the Issuer in the Indenture other covenants and agreements and to surrender any right or

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power reserved to or conferred upon the Issuer therein;

(b) to modify any of the provisions of the Indenture or relieve the Issuer from any of the obligations, conditions or restrictions contained therein; provided, that no such modification shall be or become operative or effective which shall in any manner impair any of the rights of the holders of the Bonds or the Trustee;

(c) to cure any ambiguity, or to cure, correct or supplement any defect or inconsistent provision contained in the Indenture or any indenture supplemental thereto in a manner which, in the opinion of Bond Counsel, is not adverse to the interests of the holders of the Bonds;

(d) to make such provision in regard to matters or questions arising under the Indenture as may be necessary or desirable and not inconsistent with the Indenture and not, in the opinion of Bond Counsel, adverse to the interests of the holders of the Bonds; or

(e) to make any other change which, in the opinion of Bond Counsel, does not materially adversely affect the rights of the Issuer or any holder of Bonds.

Exclusive of the purposes described in subparagraphs (a) through (e) above, written approval of the holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding and affected shall be required for any supplemental indenture, except that no modification or alteration of the Indenture may be made without the consent of all the holders of the Bonds at the time Outstanding and affected by such modification or alteration which permits (i) the reduction of the percentage of the Bonds, the consent of the holders of which is required for any such modification or alteration, (ii) the extension of the time or times of payment of the principal of, premium, if any, or interest on any of the Bonds, or the reduction in the principal amount of any of the Bonds, or in the rate of interest or the amount of any premium thereon or any other modification in the terms of payment of the principal thereof or interest or premium thereon, (iii) the creation by the Issuer of any lien ranking prior to or on a parity with the lien of the Indenture, (iv) the giving of any preference of any Bond over any other Bond or (v) the extension of any waiver of default to subsequent defaults. The Indenture further provides that the holders of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the power to waive any rights specifically provided with respect to the Bonds and to assent to any modification of any such right which may be proposed by the Issuer and consented to by the Trustee, subject, however, to the provisions of clauses (a)-(e) above.

## THE MBIA INSURANCE CORPORATION INSURANCE POLICY

The following information has been furnished by the Bond Insurer for use in this Official Statement. Reference is made to Appendix C for a

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specimen of the Bond Insurer's policy.

The Bond Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by a mandatory redemption upon the occurrence of a determination of taxability) and interest on the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than a mandatory redemption upon the occurrence of a determination of taxability, the payments guaranteed by the Bond Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Bond Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Bond Insurer's policy does not, under any circumstance, insure against loss relating to: (a) optional or mandatory redemptions (other than mandatory redemption upon the occurrence of a determination of taxability); (b) any payments to be made on an accelerated basis (other than as stated in (a) above); or (c) any Preference relating to (a) through (b) above. The Bond Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Bond Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Bond Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A. ("State Street"), in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street, State Street shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less

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any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Bond Insurer, formerly known as Municipal Bond Investors Assurance Corporation, is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Bond Insurer. The Bond Insurer is domiciled in the State of New York and licensed to do business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Bond Insurer has one European branch in the Republic of France.

As of March 31, 1995, the Bond Insurer had admitted assets of $3.5 billion (unaudited), total liabilities of $2.4 billion (unaudited), and total capital and surplus of $1.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 1994, the Bond Insurer had admitted assets of $3.4 billion (audited), total liabilities of $2.3 billion (audited), and total capital and surplus of $1.1 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. All information regarding the Bond Insurer, a wholly owned subsidiary of MBIA Inc., including the financial statements of the Bond Insurer for the year ended December 31, 1994, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 1994 is hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof. Any statement contained in a document incorporated by reference herein shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Furthermore, copies of the Bond Insurer's year end financial statements prepared in accordance with statutory accounting practices are available from the Bond Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Bond Insurer or the Securities and Exchange Commission. The address of the Bond Insurer is 113 King Street, Armonk, New York 10504.

Moody's Investors Service ("Moody's") rates the claims paying ability of the Bond Insurer "Aaa". The Obligations are rated in the highest rating category by Moody's.

Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), rates the claims paying ability of the Bond Insurer "AAA". The Obligations are rated in the highest rating category by Standard & Poor's.

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The Moody's rating of the Bond Insurer should be evaluated independently of the Standard & Poor's rating of the Bond Insurer. No application has been made to any other rating agency in order to obtain additional ratings on the Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Bond Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds. The Bond Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be reversed or withdrawn.

## TAX MATTERS

On the date of the initial delivery of the Bonds, McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (1) interest on the Bonds will be excludable from the "gross income" of the holders thereof, except for any holder who is treated pursuant to Section 103(b)(13) of the Internal Revenue Code of 1954 as a "substantial user" of the Facilities or a "related person" to such user and (2) the Bonds will not be treated as "private activity bonds" the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix B -- Form of Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel will rely upon (a) information furnished by the Company, and, particularly, written representations of officers and agents of the Company with respect to certain material facts that are solely within their knowledge relating to the use of the proceeds of the Bonds and the Prior Bonds, and the construction and use of the Facilities, and (b) covenants of the Issuer and the Company with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and the Prior Bonds and certain other matters. Failure of the Issuer or the Company to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The law upon which Bond Counsel has based its opinion is subject to change by Congress and to subsequent judicial and administrative

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interpretation by the courts and the Department of the Treasury. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations, who are subject to special provisions of the Code.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for "adjusted earnings and profits" to calculate the alternative minimum tax imposed on corporations by Section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent of the taxpayer's "alternative minimum taxable income" if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the Bonds is includable in the "alternative minimum taxable income" of a corporation (other than a regulated investment company or a real estate investment trust) for purposes of determining the environmental tax imposed by Section 59A of the Code. Section 59A of the Code imposes on a corporation an environmental tax, in addition to any other income tax imposed by the Code, equal to 0.12 percent of the excess of the modified alternative minimum taxable income of such corporation for the taxable year over $2,000,000.

Interest on the Bonds may be subject to the "branch profits tax" imposed on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

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Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligations is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds, although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity. The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

## LEGAL PROCEEDINGS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the unqualified approval of the Attorney General of the State of Texas and of Bond Counsel. McCall, Parkhurst & Horton, L.L.P. has acted in the capacity as Bond Counsel for the purpose of rendering an opinion with respect to the authorization, issuance, delivery, legality and validity of the Bonds and for the purpose of rendering an opinion on the exclusion of the interest on the Bonds from gross income for federal income tax purposes and certain other tax matters. Such firm has not been requested to examine, and has not investigated or verified, any statements, records, material or matters relating to the financial condition or capabilities of the Company, and has not assumed responsibility for the preparation of this Official Statement, except that, in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement exclusive of the information contained under the captions "THE BONDS - Book-Entry Only System" and "THE MBIA INSURANCE CORPORATION INSURANCE POLICY" and in Appendix A. Certain legal matters are being passed upon for the Issuer by the firm of Mayfield & Mayfield, counsel to the Issuer. Neither Bond Counsel nor counsel to the Issuer has participated in the preparation of, or examined (and they therefore will express no opinion on and assume no responsibility for), the contents of Appendix A to this Official Statement, and they have not considered it necessary to do so in order to render their opinions.

Certain legal matters will be passed upon for the Company by its counsel, Milbank, Tweed, Hadley & McCloy, New York, New York, and by its

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special counsel, Vinson & Elkins L.L.P., and for the Underwriters by their counsel, Sidley & Austin, Chicago, Illinois.

## UNDERWRITING

Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and J.P. Morgan Securities Inc. (the "Underwriters"), have jointly and severally agreed to purchase the Bonds at a price equal to 100% of the principal amount thereof, plus accrued interest from July 1, 1995 to the date of delivery. Under the terms of the Bond Purchase Agreement dated July 13, 1995 between the Underwriters and the Issuer, the Underwriters have agreed, subject to the approval of certain legal matters by counsel and to certain other conditions, to purchase all the Bonds if any such Bonds are purchased. The Company has agreed to pay the Underwriters a commission equal to .820% of the principal amount of the Bonds. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment accounts) and others at prices lower than the public offering price set forth on the cover page hereof. After such Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriters.

The Company has agreed to indemnify the Underwriters against or to contribute toward certain liabilities, including liabilities under federal securities laws.

## CONTINUING DISCLOSURE

The Company has made certain undertakings to provide annual financial statements of the Company (commencing with the fiscal year of the Company ended December 31, 1996) and notice of certain material events relating to the Bonds to each nationally recognized municipal securities information repository or, in certain cases, the Municipal Securities Rulemaking Board, and the appropriate state information depository, if any, in each case to the extent required by Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. The Company has made such covenants solely for the purpose of enabling the Underwriters to comply with the Rule and such covenants do not constitute an acknowledgement by the Company of the validity of the Rule and are valid and binding only to the extent that the Rule is valid. The Company expressly reserves the right to contest the validity of all or any portion of the Rule, including, without limitation, as a defense in any action. The Company and its officers and directors shall have no liability in respect of such covenants except to the extent required for such covenants to satisfy the requirements imposed by the Rule.

## MISCELLANEOUS

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The foregoing summaries do not purport to be complete and are expressly made subject to the exact provisions of the applicable documents which are incorporated herein by reference. For details of all terms and conditions with respect to the Bonds, reference is made to the Indenture and the Agreement, copies of which may be obtained from the Company and the Underwriters during the initial offering period for the Bonds and thereafter from the Trustee. Information concerning the Company is contained or incorporated by reference in Appendix A to this Official Statement. All the information contained under the heading "THE FACILITIES" has been furnished by the Company, and the Issuer makes no representations as to the accuracy or completeness of such information.

Under the Agreement, and otherwise, the Company is obligated to make certain payments to the Issuer and has agreed to indemnify the Issuer against certain liabilities, including liabilities under federal securities laws.

The Issuer does not assume any responsibility for the matters contained in this Official Statement, except for the matters contained under the heading "THE ISSUER." All findings and determinations by the Issuer relating to the issuance of the Bonds, are, and have been, made by it for its own internal uses and purposes in performing its duties under the laws of the State of Texas.

This Official Statement has been duly approved by the Board of Navigation and Canal Commissioners of the Issuer.

MATAGORDA COUNTY NAVIGATION
DISTRICT NUMBER ONE

By: /s/ T.E. Holsworth
Chairman, Board of
Navigation and Canal
Commissioners

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APPENDIX A

________________________

CENTRAL POWER AND LIGHT COMPANY

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The information contained in this Appendix to the Official Statement has been obtained from Central Power and Light Company.

## THE COMPANY

The Company is a public utility engaged in generating, purchasing, transmitting, distributing and selling electricity in south Texas. It is a wholly-owned subsidiary of Central and South West Corporation ("CSW"), a registered public utility holding company under the Public Utility Holding Company Act of 1935.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"), are incorporated in this Official Statement by reference:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 1994.

2. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

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3. The Company's Current Report on Form 8-K dated April 5, 1995.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the 1934 Act after the date of this Official Statement and prior to the termination of this offering shall be deemed to be incorporated by reference in this Appendix A from their respective dates of filing.

The Company is subject to the informational requirements of the 1934 Act and the Public Utility Holding Company Act of 1935 and, in accordance therewith, files reports and other information with the Commission. Such reports and other information filed by the Company can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549; and at the Commission's Regional Offices at Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661-2511 and 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can also be obtained at prescribed rates from the Public Reference Section of the Commission at its principal office at 450 Fifth Street, N.W., Washington, D.C. 20549.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Appendix by reference, other than exhibits to such documents. Written requests should be directed to Stephen D. Wise, Director, Finance, Central and South West Corporation, 1616 Woodall Rogers Freeway, Dallas, Texas 75266, as agent for the Company. The telephone number of CSW is (214) 777-1000.

SUMMARY INFORMATION

| | |
|---|---|
| Business . . . . . . . . . . . . . . . . . . . . . . . | Electric Utility |
| Service Area . . . . . . . . . . . . . . . . . . . . . | Approximately 44,000 square miles in south Texas |
| Population of Service Area . . . . . . . . . . . | Approximately 1,969,000 |
| Customers. . . . . . . . . . . . . . . . . . . . . . . . | Approximately 603,000 |
| Generating Fuels for 1994. . . . . . . . . . . . | Gas 56%; Coal 24%; Nuclear 20% |

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<TABLE>

SELECTED FINANCIAL INFORMATION
(in thousands, except percentages and ratios)

<CAPTION>

| | Twelve Months Ended March 31, 1995 (Unaudited) | Year Ended December 31, 1994 | 1993 | 1992 |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Income Summary: | | | | |
| Electric Operating Revenues | $1,082,032 | $1,217,979 | $1,223,528 | $1,113,423 |
| Operating Income | 249,863 | 256,251 | 190,079 | 266,665 |
| Net Income | 196,816 | 205,439 | 172,425 | 218,511 |
| Ratio of Earnings to Fixed Charges* | 2.70 | 3.24 | 2.69 | 3.23 |

* For computation of the foregoing ratios (i) earnings consist of net income plus fixed charges, federal and state income taxes, deferred income taxes and investment tax credits and (ii) fixed charges consist of interest on long-term debt, other interest charges, the interest component of leases and amortization of debt discount, premium and expense.

</TABLE>

| | Capitalization at March 31, 1995 (Unaudited) | |
|---|---|---|
| Capitalization Summary: | | |
| Long Term Debt | $1,468,001 | 46.9% |
| Preferred Stock | 250,351 | 8.0 |
| Common Equity | 1,408,821 | 45.1 |
| Total Capitalization | $3,127,173 | 100.0% |

CONSTRUCTION PROGRAM

The Company's capital expenditures for 1995-1997, including allowance for funds used during construction ("AFUDC"), are estimated at $111 million; $136 million and $110 million; respectively. The Company

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anticipates that the majority of the funds required for its 1995-1997 capital expenditure program will be provided from internal sources. These estimates are subject to change due to numerous factors, including load growth, escalation of construction costs, changes in nuclear and environmental regulation, delays from regulatory hearings, adequacy of rate relief and the availability of necessary external capital.

## EXPERTS

The audited financial statements and schedules of the Company included in its Annual Report on Form 10-K for the year ended December 31, 1994, which has been incorporated herein by reference, have been examined by Arthur Andersen LLP, independent public accountants, as indicated in their report dated February 13, 1995 with respect thereto, which has been incorporated herein by reference, in reliance upon the authority of said firm as experts in accounting and auditing in giving said report.

______________________

## APPENDIX B

______________________

## FORM OF OPINION OF BOND COUNSEL

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July 27, 1995

MATAGORDA COUNTY NAVIGATION DISTRICT NUMBER ONE
POLLUTION CONTROL REVENUE REFUNDING BONDS
(CENTRAL POWER AND LIGHT COMPANY PROJECT)
SERIES 1995

WE HAVE EXAMINED into the validity of the bonds described above (the "Bonds"), issued by the Matagorda County Navigation District Number One (the "Issuer"), initially dated as of July 1, 1995, in the aggregate principal amount of $100,635,000, maturing July 1, 2028 (unless the Bonds shall become due or shall be redeemed prior to their scheduled maturity in accordance with the terms and conditions stated in the text of the Bonds), and bearing interest from the dates specified therein until maturity or redemption, at the rates and payable on the dates and in the manner described in the text of the Bonds. The Bonds are in registered form in denominations of $5,000 and integral multiples thereof.

WE HAVE ACTED AS BOND COUNSEL for the Issuer for the purpose of rendering an opinion with respect to the authorization, issuance, delivery, legality, and validity of the Bonds under the laws and Constitution of the State of Texas, with respect to any exemption of the interest on the Bonds from federal income taxes, and for the other limited purposes set forth herein and in a supplemental opinion of even date herewith. We have not been requested to examine, and have not investigated or verified, any statements, records, material, or other matters relating to the financial condition or capabilities of the corporation hereinafter described, and we express no opinion with respect thereto.

WE HAVE EXAMINED the Constitution and laws of the State of Texas under which the Issuer was created and exists and pursuant to which it has authorized and issued the Bonds; certified copies of the proceedings of the governing body of said Issuer; certificates of Central Power and Light Company, a Texas corporation (the "Company"); the Installment Payment Agreement dated as of July 1, 1995 (the "Agreement"), between the Issuer and the Company; the Indenture of Trust dated as of July 1, 1995 (the "Indenture"), between the Issuer and The Bank of New York (the "Trustee"); resolutions of the Issuer, including the resolution authorizing the issuance of the Bonds, adopted June 1, 1995 (the "Bond Resolution"); certificates, resolutions, and representations of the Company and the Trustee, including certificates and representations with respect to certain material facts which are solely within the knowledge of the party rendering such certificates and representations; and the opinions of Milbank, Tweed, Hadley & McCloy and Vinson & Elkins L.L.P., counsel to the Company, upon which certifications, representations, and opinions we rely to the extent we consider appropriate; and other

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instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond R-1).

THE BONDS are secured by the Indenture whereunder the Trustee, or its successor as Trustee, is custodian of the Bond Fund created therein, and is obligated to enforce the rights of the owners of the Bonds, and to perform other duties, in the manner and under the conditions stated in the Indenture.

BASED ON SAID EXAMINATION, it is our opinion that the Issuer is a governmental agency and body politic and corporate of the State of Texas, validly operating and existing as a conservation and reclamation district and a navigation district under Texas law with full power and authority to enter into and carry out the terms of the Agreement and the Indenture.

IT IS FURTHER OUR OPINION that the Bond Resolution has been duly and lawfully adopted and that the Bonds have been duly and validly authorized, issued, executed, authenticated, and delivered in accordance with law and the Indenture, and constitute valid, legal, binding, and enforceable special obligations of the Issuer in accordance with their terms and the terms of the Indenture, with the principal of, premium, if any, and interest on the Bonds being payable from, and secured by a first lien on and pledge of all of the right, title, and interest of the Issuer in and to the Agreement, together with all moneys payable thereunder, excluding certain rights relating to certain payments for expenses and indemnification of the Issuer. Pursuant to the Agreement, the Company has agreed to make payments to the Trustee for deposit into the Bond Fund established by the Indenture in amounts sufficient to pay and redeem, or provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due as required by the Indenture.

THE RIGHTS OF THE ISSUER under the Agreement have been duly and legally assigned in the Indenture to the Trustee and have been pledged to the payment of the principal of, premium, if any, and interest on the Bonds. It is our opinion that the Agreement has been duly and lawfully authorized, executed, and delivered by the Issuer, and is a legal, valid, binding, and enforceable obligation of the Issuer in accordance with its terms and conditions. Milbank, Tweed, Hadley & McCloy and Vinson & Elkins L.L.P., counsel for the Company, have rendered their respective opinions of even date herewith to the effect that the Agreement has been duly and lawfully authorized, executed, and delivered by the Company, and that it is a legal, valid, binding, and enforceable obligation of the Company. We note that said counsel each has stated that the enforceability of the Agreement is subject to applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting creditors' rights generally.

IT IS FURTHER OUR OPINION that the Indenture has been duly and lawfully authorized, executed, and delivered, that it is in full force and effect, that it is legal, valid, binding, and enforceable in accordance

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with its terms and conditions, and that it creates the valid pledge which it purports to create.

THE ISSUER has reserved the right to amend the Indenture as provided therein and subject to the restrictions therein stated.

THE OPINIONS HEREINABOVE expressed are qualified to the extent that the obligations of the Company, the Trustee, and the Issuer, and the enforceability thereof, with respect to the Bonds, the Agreement, the Bond Resolution, and the Indenture are subject to applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting creditors' rights generally.

IN OUR OPINION, except as discussed below, the interest on the Bonds will be excludable from the gross income of the owners of the Bonds for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. The exceptions are as follows:

(1) interest on the Bonds will be includable in the gross income of the owner thereof during any period that such Bonds are owned by either a "substantial user" of the facilities financed with the proceeds of the Bonds or a "related person" of such user, as provided in section 103(b)(13) of the Internal Revenue Code of 1954, as amended;

(2) interest on the Bonds will be included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax and the environmental tax imposed on corporations by sections 55 and 59A of the Internal Revenue Code of 1986, as amended (the "Code");

(3) interest on the Bonds will be subject to the branch profits tax imposed on foreign corporations by section 884 of the Code; and

(4) interest on the Bonds will be subject to the tax imposed by section 1375 of the Code on the excess net passive income of certain S corporations that have Subchapter C earnings and profits.

Section 57(a)(5) of the Code includes as an individual and corporate alternative minimum tax preference item, the interest on certain "private activity bonds," other than bonds issued after August 7, 1986, to currently refund such bonds. In our opinion, the interest on the Bonds is not an alternative minimum tax preference item under such section.

IN EXPRESSING THIS OPINION as to the exclusion from gross income of interest, we have (a) relied upon information furnished by the Company, and particularly written representations of officers of the

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Company with respect to certain material facts which are solely within their knowledge, relating to the Facilities, as defined in the Agreement, and the use of the proceeds of the Bonds and the prior bonds, and (b) assumed continuing compliance with covenants of the Company, the Issuer and the Trustee with respect to certain matters, including arbitrage and the application of Bond proceeds. Failure to comply with certain of these representations and covenants may cause interest on the Bonds to become includable in gross income retroactively to the date of their issuance.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

Respectfully,

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APPENDIX C

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FORM OF MUNICIPAL BOND INSURANCE POLICY

MBIA

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

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MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment

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premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

COUNTERSIGNED: MBIA Insurance Corporation

_______________________ _______________________
Resident Licensed Agent President

_______________________ Attest: _______________________
City, State Assistant Secretary

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

[SPECIMEN]

MBIA

E N D O R S E M E N T

Attached to Policy No. [POLICY NUMBER] issued by MBIA Insurance

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Corporation (the "Insurer"), to the Paying Agent, as defined in the policy issued with respect to the Obligations.

It is further understood that this policy shall guarantee to the owner or holder, as defined in the policy, the full and complete payments required to be made by or on behalf of the Issuer if there occurs pursuant to the terms of the Obligations an event which results in the loss of the tax exempt status of the interest on the Obligations, including any principal, interest or premium payments payable thereon, if any, as and when thereby required.

This endorsement forms a part of the policy to which it is attached, effective on the inception date of the policy.

IN WITNESS WHEREOF, the Insurer has caused this endorsement to be executed in facsimile on its behalf by its President and its Assistant Secretary this [DAY] of [MONTH, YEAR].

MBIA Insurance Corporation

__________________________
President

Attest: __________________________
Assistant Secretary

[SPECIMEN]

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EXHIBIT 7(a)
---------

Milbank, Tweed, Hadley & McCloy
One Chase Manhattan Plaza
New York, New York 10005

July 28, 1995

Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020

J.P. Morgan Securities Inc.
60 Wall Street
New York, New York 10260

Goldman, Sachs & Co.
85 Broad Street
New York, New York 10004

Re: Matagorda County Navigation District Number One (Texas)
6.10% Pollution Control Revenue Refunding Bonds
(Central Power and Light Company Project)
Series 1995

Dear Sirs:

We have acted as special counsel for Central Power and Light Company (the "Company") in connection with the purchase by you from Matagorda County Navigation District Number One (Texas) (the "Issuer") pursuant to the Bond Purchase Agreement dated July 13, 1995 (the "Purchase Agreement"), of $100,635,000 aggregate principal amount of 6.10% Pollution Control Revenue Refunding Bonds (Central Power and Light Company Project) Series 1995 (the "Bonds"), issued under and pursuant to an Indenture of Trust, dated as of July 1, 1995 (the "Indenture"), between the Issuer and The Bank of New York, as Trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to such terms in the Purchase Agreement.

We have examined originals, or copies certified to our satisfaction, of such corporate records of the Company, indentures, agreements and other instruments, certificates of public officials, certificates of officers and representatives of the Company and of the

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Trustee and other documents as we have deemed it necessary to require as a basis for the opinions hereinafter expressed. In such examination we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us as originals and the conformity with the originals of all documents submitted to us as copies. As to various questions of fact material to such opinions we have, when relevant facts were not independently established, relied upon certifications by officers of the Company and other appropriate persons and statements contained in the Official Statement, including Appendix A thereto (the "Official Statement").

Based upon the foregoing, and having regard to legal considerations which we deem relevant, we are of the opinion that:

1. The Company is a corporation validly existing and in good standing under the laws of the State of Texas.

2. The Installment Agreement has been duly and validly authorized by all necessary corporate action of the Company, has been duly and validly executed and delivered by the Company, and is a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability relating to or affecting the enforcement of creditors' rights generally and to the effects of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law), including without limitation (a) the possible unavailability of specific performance, injunctive relief or any other equitable remedies and (b) concepts of materiality, reasonableness, good faith and fair dealing.

3. The order dated June 15, 1995 of the Securities and Exchange Commission (the "Commission") under the Public Utility Holding Company Act of 1935, as amended (the "1935 Act"), granting and permitting to become effective the Form U-1 Application-Declaration, as amended, of the Company (File No. 70-8597) with respect to the Bonds and the Installment Agreement has been entered and to the best of our knowledge is in full force and effect. No further consent, approval, authorization, or order of, or registration or filing with, any Federal commission, court, governmental or regulatory body or authority is necessary with respect to the Company for the approval of the Resolution by the Company, the execution, delivery and performance by the Company of the Installment Agreement and the Letter of Representation, the approval by the Company of the terms and provisions of the Purchase Agreement or the consummation by the Company of the transactions contemplated by the Installment Agreement, the Letter of Representation, the Purchase Agreement and the Official Statement.

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4. The Company has duly approved the forms of the Resolution, the Indenture and the Purchase Agreement; the Purchase Agreement has been duly authorized and accepted by the Company and the Letter of Representation has been duly authorized, executed and delivered by the Company. The Company has duly authorized the taking of all action necessary to carry out and give effect to the transactions contemplated to be performed by it by the Official Statement, the Installment Agreement, the Letter of Representation and the Purchase Agreement.

5. The Official Statement and any amendment or supplement thereto and each document relating to the Company incorporated by reference in the Official Statement, as such document was originally filed pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") (except for the financial statements and schedules and other financial and statistical data included or incorporated by reference therein, as to which we express no opinion), appear on their face to be appropriately responsive in all material respects to the requirements of the Exchange Act and the Securities Act of 1933, as amended (the "Act"), and the rules and regulations of the Commission thereunder applicable to prospectuses contained in registration statements on Form S-3 as if the Act, rules and regulations were applicable to the Official Statement.

6. The offer, sale and delivery of the Bonds to the public are not required to be registered under the Act and no qualification of the Indenture is required under the Trust Indenture Act of 1939, as amended, in connection with such transactions.

7. Except as may be specifically set forth in the Official Statement and except for the proceedings relating to the opinion of the Attorney General of the State of Texas on the Bonds and to the registration of the Bonds upon initial issuance by the Comptroller of Public Accounts of the State of Texas, to the best of our knowledge there is no action, suit, proceeding or investigation, at law or in equity, before or by any court, governmental agency or body or arbitrator, involving the Company or the Facilities, pending or threatened (i) which might reasonably be expected to materially and adversely affect (x) the condition (financial or otherwise), results of operations or properties of the Company or (y) the operation, condition or feasibility of the Facilities or (ii) wherein any unfavorable decision, ruling or finding would materially and adversely affect (x) the transactions contemplated to be performed by the Company by the Letter of Representation, the Installment Agreement or the Official Statement or (y) the validity or enforceability of the Bonds, the Installment Agreement, the Indenture, the Purchase Agreement or the Letter of Representation. We express no opinion

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as to any proceeding to which the Issuer is a party and the Company is not.

8. The approval of the Resolution, the Indenture, and the Purchase Agreement, the execution and delivery of the Letter of Representation and the Installment Agreement, and compliance with the provisions thereof or consummation of the transactions contemplated thereby by the Company will not result in a violation of any of the terms or provisions of any indenture, mortgage, deed of trust, commitment, agreement or other instrument, of which we have knowledge, to which the Company is a party or by which it is bound, or any existing order of which we have knowledge of any court or any Federal regulatory body or administrative agency or other Federal governmental body having jurisdiction over the Company or any of its properties, nor will such action result in any violation of the provisions of the Restated Articles of Incorporation or By-laws of the Company or any Federal laws of the United States or to the best of our knowledge result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the Company (except the lien, if any, created by the Installment Agreement).

As to the financial statements included in the Official Statement, we have made no examination of the Company's books of account and we therefore express no opinion. As to the statements under the headings "The Bonds" (other than under the sub-heading "Book-Entry Only System"), "The Agreement", and "The Indenture" (except for the financial statements and schedules and other financial and statistical data included or incorporated by reference therein, as to which we express no opinion), we are of the opinion that the statements are accurate in all material respects and do not omit any material fact necessary to make such statements, in light of the circumstances under which they were made, not misleading. As to other matters we have not undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement. We have, however, participated in the preparation of the Official Statement and we have reviewed such of the corporate records of the Company as we deemed advisable. None of the foregoing disclosed to us any information which gave us reason to believe that the Official Statement (except for the financial statements and other financial and statistical data included or incorporated by reference therein, as to which we express no opinion) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

This opinion is subject to the interest on the Bonds being excluded from gross income of holders thereof for Federal income tax purposes, as to which you have received opinions of McCall, Parkhurst &

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Horton L.L.P. and with respect to which we express no opinion.

In rendering the opinions hereinabove expressed, we have relied upon the opinion of even date hereof, delivered to you concurrently herewith, of Messrs. Vinson & Elkins L.L.P., Dallas, Texas, counsel for the Company, as to all matters governed by Texas law, and as to such matters, the opinions hereinabove expressed are subject to all qualifications, limitations, assumptions and reliances, and other considerations, therein set forth.

We do not express any opinion as to matters governed by any laws other than the laws of the State of New York, the Federal laws of the United States of America and, to the extent hereinabove stated, in reliance on the opinion of counsel for the Company, the laws of the State of Texas.

Very truly yours,

/s/ MILBANK, TWEED, HADLEY & MCCLOY
Milbank, Tweed, Hadley & McCloy

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