



**About the
Department**

*The DWP serves
more than 3.8
million people
in Los Angeles and
was established
almost 100 years
ago to provide
water and electric
services to
Los Angeles
residents and
businesses.*

DWP Refinances \$1.25 Billion in Power Bonds

During the third quarter, the Los Angeles Department of Water and Power successfully refinanced \$1.25 billion in power revenue bonds, resulting in millions of dollars in interest savings that help further reduce the DWP debt load and keep rates stable.

Ahead of the sale, the largest tax-exempt bond sale this year, Moody's Investor Service affirmed its Aa3 rating on the DWP power bonds. Standard & Poor's and Fitch assigned A+ ratings with a positive outlook. Fitch noted: "The strong rating and positive outlook are supported by DWP's solid financial position, below-market cost generation, very competitive retail rates and good revenue mix – Fitch is monitoring the California situation closely and sees DWP well positioned to meet all conceivable situations."

The DWP, the nation's largest municipal utility, is among the highest rated utilities in California. The strong bond ratings for the Department at a time of extreme volatility in the energy industry reflects continuing confidence in the DWP's overall financial plan and its ability to maintain a reliable, cost-effective power supply for customers. In all, the savings from the bond sale amount to \$2.1 million per year in interest for 34 years, resulting in stable costs to customers over time. The savings will help shield the Department against rising costs of natural gas, a critical fuel in producing electricity. The new bonds issued at 4.95 percent, replace \$1.22 billion in bonds at an average weighted rate of 5.8 percent.

Highlights of Energy Services and Water Services Operations

Energy Services continues this year with positive earnings ending the third quarter with net income of \$44 million before the voluntary transfer to the City. This is \$35 million below the third quarter of last year. Although operating revenue increased by \$287 million compared to the third quarter of last year, energy costs increased \$334 million for the same period. Year to date net income remains substantially ahead of last year by \$101 million.

Water Services finished the third quarter with a net loss of \$1.7 million before the voluntary transfer to the City. This is due to a reduction of operating revenues for the quarter of \$9 million and an increase in purchased water and other operating expenses. Year to date net income is \$89.7 million.

Generation Debt

During the third quarter of fiscal year 2000-2001 the Department continued its cost reduction and revenue enhancement program to eliminate all existing generation debt. At the close of the third quarter, the Department's generation debt balance, net of offsetting funds, remained at \$1.4 billion.



March 31, 2001

(Financial Statements in millions - unaudited)

Energy Services Financial Summary

Condensed Statement of Income

	Three Months Ended March 31		Nine Months Ended March 31	
	2001	2000	2001	2000
Operating Revenues	\$ 809.6	\$ 522.2	\$ 2,296.3	\$ 1,759.8
Operating Expenses				
Energy costs	551.8	217.3	1,370.6	775.0
Other operating expenses	212.6	209.2	612.8	619.1
	<u>764.4</u>	<u>426.5</u>	<u>1,983.4</u>	<u>1,394.1</u>
Operating Income	45.2	95.7	312.9	365.7
Other Income and Expense - Net	35.2	25.2	103.4	(17.9)
Debt Expenses	(38.9)	(44.0)	(136.1)	(125.9)
Contributions in Aid of Construction	2.9	1.7	11.4	(4.3)
Net Income Before Transfers	44.4	78.6	318.6	217.6
Transfers to the Reserve Fund of the City	-	-	119.8	112.0
Net Income After Transfer to the City	44.4	78.6	198.8	105.6
Cumulative Effect of Change in Accounting for Energy Purchase and Sales	(9.0)	-	(14.8)	-
Net Income	35.4	78.6	184.0	105.6
Retained Income Reinvested in the Business				
Balance at the beginning of the period	3,207.4	2,781.3	3,058.8	2,754.3
Balance at the end of the period	<u>\$ 3,242.8</u>	<u>\$ 2,859.9</u>	<u>\$ 3,242.8</u>	<u>\$ 2,859.9</u>

Condensed Statements of Cash Flows

	Nine Months Ended March 31	
	2001	2000
Cash Flows from Operating Activities	\$ 563.0	\$ 607.5
Cash Flows from Noncapital Financing Activities	(86.7)	627.0
Cash Flows from Capital and Related Financing Activities	(646.1)	(292.5)
Cash Flows from Investing Activities	133.2	(752.6)
Cash and Cash Equivalents		
Net increase	(36.6)	189.1
Beginning of period	439.9	288.2
End of period	<u>\$ 403.3</u>	<u>\$ 477.3</u>

Condensed Balance Sheets

	March 31 2001	June 30 2000
Assets		
Net Utility Plant	\$ 4,331.8	\$ 4,241.6
Restricted and Other Investments	1,118.9	1,385.3
Current Assets		
Cash & cash equivalents	403.3	439.9
Other current assets	888.1	790.0
Long-term Notes Receivable	1,313.1	1,118.6
Net Pension Asset	109.0	100.2
Total Assets	<u>\$ 8,164.2</u>	<u>\$ 8,075.6</u>
Capitalization & Liabilities		
Retained Income Reinvested in the Business	\$ 3,242.8	\$ 3,058.8
Accumulated Other Comprehensive Income		
Long-term Debt	3,284.7	3,390.2
Advance Refunding Bonds	322.9	557.9
Current Liabilities	772.4	615.2
Deferred Credits	345.4	279.2
Accrued Postretirement Liability	196.0	174.3
Total Capitalization & Liabilities	<u>\$ 8,164.2</u>	<u>\$ 8,075.6</u>

Energy Services-Third Quarter (2000-2001)

Operating Revenues Increased by \$287 Million

Operating revenues for the third quarter ending March 31, 2001 increased by \$287 million or 55% compared to the prior year's third quarter. The increase was due to an increase in wholesale revenues. Of the \$287 million, \$251.7 million was due to increased surplus energy sales.

Energy Costs Increased by \$334.5 Million

With the large increase in surplus energy sales, fuel and purchased power costs also increased. Such costs for the third quarter totaled \$551.8 million or 154% above last year's third quarter energy costs of \$217.3 million. The increase in the market price of natural gas combined with increased energy production caused this increase in expense.

Other Operating Expenses Increased by \$3.4 Million

With the increase in production, other operating expenses, including maintenance and depreciation, increased \$3.4 million to \$212.6 million for the quarter compared to \$209.2 million for the third quarter of fiscal year 1999-2000. The increase was due to additional maintenance expenses incurred during the quarter of \$13.7 million which were partially offset by a decrease in other operating expenses.

Other Income and Expenses - Net Increased by \$10 Million

Other income and expenses - net increased for the quarter ending March 31, 2001 by \$10 million or 39%. The increase was primarily due to an increase in investment income from long term notes receivable of \$11.7 million, which was partially established during the third quarter of last fiscal year, and other interest income totaling \$10.8 million during the period. This increase in income was offset by a \$12.4 million write down of the Department's customer information system project. There was no write down recorded in the third quarter of the last fiscal year.

Net Income Decreased by \$34.2 Million

The net result of the items above, with the major factors being a substantial increase in wholesale revenues and investment income, offset by increases in energy costs, was a net income of \$44.4 million before the voluntary transfer to the City. Compared to last year's third quarter net income of \$78.6 million, this resulted in reduction of \$34.2 million, or 44%. Year to date net income before transfers to the City is \$318.6 million, which is \$101 million more than net income for the same period last year.

October-December/2000

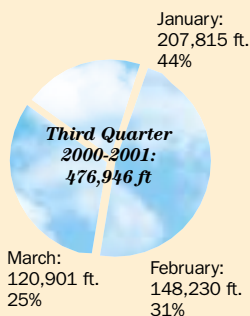
Energy Services Activities

	Quarterly Actual	YTD
New business installations, removals and upgrades	4,506	13,041
Number of electrical circuit feet designed	476,946	1,482,709
Number of conduit feet designed	74,778	120,531
Power quality assignments completed	269	513
Street lighting plans completed	25	87
Trouble jobs met service level objectives	88%	89%
Meters installed and removed	14,184	43,074
Conductor circuit feet installed and removed	133,127	249,116
Transformers installed	246	703
Conduit trench feet installed	2,001	8,116
Pole line feet installed and removed	99,027	259,758
Poles installed and replaced	178	527
Streetlights serviced	12,804	40,177



Energy Services

Number of electrical circuit feet designed



Percentage of Third Quarter Total

Financial Report

Third Quarter, Period Ended March 2001



Water Services-Third Quarter (2000-2001)

Operating Revenues Decreased by \$9 Million

Operating revenues for the third quarter decreased slightly by \$9 million or 8% compared to the same period last fiscal year. The decrease is primarily due to a decrease in demand in all customer classes with the largest decrease in demand coming from residential customers.

Purchased Water Expense

Increased by \$5.8 Million

With less water available from internal supplies, purchased water expense increased to \$28.8 million this quarter compared to last year's third quarter expense of \$23 million.

Other Operating Expenses

Decreased by \$1.4 Million

With less water being pulled from internal resources during the quarter, other operating expenses, including maintenance and depreciation, decreased to \$67.5 million, or 2%, from last year's third quarter total of \$68.9 million.



Other Income and Expenses - Net

Decreased \$2.7 Million

During the third quarter Water Services wrote down its customer information system by \$5.2 million. This expense was offset by an increase in investment income of \$3.3 million to end the quarter with other income and expenses – net decreasing by \$2.7 million.

Debt Expense Decreased by \$2.2 Million

During the third quarter debt expense dropped \$2.2 million to \$10.7 million compared to last year's third quarter debt expense to \$12.9 million. The reduction was due to a reduction on interest expense on debt.

Net Income Decreased by \$14.6 Million

The net result of the items above, with the major items being an increase in purchased water and other operating expenses (partially offset by the increase in investment income, and a decrease in debt expense), was a net loss of \$1.7 million before the voluntary transfer to the City. Compared to last year's third quarter net income of \$12.9 million, Water Services net income decreased by \$14.6 million.

January-March/2001

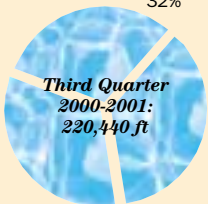
Water Services Activities

	Quarterly Actual	YTD
New distribution mains installed	32,254 ft.	89,683 ft.
News services installed	272	1,092
Cement mortar lining installed	207,181 ft	660,519 ft.
Services renewed-new main	91	276
Services renewed-cement lining	0	0
Services renewed-substandard	185	603
Services renewed-other	57	206
New meters installed	4,232	8,257

Water Services

Cement Mortar Lining Installed (in feet)

January:
66,501 ft.
32%



March:
85,779 ft.
41%

February:
54,901 ft.
27%

Percentage of Third Quarter Total

Financial Report

Third Quarter, Period Ended March 31, 2001

March 31, 2001

(Financial Statements in millions - unaudited)

Water Services Financial Summary

Condensed Statement of Income

	Three Months Ended March 31		Nine Months Ended March 31	
	2001	2000	2001	2000
Operating Revenues	\$ 102.7	\$ 111.7	\$ 415.4	\$ 384.5
Operating Expenses				
Purchased water	28.8	23.0	107.0	63.3
Other operating expenses	67.5	69.0	208.7	196.1
	<u>96.3</u>	<u>92.0</u>	<u>315.7</u>	<u>259.4</u>
Operating Income	6.4	19.7	99.7	125.1
Other Income and Expense - Net	(0.8)	1.9	11.8	3.4
Debt Expenses	(10.7)	(12.9)	(34.9)	(36.4)
Contributions in Aid of Construction	3.4	4.2	13.1	5.0
Net Income Before Transfer to the City	<u>(1.7)</u>	<u>12.9</u>	<u>89.7</u>	<u>97.1</u>
Transfer to the Reserve Fund of the City of Los Angeles	-	-	25.5	22.2
Net income after Transfer to the City	(1.7)	12.9	64.2	74.9
Retained income reinvested in the business				
Balance of the beginning of the year	1,721.0	1,606.7	1,655.1	1,544.7
Balance at the end of the period	<u>\$ 1,719.3</u>	<u>\$ 1,619.6</u>	<u>\$ 1,719.3</u>	<u>\$ 1,619.6</u>

Condensed Statements of Cash Flows

	Nine Months Ended March 31	
	2001	2000
Cash Flows from Operating Activities	\$ 159.0	\$ 199.5
Cash Flows from Noncapital Financing Activities	(17.8)	(15.4)
Cash Flows from Capital and Related Financing Activities	116.9	(85.5)
Cash Flows from Investing Activities	13.8	12.5
Cash and Cash Equivalents		
Net increase	271.9	110.9
Beginning of period	106.9	62.6
End of period	<u>\$ 378.8</u>	<u>\$ 173.5</u>

Condensed Balance Sheets

	March 31 2001	June 30 2000
	Assets	
Net Utility Plant	\$ 2,423.1	\$ 2,314.7
Restricted Investments	318.1	308.2
Current Assets		
Cash & cash equivalents	378.8	106.9
Other current assets	228.7	165.3
Net Pension Asset	50.8	45.5
Total Assets	<u>\$ 3,399.5</u>	<u>\$ 2,940.6</u>
Capitalization & Liabilities		
Retained Income Reinvested in the Business	\$ 1,719.3	\$ 1,655.1
Long-term Debt	1,024.7	709.5
Advance Refunding Bonds	316.1	316.0
Current Liabilities	259.8	191.0
Accrued Postretirement Liability	79.6	69.2
Total Capitalization & Liabilities	<u>\$ 3,399.5</u>	<u>\$ 2,940.8</u>