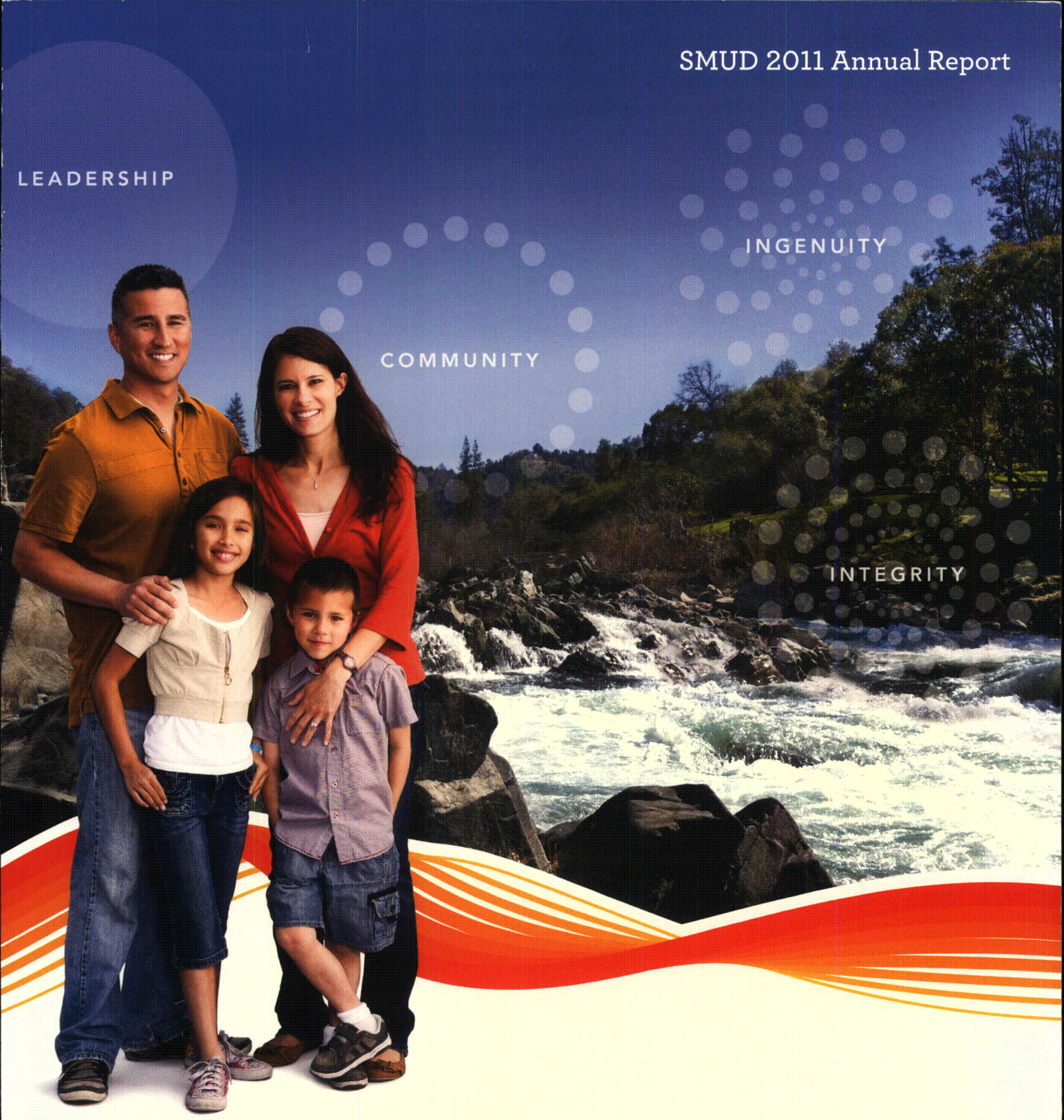
SMUD 2011 Annual Report

LEADERSHIP

INGENUITY

COMMUNITY

INTEGRITY



SMUD™

Powering forward. Together.

SMUD | Overview 2011

Service area population
1.4 million

Total authorized budget
$1.67 billion

Employees (year end)
2,034

Record peak demand
3,299 megawatts
(July 24, 2006)

Number of customers (year end)
599,826

Credit rating
A+ Standard & Poor's
A1 Moody's
A+ Fitch

Executive management

John DiStasio
General Manager &
Chief Executive Officer

Arlen Orchard
General Counsel

James A. Tracy
Chief Financial Officer

Paul Lau
Assistant General Manager,
Power Supply & Grid Operations

Elisabeth Brinton
Chief Customer Officer

Gary King
Chief Workforce and
Technologoy Officer

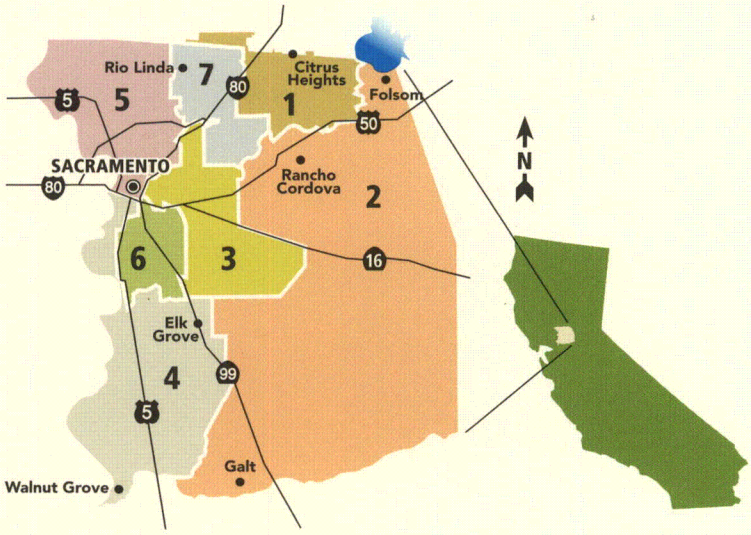
Michael Gianunzio
Chief Legislative &
Regulatory Affairs Officer

Noreen Roche-Carter
Treasurer

Sandra Moorman
Controller

SMUD service area and Board member wards

The Sacramento Municipal Utility District generates, transmits and distributes electricity to a 900-square-mile territory that includes California's capital city, Sacramento County and a small portion of Placer County. As a municipal utility, SMUD is governed by a seven-member Board of Directors selected by the voters to staggered four-year terms. The SMUD Board of Directors determines policy and appoints the general manager/chief executive officer, who is responsible for SMUD's day-to-day operations.



SMUD Board of Directors

Renée Taylor
Ward 1
(President 2011)

Nancy Bui-Thompson
Ward 2
(Vice President 2011)
(President 2012)

Howard Posner
Ward 3

Genevieve Shiroma
Ward 4

Rob Kerth
Ward 5

Larry Carr
Ward 6

Bill Slaton
Ward 7
(Vice President 2012)

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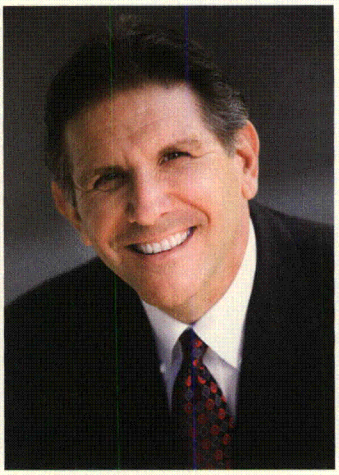
Produced by: Communications, Marketing and Community Relations

General Manager/CEO's letter



John DiStasio
General Manager/CEO

SMUD's 65th and most recent year of providing electrical service to the Sacramento region was a successful one on many fronts. In fact, 2011 could be termed a landmark year as we strengthened our financial footing and took significant steps that will help us lead our customers into a new energy era.

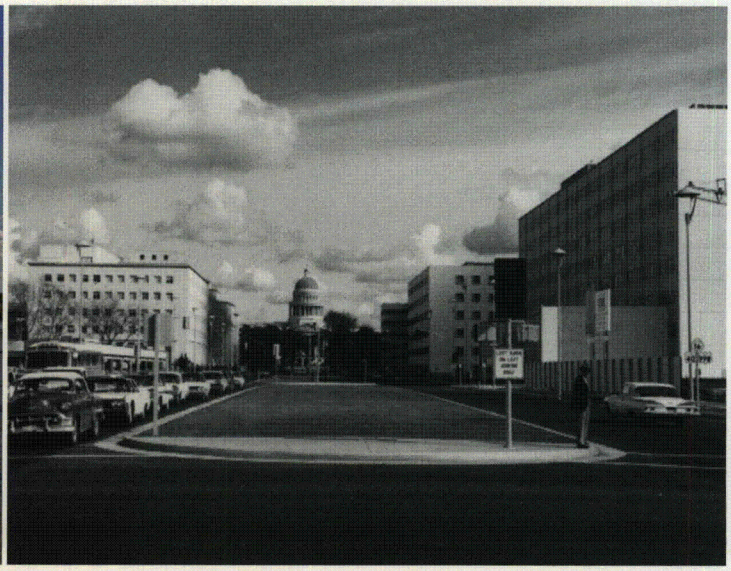
Our smart meter project was nearly completed by year's end and went even smoother than we anticipated. SMUD's investment in building a smarter, more efficient grid will pay off for decades to come by giving customers more options in how they use their energy and manage their electric bills. Without raising rates, we installed more than 600,000 smart meters that have already improved our customer service and will provide additional benefits down the road.

It always helps to have a wet winter, and we were certainly fortunate in 2011. Near-record snowfall in the Sierra Nevada filled storage reservoirs to the brim in our Upper American River Project, providing inexpensive, clean hydroelectricity during the peak summer months. We were able to lift our hydroelectric rates surcharge and place about $51 million into our depleted rate stabilization fund to protect customers against less bountiful years.

Without raising rates, we installed more than 600,000 smart meters that have already improved our customer service and will provide additional benefits down the road.

For SMUD, if there's a bright side to the current economic climate, it's that the recession prompted us to take a closer look at revenues and costs at the beginning of the slowdown. We adjusted our revenue forecasts and trimmed expenses wherever possible. I'm pleased to report that in 2011, Fitch raised SMUD's credit rating from A to A+, attributing our improved operations and finances for the upgrade. SMUD also holds high credit ratings from Moody's and Standard & Poor's.

Continued on page 2



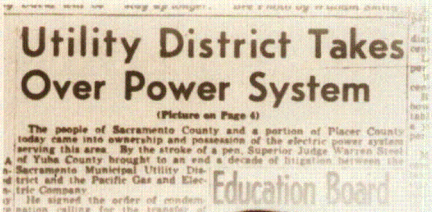
General Manager's letter – Continued

SMUD continues to be a state and national leader with respect to renewable power and energy efficiency. While we continued to increase our renewable supplies in 2011, we completed a complex transaction that will save SMUD from $60 million to $70 million over the next six years. By selling the newest portion of our Solano Wind Project to Citigroup, the buyer is able to take advantage of a federal stimulus grant available only to tax-paying owners of renewable-energy plants. SMUD will buy the clean power produced by the wind turbine generations and share a portion of Citigroup's financial benefits as well.

There were other notable milestones in 2011, some of which are highlighted in this report. SMUD marked its 65th anniversary on Dec. 31, 2011, and by remaining true to our fundamental values of leadership, integrity, ingenuity and community, we look forward to the challenges and opportunities on the horizon.

Sincerely,

John DiStasio
General Manager/CEO



Utility District Takes Over Power System

(Picture on Page 6)

The people of Sacramento County and a portion of Placer County today came into ownership and possession of the electric power system serving this area. By the stroke of a pen, Superior Judge Warren Steel of Yuba County brought to an end a decade of litigation between the Sacramento Municipal Utility District and the Pacific Gas and Electric Company.

He signed the order of condemnation calling for the transfer of ownership of the electric distribution system from the P. G. and E. to the utility district.

Education Board

The job for SMUD lineworkers remains the same today as it did in 1946 – to keep the lights on in a safe, reliable manner.

Year in review

The final day of 2011 marked SMUD's 65th anniversary. SMUD began supplying the electricity to the Sacramento region at 6 p.m. on New Year's Eve in 1946.

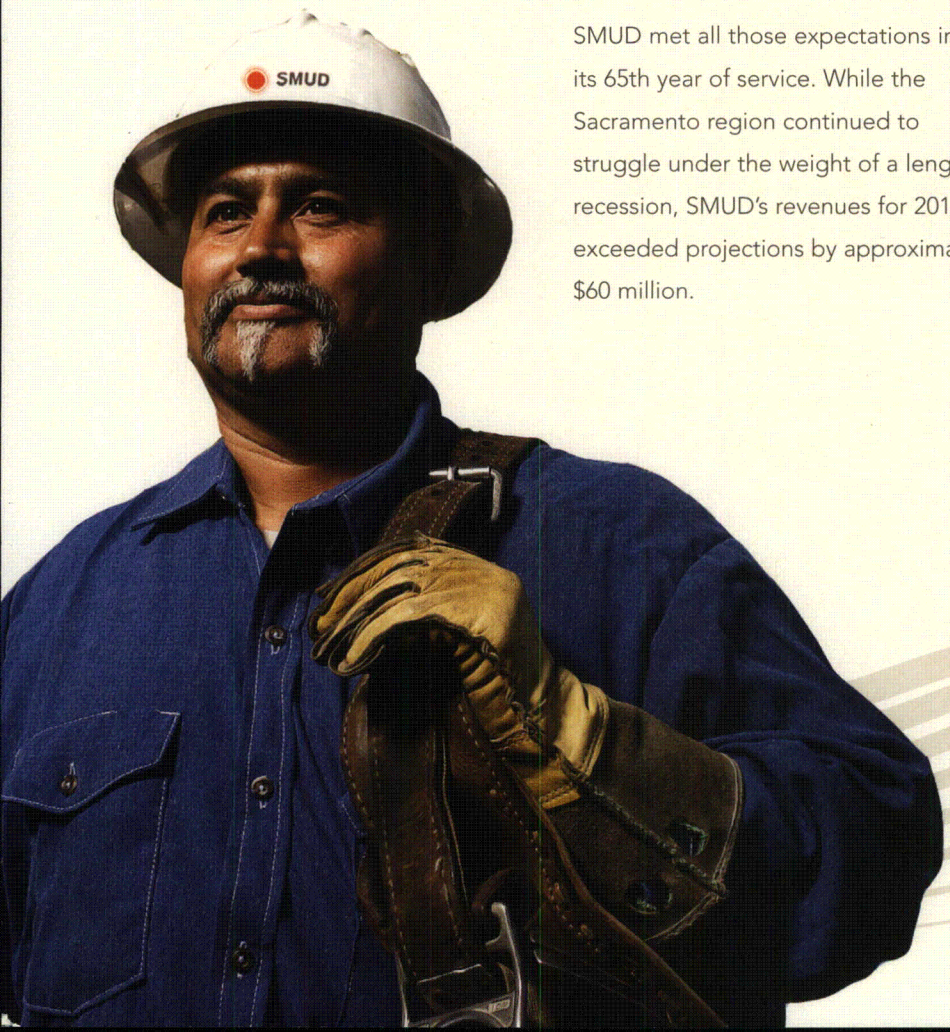
Meeting expectations and more

In 1946 and 2011 and at all the end-of-the-year celebrations in between, customers didn't lower the volume on the music or television sets to stop and consider SMUD's value or importance. They simply expected the electricity to keep flowing. At work and play, that remains the case today.

In quieter moments, customers might say they expect their community-owned utility to provide electricity reliably and safely at an affordable price, preferably in the most environmentally responsible fashion possible.

Many would like for SMUD to support the efforts of local businesses and serve as a catalyst for economic development. Implicit in these expectations is that SMUD be a financially sound organization with the ability to weather the ups and downs of the economy.

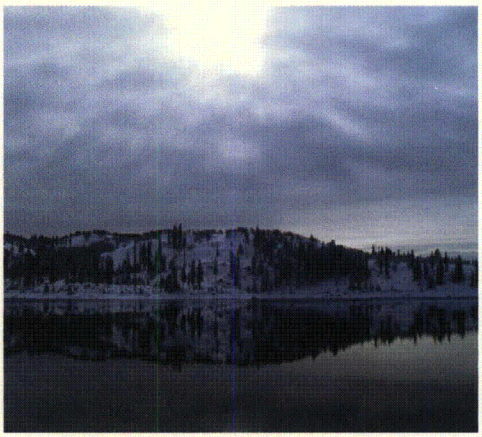
SMUD met all those expectations in its 65th year of service. While the Sacramento region continued to struggle under the weight of a lengthy recession, SMUD's revenues for 2011 exceeded projections by approximately $60 million.



SMUD's 65TH ANNIVERSARY

Water windfall

This was largely due to an abundance of water for hydroelectric generation. A deep snowpack in the Sierra Nevada is always welcome news at SMUD, which maximizes the clean, low-cost power generated in the 688-megawatt Upper American River Project.



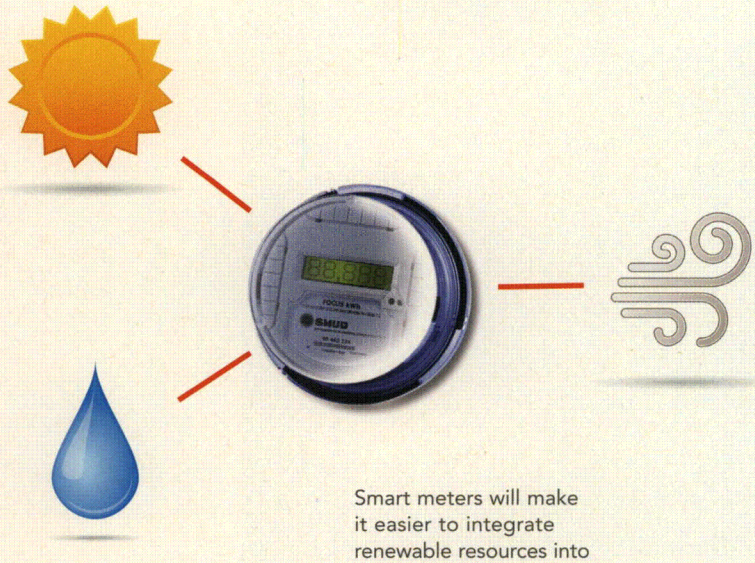
Running so much water through the Sierra powerhouses in 2011 helped SMUD cut back on thermal generation and sell natural gas that otherwise would have been burned in local power plants. The water windfall enabled SMUD to put about $51 million in its rate stabilization fund to protect customers against drier years.

Continued on pages 4-5

Year in review – continued

Wind windfall

For longer-term benefits, SMUD's sale of the nearly completed third phase of its Solano Wind Project will pay sizable dividends, resulting in savings of $60 million to $70 million over the next six years. Citigroup purchased the 128-megawatt expansion of SMUD's wind project for $288 million. The deal enables Citigroup to take advantage of a federal stimulus grant available only to tax-paying owners of new renewable-energy plants. SMUD will buy all of power generated from the wind turbines located outside Rio Vista. This generation will help SMUD meet its target of having 33 percent of all power coming from renewable sources by 2020. At the end of 2011, 20 percent of SMUD's power mix came from renewable sources and an additional 4 percent came from the voluntary Greenergy® program.



Smart meters will make it easier to integrate renewable resources into the electric grid.

Integrated smart grid

SMUD will be able to integrate intermittent renewable resources such as wind and solar more effectively with a smart grid. Installing smart meters at a pace of nearly 50,000 each month, SMUD ended the year with more than 600,000 of its customers using the new meters.

Smart meters are an integral part of SMUD's SmartSacramento® project. Assisted by a $127.5 million grant from the U.S. Department of Energy, SmartSacramento will accelerate the modernization of the electric grid. When completed, the smart grid will offer customers more energy options while improving the overall efficiency of the entire distribution system.

A+

Keeping the grades up and the rates low

In another significant development, Fitch, one of the nation's leading credit-rating agencies, raised SMUD's rating from A to A+. The upgrade was noteworthy in light of the sluggish economy and the falling ratings of other entities. Fitch announced that the rating change reflected improvements in SMUD's operations and finances the last two years. The rating agency noted that SMUD has increased its debt coverage, boosted liquidity and placed itself on a much sounder financial footing to face the renewable energy and greenhouse gas mandates in California.

SMUD holds high grades from other top rating agencies: an A+ rating from Standard & Poor's and an A1 rating from Moody's. Strong credit ratings boost investors' confidence in SMUD's bonds, and the lower interest rates directly benefit customers.

Residential rate comparison

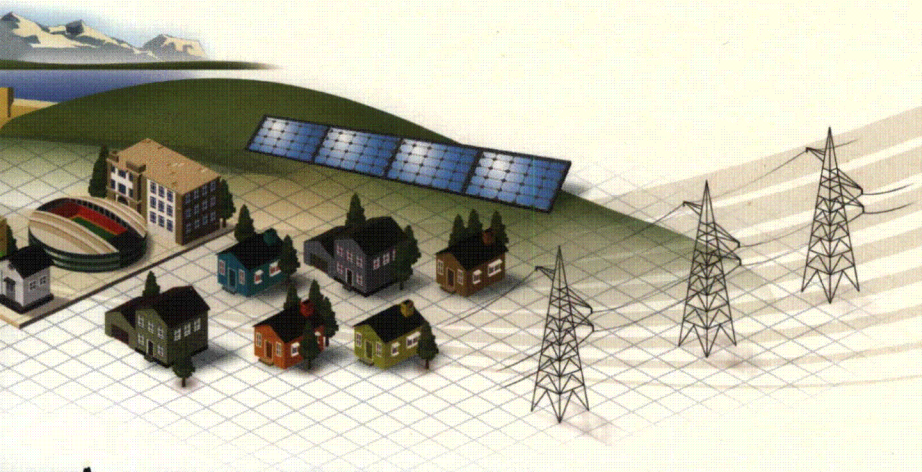
California utilities average — monthly residential electric bills @ 750 kWh
Effective Jan. 1, 2012

Utility	Monthly bill	% higher than SMUD
SMUD	**$91.80**	—
L.A. Department of Water & Power	$100.68	8.8%
Roseville Electric	$106.43	13.7%
PG&E	$133.92	31.5%
Southern California Edison	$128.26	28.4%
San Diego Gas & Electric	$129.58	29.2%

The adoption of a new rate structure in 2011 also puts SMUD on stronger financial footing moving forward. To better align pricing with the costs of maintaining the infrastructure vital for an efficient electric grid, the SMUD Board voted to gradually increase the fixed monthly charge on customers' monthly bills. Since the restructured rates are not designed to bring in additional revenue, SMUD offset the higher monthly charge by reducing the charge on energy consumption and the length of the higher summer rate period.

With little expansion needed due to the recession, SMUD continued to focus in 2011 on system reliability. The average duration of outages as well as the frequency of outages per customer were well within the limits set for 2011. SMUD's efforts were recognized when the utility received the Platinum award as a Reliable Public Power Provider from the American Public Power Association.

Customers again recognized these efforts by giving SMUD the highest customer satisfaction ratings of any California electric utility. In the J.D. Power and Associates survey of residential customers, SMUD ranked first among California utilities and second nationally in customer satisfaction.



SMUD has earned the top California rating for 10 straight years.

Time-tested values

Today's energy landscape is shifting. New technologies, increased customer expectations, widening regulatory requirements, a growing emphasis on clean energy – these and other developments assure that SMUD's future will look considerably different from its past.

These challenges are all surmountable. In fact, SMUD views them as opportunities. By drawing on its experience in providing the Sacramento region with electricity in an affordable, reliable and environmentally responsible manner, SMUD is poised to lead the community toward a cleaner, more prosperous future.

Power system operators ensure the safe and reliable delivery of electricity to SMUD's distribution system.

The following pages offer specific examples of four values that characterize SMUD's DNA – **leadership, ingenuity, community, and integrity.** The examples are all taken from 2011, but similar stories will play out in the years to come.

Times change. Values don't.

SMUD Values Leadership

Bolstered by a vote of confidence from the U.S. Department of Energy, SMUD is leading the capital of the nation's largest state down the path to a cleaner, more sustainable energy future.

SmartSacramento®

is SMUD's initiative to modernize the electrical grid. With the assistance of a $127.5 million smart grid infrastructure grant, the largest awarded by the federal government to any California utility, SMUD is in the process of reinventing its portion of the electrical grid, modernizing it to make it more responsive and efficient for customers, businesses and the environment.

The smart grid utilizes digital technology to create two-way communication between customers and their utility. The smart grid will enable SMUD to identify outages and restore customers' power more quickly. Also, the ability to integrate renewable resources such as solar and wind into the grid will be greatly improved as the grid gets smarter.

Just as the Internet transformed communications, the smart grid will provide the platform for new technologies capable of transforming energy services.

SmartSacramento's benefits are already being felt. By the end of 2011, SMUD had installed more than 600,000 smart meters that allow customers to view their daily energy usage online at www.smud.org. The automatic meters also reduce the number of SMUD vehicles that need to be on the road each day.

Also in 2011, SMUD had completed 19 of 40 substation transformer upgrades while implementing a pilot program for voltage-reduction testing. SMUD recruited more than 2,000 customers for a groundbreaking consumer behavior study in which customers will participate in experimental pricing programs.

In applying for the federal grant, SMUD advocated a collaborative, end-to-end approach to the implementation of a smarter grid. SMUD enlisted the support of some of the region's biggest organizations – Sacramento State, California Department of General Services,

County of Sacramento, Los Rios Community College District, Sacramento City Unified School District, and Elk Grove Unified School District.

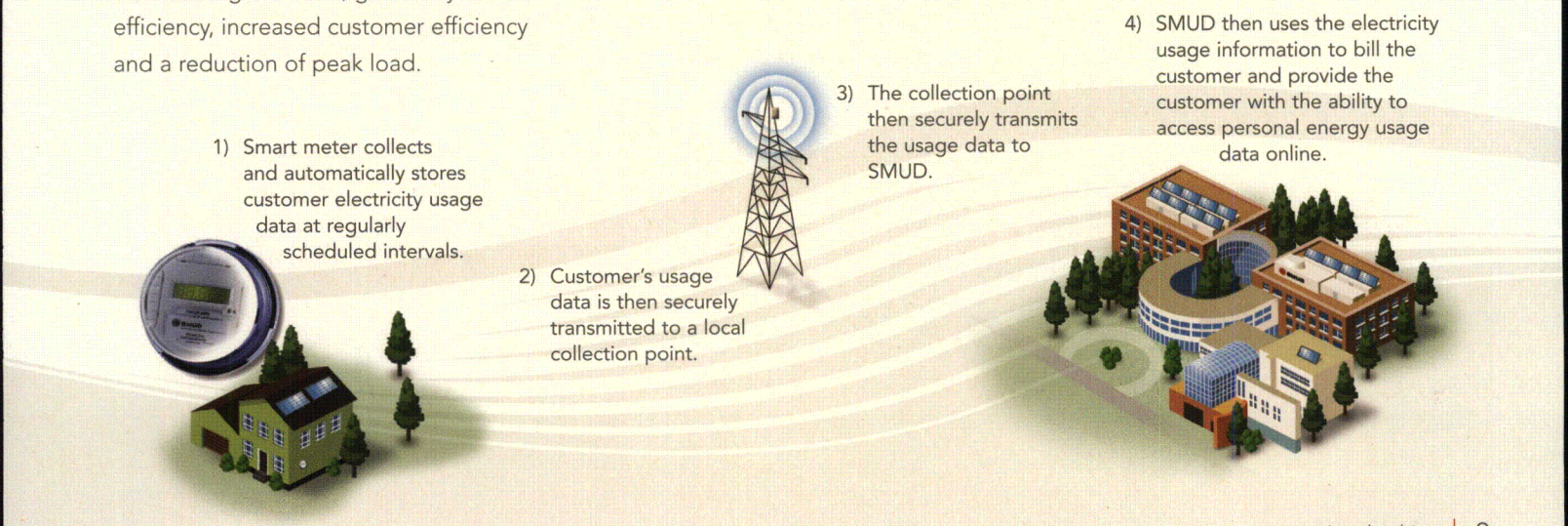
SmartSacramento consists of more than 20 individual projects that will be carried out over the next three to five years. Projects include distribution automation, cyber security, energy storage, customer applications, and electric transportation. SmartSacramento will not make SMUD's entire electric grid smart, but it will provide the Sacramento region with a considerable head start.

Ultimately, the smart grid will help reduce the environmental impact of the electrical system by supporting renewable generation, greater system efficiency, increased customer efficiency and a reduction of peak load.

SmartSacramento will also expand SMUD's commitment to research and development. To cite one example, the High Penetration Renewable Feeder Project is assessing the effects of renewable sources on voltage control and demonstrating solutions to mitigate the problem. The ability of utilities such as SMUD to control the "reverse flow" from distributed generation is pivotal as more renewable sources such as solar are integrated into the electric grid.

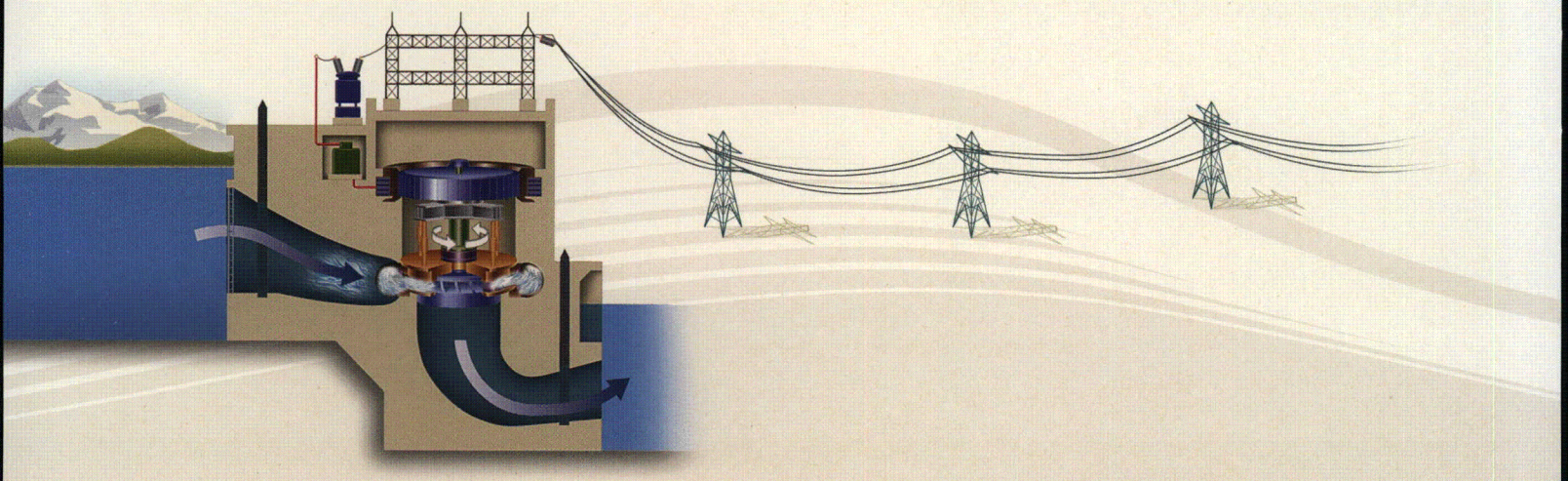
Throughout the SmartSacramento journey, SMUD will share its results and findings with the power industry through the Electric Power Research Institute's Smart Grid Demonstration Initiative. The immediate objective of SmartSacramento is to help SMUD usher the capital region into a transformative energy future.

If what SMUD and its customers learn along the way is beneficial to other utilities around the country, all the better. SMUD is happy to lead the way.



SMUD Values Ingenuity

Two thousand SMUD employees encounter a variety of challenges each day. Ingenuity is an indispensable attribute in an organization entrusted with the task of supplying electricity to 1.4 million people each hour of the day.



The **challenge** of operating a large hydroelectric system is squeezing every last drop of generation out of the snowmelt without having any water spill over the dams.

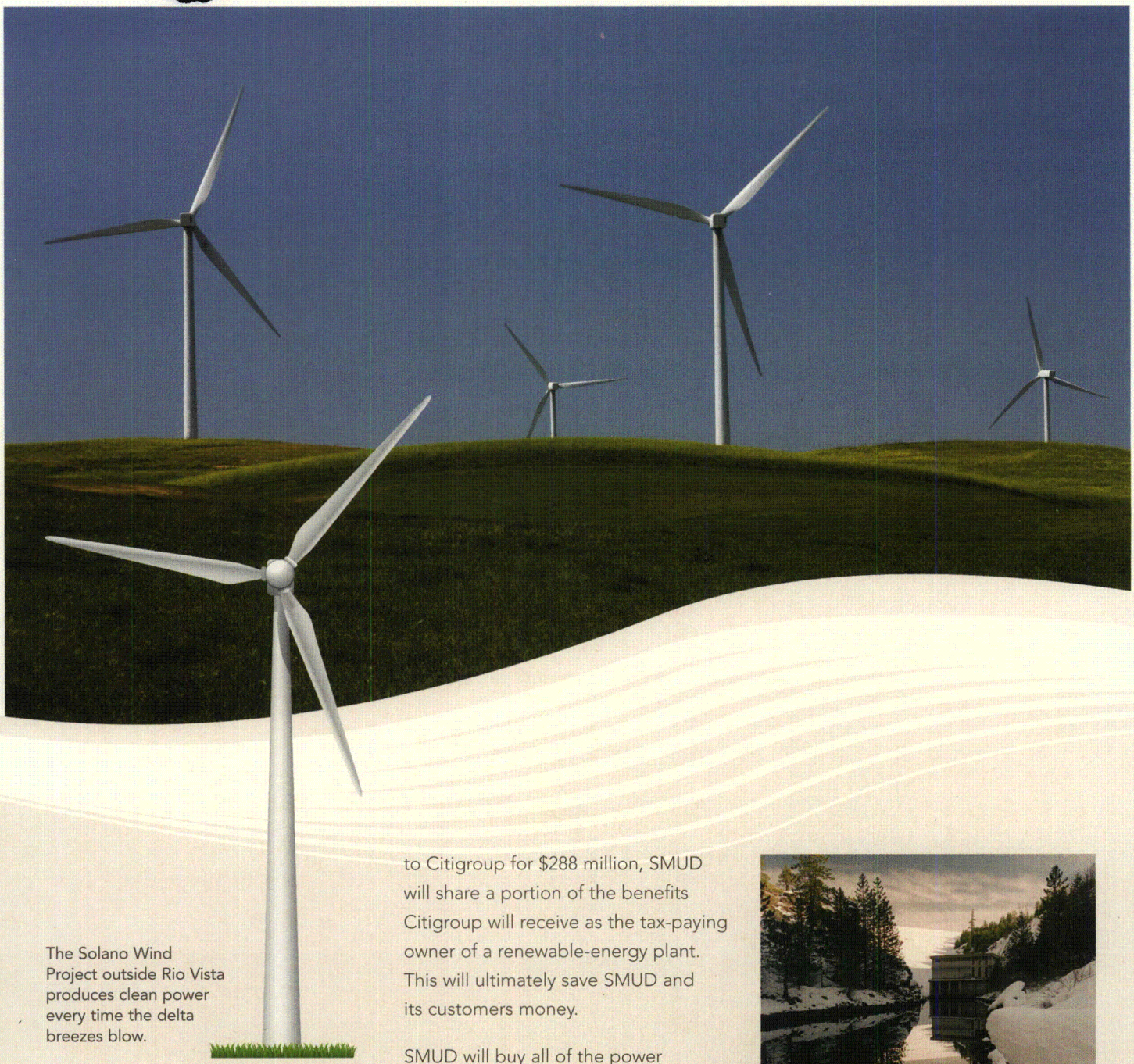
Two examples from the past year illustrate how imaginative approaches serve the long-term interests of SMUD's customers and the community at large.

A massive snowpack blanketed the Sierra Nevada last winter. In a real sense, that's money in the bank for SMUD, which uses the runoff to power its hydroelectric facilities in the Upper American River Project. A bountiful water year – and the spring snowpack in 2011 was about twice as deep as the historical average – almost always means a successful financial year for SMUD.

But the relentless spring runoff creates formidable challenges for those who manage SMUD's 11 reservoirs and eight powerhouses – the hydrographers, civil engineers, energy traders and maintenance crews who keep the 688-megawatt system running as efficiently as possible.

The challenge is to squeeze every last drop of generation out of the snowmelt without having water spill over the dams. The task was compounded in the spring by unpredictable weather patterns. By employing an innovative method for forecasting runoff, SMUD's team was able to minimize spills and save an estimated $6 million in revenue from vanishing downstream.

And by keeping the reservoirs filled to the brim in 2011, SMUD will be able to weather what looked like an unusually dry winter in 2012.

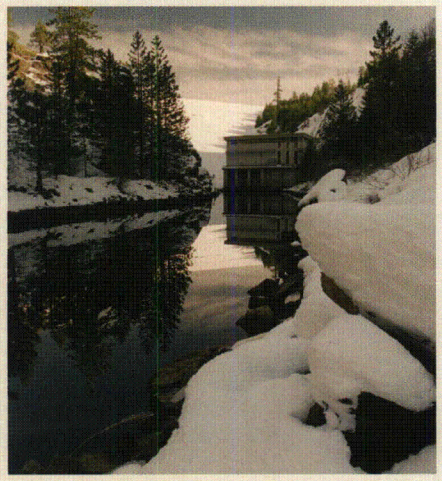


The Solano Wind Project outside Rio Vista produces clean power every time the delta breezes blow.

While the turbines were whirring in the mountain powerhouses, SMUD was busy completing the third phase of its Solano Wind Project outside Rio Vista. The 128-megawatt expansion will more than double the generating capacity of the Solano Wind Project.

SMUD completed a complex transaction that will save between $60 million and $70 million over the next six years. By selling the third phase of the Solano Wind Project to Citigroup for $288 million, SMUD will share a portion of the benefits Citigroup will receive as the tax-paying owner of a renewable-energy plant. This will ultimately save SMUD and its customers money.

SMUD will buy all of the power produced by the third phase of the wind project and has an option to repurchase the wind turbine generators after six years.

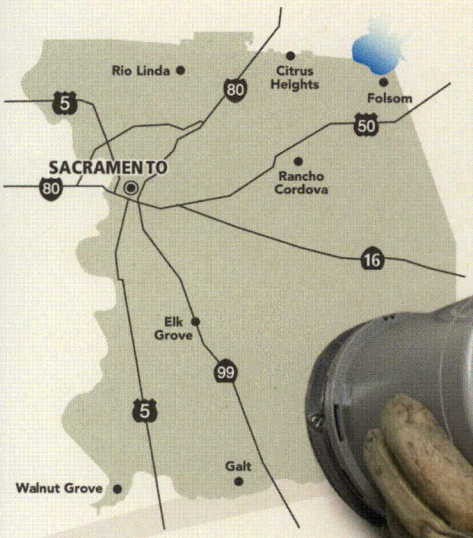


Two clean-energy assets, 115 miles apart, one harnessing the wind, the other water. Thanks to the ingenious efforts of a creative group of SMUD professionals, every gust of wind and drop of water are serving SMUD customers.

SMUD Values Community

Switching out every SMUD customer's electric meter is one of those jobs that's easier said than done.

More than 600,000 meters were replaced by digital "smart" meters across SMUD's service territory of 900 square miles.



In taking the first step toward developing a more efficient electric grid, more than 600,000 old meters had to be replaced by digital "smart" meters.

The project would reach every single SMUD customer throughout a service territory of 900 square miles, and SMUD's efforts were certain to attract scrutiny. PG&E's installation of smart meters in the Bakersfield area was receiving negative publicity across the state as SMUD prepared to initiate its own rollout in late 2009.

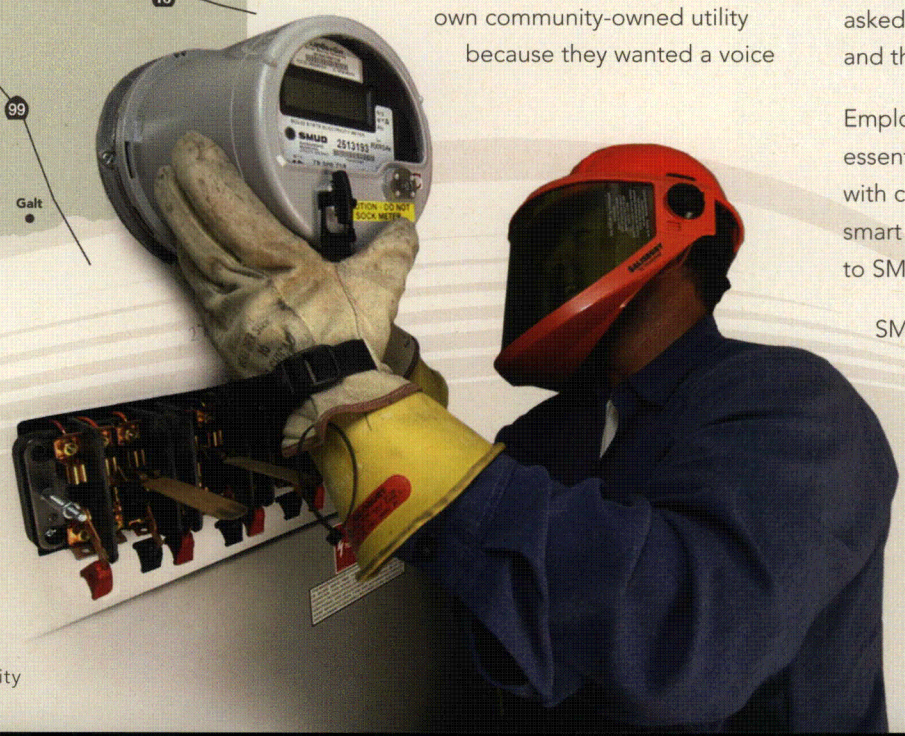
SMUD owes its very existence to the community it serves. Sacramento residents voted in 1923 to create their own community-owned utility because they wanted a voice in how they received their electricity. They got their wish when SMUD began providing power in 1946.

To maintain the level of community trust developed over decades of service, SMUD went to great lengths to make sure that customers were well informed about the smart meter transition – that customers would be fully informed beforehand, that their questions would be answered, and, most important, that the new meters would be accurate and reliable.

SMUD staff organized more than 150 community presentations that provided an overview of the project. Customers received letters, door-hangers and a brochure with frequently asked questions about smart meters and the smart grid.

Employee communication was also essential, since staff would be dealing with customers directly. More than 80 smart meter presentations were given to SMUD employees.

SMUD made customer advocates available to address any and all concerns throughout the project, providing a level of service rare among other



utilities' smart meter efforts. And by tracking calls and measuring customer satisfaction levels each month, SMUD was able to identify positive and negative trends immediately and respond quickly and effectively.

The new meters were tested extensively in the shop before the first meter was installed in late 2009. Once 78,000 smart meters had been installed in 2010, installations were halted for three months while SMUD conducted acceptance testing. Testing showed that daily reads were 99.5 percent accurate, exceeding industry standards by a wide margin.

SMUD also decided early on to store the old meters for several months. Some of old meters dated back to the 1940s, before SMUD replaced PG&E as the region's electricity provider. If customers with newly installed smart meters questioned the accuracy of their bill, SMUD was able to test both the new and old meters in question.

When 2011 ended, SMUD had installed more than 600,000 smart meters, and 92.7 percent of the customers surveyed said they were satisfied with how SMUD handled the rollout.

By keeping customers in the loop each step of the way, SMUD assured the smoothest possible transition. Commitment to community is one of the main reasons why SMUD has received the highest customer satisfaction scores of any California utility for 10 straight years.

Community fabric

A community-owned utility has an obligation to get involved in the community. SMUD continued to embrace its role in 2011.

SMUD's Community Outreach efforts inform and support a diverse array of residential and commercial customers. SMUD's efforts in 2011 included supporting more than 400 community events through sponsorships and partnerships; hosting 200 non-profit partners at a Community Orientation breakfast; participating in more than 30 Earth Day events; facilitating more than 70 community meetings to support rate restructuring efforts; expanding its presence at the California State Fair; and strengthening partnerships with groups such as the Sacramento Children's Museum, the Powerhouse Science Center, the Roberts Family Development Center and the Cordova Council.

SMUD Values Integrity

Integrity takes many shapes and forms. For SMUD, one form of integrity means battling for the best interests of individual customers and the community at large, wherever those battles might lead. It could be in the legislative corridors of Sacramento and Washington, or it could be in the courtroom.

In courtrooms and legislative chambers, SMUD fights for the flexibility needed to maintain affordable rates for its customers.

The pillars of SMUD's foundation – affordability, reliability and environmental stewardship – must each be strengthened without weakening the other. Keeping rates affordable while transitioning to a cleaner energy mix is a constant balancing act.

SMUD advocates strongly for energy legislation and policies in Sacramento and Washington that protect customers as well as the environment. SMUD is widely seen as a state and national leader in renewable power and energy efficiency. SMUD has adopted efficiency targets significantly higher than state requirements and was the only large California utility to meet the state target for 2010 of having at least 20 percent of its energy mix come from renewable resources.

SMUD's Legislative and Regulatory group participated in the development of a groundbreaking cap-and-trade system that limits California's greenhouse gas emissions. SMUD helped persuade regulators to structure this program to avoid any cost to customers. SMUD continues to argue for a flexible new state renewable program that would allow early environmental leaders such as SMUD to carry forward their surplus renewable energy from 2010 contracts and count historical renewable contracts in full.

On the national level, SMUD is pushing hard to shape the final rules implementing the Dodd-Frank Wall Street Reform Act. The goal is to ensure that SMUD can continue utilizing certain financial commodity contracts to lock in the prices of fuel and electricity, thus keeping rates predictable and stable.

These are complex issues that customers expect SMUD to take the lead on. While pursuing environmental stewardship, SMUD will fight to keep the affordable electricity rates its customers have come to expect. Those rates also encourage economic development. SMUD agrees with the intent of most of the state's clean-energy goals but is pushing back against one-size-fits-all aspects of certain regulatory mandates.

Assistant General Counsel Laura Lewis, Government Affairs Representative Lawrence Luong and Chief Legislative and Regulatory Affairs Officer Michael Gianunzio work to advance the interests of SMUD customers.

In 2011, SMUD finally managed, after an exhaustive legal fight, to receive a $30 million settlement for electricity sales made during the California energy crisis of 2000 and 2001. To help the state avoid blackouts during the worst days of the crisis, SMUD assisted the California Independent System Operator (ISO) by dispatching its hydroelectric generation when it would have normally reserved this generation for use in the summer months. SMUD also agreed to help an emergency sale of power by extending its outstanding credit rating to the ISO.

The Federal Energy Regulatory Commission (FERC) found that the electricity markets were dysfunctional from October 2000 through June 20, 2001. FERC initiated a proceeding that would retroactively revise the market prices downward during this period. However, the prices set by FERC did not consider SMUD's actual costs in supplying the power and would have resulted in SMUD selling power at a loss.

SMUD objected to FERC's attempt to regulate its power sales and was vindicated by a 2005 ruling from the Ninth Circuit Court of Appeals. California's investor-owned utilities brought a separate complaint against SMUD in state court but decided six years later to reach an out-of-court settlement.

SMUD's position in the prolonged legal battle was that Sacramento's community-owned utility helped keep the lights on in California during the energy crisis, and that SMUD had a right to recover its costs in making those sales. These weren't shareholders' dollars at stake – these were the community's.

Customers can trust SMUD to fight for their best interests. Fairness is synonymous with integrity.

East Campus – Operations Center

After almost seven decades, the people entrusted to keep the Sacramento region's lights on will be getting some new digs.

SMUD broke ground on its new East Campus – Operations Center in September.

The site, which will accommodate approximately one-third of SMUD's work force and is scheduled to be completed in 2013, is located at the corner of Kiefer Boulevard and Bradshaw Road.

SMUD acquired its current corporate yard on 59th Street in 1946. While the 19-acre facility served SMUD well for decades, the move to the 51-acre site is long overdue. For one thing, the number of SMUD customers has grown from 65,000 in 1946 to nearly 600,000 today.

The East Campus – Operations Center will include a six-story office building, equipment repair shops, maintenance and warehouse buildings, ample storage space, and adequate parking space for buckets trucks and other fleet vehicles.

Benefits include a reduction in operation costs, safety and security improvements, and an ability to start from scratch with the latest technologies in energy-efficient buildings. The project is designed to be a "net zero" energy site, meaning it will produce at least as much energy as it consumes on an annual basis. SMUD is aiming for LEED platinum certification, the highest level

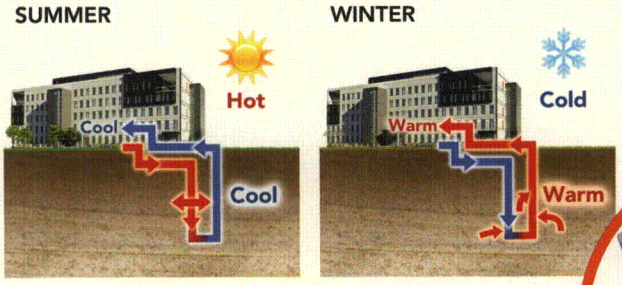
The regional economy is benefitting from construction of SMUD's East Campus – Operations Center.

The project is designed to be a "net zero" energy site, meaning it will produce at least as much energy as it consumes.

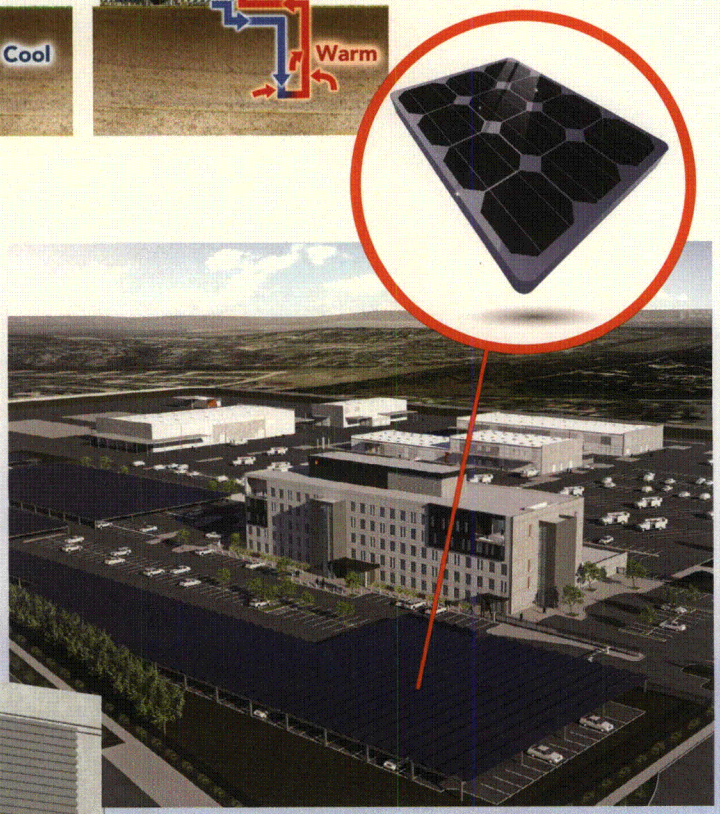
of achievement under the U.S. Green Building Council's Leadership in Energy and Environmental Design program.

Energy-efficient features will include a geothermal exchange system for heating and cooling the buildings. Solar systems will heat water and generate electricity on the site, which won't use natural gas.

The regional economy will benefit as well. The East Campus project will employ about 300 construction workers.



Energy-efficient features will include a geothermal exchange system for heating and cooling the buildings. Solar systems will heat water and generate electricity on the site, which won't use natural gas.



The new East Campus (artist's rendering above and left) is on a 51-acre site located at the corner of Bradshaw Road and Kiefer Boulevard.

Electric transportation

With gas prices skyrocketing and environmental concerns growing, interest in plug-in electric vehicles, or PEVs, is beginning to rev up.

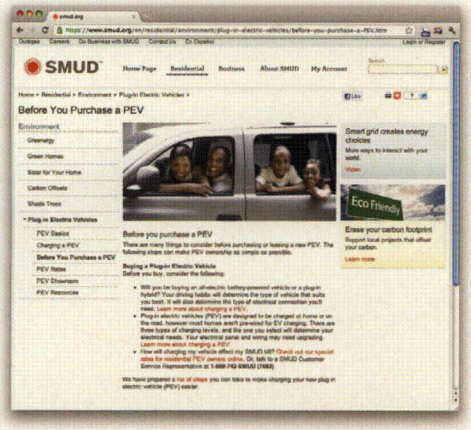
SMUD began supporting electric vehicles in 1989, when the electrification of transportation was first seen as a way to improve California's air quality. SMUD's research and development on batteries helped move the technology forward commercially, as did its partnerships with major automakers on various pilot programs.

A number of factors make electric vehicles an appealing alternative in today's environment.

Studies show that the average cost to charge a PEV is about $25 a month for a typical commuter, compared to $150 in monthly gasoline costs. Greenhouse gas emissions from an electric car are typically two-thirds lower than those released from gasoline combustion engines. Electric vehicles require less maintenance and are quieter than gas-powered cars. PEVs meet the same standards as other vehicles established by the National Highway Traffic Safety Administration. PEVs are fueled by locally generated electricity rather than foreign oil.

While PEVs are currently more expensive than similarly sized gas-powered vehicles, federal and state incentives bring the sticker price down, and fuel costs are substantially lower. Economies of scale should bring costs down in coming years.

SMUD offers a discounted electric rate for PEV owners who charge their cars during off-peak hours. Members of SMUD's specially trained staff are



SMUD's Web site (above) provides a wide range of information on plug-in electric vehicles. SMUD is also holding community events (right) to educate the public about PEVs.

From SMUD's perspective, a plug-in electric vehicle is really just another home appliance. Most PEV owners will do their charging at home, filling the tank at night when the cost of electricity is lower.

prepared to walk customers through each step of the purchasing process, which might include the need for an upgrade of the home's electrical panel. SMUD brochures are available at local auto dealerships, and a wealth of information about electric vehicles is available at www.smud.org/pev.

Its track record with respect to electric transportation was a factor in SMUD's receiving 10 Chevy Volts in 2011 for testing and evaluation through grants from General Motors and the California Energy Commission. SMUD is obtaining valuable data on how to integrate PEVs into the electric grid without creating problems for the overall distribution system.

To further ensure the smooth integration of PEVs into the grid, SMUD also works closely with local jurisdictions to support public charging stations throughout the Sacramento region.

From SMUD's perspective, a plug-in electric vehicle is really just another home appliance. Most PEV owners will do their charging at home, filling the tank at night when the cost of electricity is lower.

SMUD's transportation fleet includes hybrid Dodge Ram pick-ups (above) and Chevy Volts (below).

2011 Financial Statements

5 YEAR SUMMARY (Unaudited)

Operating Statistics (i)	2011	2010	2009	2008	2007
Customers at year-end	599,826	597,097	595,076	592,490	589,599
KWH Sales (thousands)					
Sales to customers –					
Residential	4,587,205	4,486,241	4,707,104	4,696,912	4,608,170
Commercial, industrial & other	5,797,808	5,798,569	5,984,803	6,219,838	6,209,689
Subtotal	10,385,013	10,284,810	10,691,907	10,916,750	10,817,859
Sales of surplus power	2,492,975	1,836,957	2,133,049	2,460,487	2,427,964
Total	12,877,988	12,121,767	12,824,956	13,377,237	13,245,823
Revenues (thousands of dollars)					
Sales to Customers –					
Residential	$ 559,424	$ 526,860	$ 514,320	$ 540,546	$ 493,910
Commercial, industrial & other	692,959	669,489	631,251	627,571	589,922
Subtotal	1,252,383	1,196,349	1,145,571	1,168,117	1,083,832
Sales of surplus power	70,370	59,493	58,626	170,640	134,002
Sales of surplus gas	88,202	59,998	61,331	139,275	78,292
Total (ii)	$1,410,955	$1,315,840	$1,265,528	$1,478,032	$1,296,126
Average kWh sales per residential customer	8,652	8,497	8,955	8,982	8,841
Average revenue per residential kWh sold (cents)	12.33	11.91	11.07	11.11	10.49
Power supply (thousands of kWh)					
Hydroelectric	2,823,979	1,926,783	1,442,015	886,728	1,056,893
Cogeneration	4,762,183	5,468,825	5,166,669	5,995,248	5,886,579
Windpower	221,067	236,352	173,775	261,338	117,197
Photovoltaic	1,627	1,952	2,236	2,655	2,235
Gas turbine	–	–	–	–	181
Purchases	5,599,183	5,013,814	6,534,376	6,756,059	6,724,160
Net system peak demand – 1 hour (kW)	2,840,000	2,990,000	2,848,001	3,086,000	3,099,000
Equivalent Full Time Employees at year-end	2,034	2,064	2,113	2,197	2,226
Financial Statistics (thousands of dollars)					
Operating revenues	$1,360,008	$1,323,288	$1,293,337	$1,486,679	$1,312,083
Operating expenses –					
Purchased and interchanged power	237,360	255,523	339,310	446,302	385,021
Operation and maintenance	750,446	733,377	687,558	752,554	666,661
Depreciation and amortization	169,987	162,708	150,811	145,196	133,603
Decommissioning	4,047	4,704	421	4,700	31,620
Total operating expenses	1,161,840	1,156,312	1,178,100	1,348,752	1,216,905
Operating income	198,168	166,976	115,237	137,927	95,178
Other income	12,797	3,843	(16,428)	38,365	47,340
Income before interest charges	210,965	170,819	98,809	176,292	142,518
Interest charges	140,837	140,069	110,594	164,322	147,101
Net increase (decrease) in net assets before extraordinary income	$ 70,128	$ 30,750	$ (11,785)	$ 11,970	$ (4,583)
Extraordinary Income	$ 134	$ 3	$ 17,170	$ 10,168	$ –
Net increase (decrease) in net assets	$ 70,262	$ 30,753	$ 5,385	$ 22,138	$ (4,583)
Funds available for revenue bond debt service	$ 472,367	$ 336,451	$ 257,011	$ 264,601	$ 245,604
Revenue bond debt service	$ 167,271	$ 170,318	$ 164,355	$ 172,168	$ 181,706
Revenue bond debt service coverage ratio	2.82	1.98	1.56	1.56	1.35
Electric utility plant – net	$3,248,294	$3,004,216	$2,978,623	$2,926,746	$2,882,321
Capitalization					
Long-term debt	$3,012,935	$3,156,447	$3,007,908	$3,205,101	$3,173,216
Customer's equity	$ 616,949	$ 546,687	$ 515,934	$ 510,549	$ 488,411

i Financial information is consolidated (except the debt service information).

ii Prior to the net deferral/transfer of revenues to/from the Rate Stabilization Fund and deferral of Public Good revenue.

TABLE OF CONTENTS

BAKER TILLY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Sacramento Municipal Utility District, Sacramento, California

We have audited the accompanying consolidated balance sheets of Sacramento Municipal Utility District and its blended component units as of December 31, 2011 and 2010, and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Sacramento Municipal Utility District's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Municipal Utility District and its blended component units at December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will issue a report on our consideration of Sacramento Municipal Utility District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

This management discussion and analysis provides a summary of the financial performance of the Sacramento Municipal Utility District (SMUD) and its component units for the years ending December 31, 2011 and 2010. Please read it in conjunction with the consolidated financial statements and notes, which begin on page 34.

BACKGROUND

Under provisions of California's Municipal Utility District Act, the citizens of Sacramento voted in 1923 to form their own electric utility – SMUD. The community-owned utility began operations on December 31, 1946.

Governed by an elected board of directors (Board), SMUD has the rights and powers to fix rates and charges for commodities and services it furnishes, incur indebtedness, and issue bonds or other obligations. SMUD is responsible for the acquisition, generation, transmission and distribution of electric power to its service area – most of Sacramento County and small, adjoining portions of Placer and Yolo counties.

Setting Rates

The Board has independent authority to set SMUD's rates and charges. Changes in rates require a public hearing and formal action by the Board.

In June 2009, the Board approved the following average system rate increases:

- 5.5 percent, starting September 1, 2009,
- 5.5 percent, starting March 1, 2010, and
- 2.25 percent, starting January 1, 2011

In August 2011, the Board approved a revenue-neutral rate restructuring that would

- encourage energy efficiency,
- promote the development of renewable energy resources, and
- equitably allocate costs across and within customer classes

Effective January 2012, various components of the rate will be adjusted to achieve the Board's objectives. The impact of the changes will cover the years 2012 through 2017.

In April 2011, $40.4 million was transferred from revenue to the Hydro Rate Stabilization Fund (HRSF) as a result of higher precipitation. In April 2010, $4.1 million of the HRSF was recognized as revenue to lessen the budget impact of lower hydro generation resulting from lower precipitation.

In December 2011, $10.1 million was transferred to the Rate Stabilization Fund (RSF) due to increased energy deliveries by the Western Area Power Administration (Western). In December 2010, $2.1 million of the RSF was recognized as revenue to offset the higher cost of purchased power because energy deliveries by Western were lower that year.

Financial Reporting

SMUD maintains its accounting records in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB) and – where not in conflict with the GASB – by accounting principles set by the Financial Accounting Standards Board (FASB).

SMUD's accounting records generally follow the Uniform System of Accounts for Public Licensees prescribed by the Federal Energy Regulatory Commission, except as it relates to accounting for contributions of utility property in aid of construction.

In accordance with FASB ASC 980, "***Regulated Operations***" the Board has taken regulatory actions for ratemaking that result in the deferral of expense or revenue recognition.

As of December 31, 2011, SMUD had total regulatory costs for future recovery of $223.3 million, a net decrease of $34.4 million from 2010. The decrease is due largely to settlement of the wholesale power receivables of $24.0 million (see Note 18) and decreased deferral of pollution remediation costs of $6.0 million. Also there was a decrease in the valuation of derivative financial instruments of $12.3 million, offset by an increase in deferred costs for Rancho Seco decommissioning of $8.0 million.

As of December 31, 2011, SMUD also had Regulatory Credits of $391.1 million, a net increase of $97.4 million from 2010. The increase is primarily due to the $40.0 million deferral of grant revenues for capital assets, a $40.4 million transfer to the HRSF due to higher precipitation, and a $10.1 million transfer to the RSF due to higher energy deliveries by Western as discussed above, and the year end valuation of precipitation hedges of $6.4 million.

The regulatory costs and regulatory credits will be recognized in the *Consolidated Statements of Revenues, Expenses and Changes in Net Assets* in future periods as determined by the Board for ratemaking purposes.

Contents of this report

This financial annual report reflects SMUD activities that are funded primarily through the sale of energy, transmission, and distribution services to its customer-owners and is divided into the following sections.

- Management discussion and analysis.
- **The consolidated financial statements,** which offer both short-term and long-term information on SMUD's financial status.
  - The Consolidated Balance Sheets include all of SMUD's assets and liabilities, using the accrual method of accounting. They also indicate which assets can be used for general purposes and which are restricted as a result of bond covenants, Board action, or other commitments. They provide information about the nature and amount of resources and obligations at a specific point in time.
  - The Consolidated Statements of Revenues, Expenses and Changes in Net Assets report all of SMUD's revenues and expenses for the periods shown.
  - The Consolidated Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing. They also report other cash uses such as payments for bond principal and capital additions and improvements.
- Notes to the consolidated financial statements.

FINANCIAL HIGHLIGHTS

Condensed Consolidated Balance Sheets	December 31, 2011	2010	2009
		(millions of dollars)	
Assets			
Electric Utility Plant – net	$ 3,248	$ 3,004	$ 2,979
Restricted and Designated Assets	241	205	202
Current Assets	808	989	786
Noncurrent Assets and Deferred Charges	856	896	857
	$ 5,153	$ 5,094	$ 4,824
Liabilities and Net Assets			
Long-Term Debt – net	$ 3,013	$ 3,156	$ 3,008
Current Liabilities and Deferred Credits	737	718	690
Noncurrent Liabilities and Deferred Credits	786	673	611
Net Assets:			
Invested in capital, net of related debt	414	97	222
Restricted	110	101	86
Unrestricted	93	349	207
	$ 5,153	$ 5,094	$ 4,824

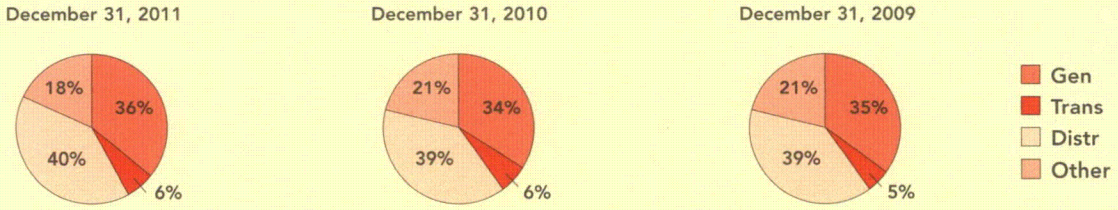
ASSETS

Utility plant – net

2011 compared to 2010 SMUD has invested approximately $3,248.3 million in electric utility plant assets and construction work in progress after accumulated depreciation at December 31, 2011. The category, "Total electric utility plant – net" makes up about 63 percent of SMUD's assets, approximately 4 percent more than the previous year. In 2011, SMUD capitalized approximately $423.4 million of additions to electric utility plant, including additions to construction work in progress in SMUD's Consolidated Balance Sheets. The additions were primarily for the Solano Wind Phase 3 project, East Campus Operations Center and Smart Grid projects like smart meters, distribution automation and AMI software.

2010 compared to 2009 SMUD has invested approximately $3,004 million in utility plant assets and construction work in progress net of accumulated depreciation at December 31, 2010. Net utility plant makes up about 59 percent of SMUD's assets, approximately 3 percent less than the previous year. During 2010, SMUD capitalized approximately $198 million of additions to utility plant, including additions to construction work in progress in SMUD's Consolidated Balance Sheets. This was a result of the Smart Grid project, land acquisition and preliminary costs for the East Campus project, and routine capital additions for generation, transmission, distribution, and general plant.

The following charts show the breakdown of net utility plant by major plant category – Generation (Gen), Transmission (Trans), Distribution (Distr), and Other:



Restricted and Designated Assets

2011 compared to 2010 SMUD's restricted and designated assets increased by $35.8 million during 2011. Revenue bond, debt service, and construction reserves decreased by $37.6 million due to spending the balance of the construction fund of $19.0 million and lower reserve funds due to the bond refundings with the issuance of 2011 Series X Electric Revenue Refunding Bonds. This decrease was offset by a $50.5 million increase in the RSF (including the HRSF) as a result of higher precipitation and higher energy deliveries from Western. The year also ended with a lower current portion of restricted and designated assets.

2010 compared to 2009 SMUD's restricted and designated assets increased by $3 million during 2010. Revenue bond, debt service, and construction reserves increased by $31 million mainly due to higher component unit funds. This was partially offset by lower nuclear decommissioning trust funds due to reimbursement for decommissioning activities, lower rate stabilization funds after recognition of revenues to offset the budget impact of lower hydro generation resulting from lower precipitation in the previous water year, and for lower energy deliveries from Western. There was no securities lending collateral held at year-end and a higher current portion of restricted and designated assets.

Current Assets

2011 compared to 2010 Current assets decreased by $180.9 million in 2011 mainly due to decreases in the following: $109.4 million in unrestricted cash and cash equivalents, $31.8 million in regulatory costs to be recovered within one year, $23.3 million in the current portion of restricted and designated investments, $19.9 million in net receivables, and $9.2 million of hedging derivative instruments maturing within one year. This is partially offset by an increase of $9.2 million in deferred outflow resources to be recovered within one year.

2010 compared to 2009 Current assets increased by $203 million in 2010 due to increases in unrestricted cash and cash equivalents, receivables from customers, and energy efficiency loans due within one year, interest receivable, grant receivable and other, regulatory costs and deferred outflow resources to be recovered within one year, and credit support collateral deposits. These increases were partially offset by a lower current portion of restricted and designated assets, lower derivative investment and hedging derivative instruments maturing within one year, lower materials and supplies, and lower prepayments.

Noncurrent Assets and Deferred Charges

2011 compared to 2010 Total noncurrent assets and deferred charges decreased by $40.1 million mainly due to decreases in the following: $21.2 million in prepaid gas, $11.1 million in deferred outflow resources for future recovery, and $9.2 million in energy efficiency loans – net. These decreases were partially offset by a $10.8 million increase in hedging derivative instruments.

2010 compared to 2009 Total noncurrent assets and deferred charges increased by $39 million mainly due to an increase in the deferred outflow resources for future recovery, an increase in regulatory costs for future recovery, and an increase in credit support collateral deposits. These were partially offset by decreases in prepaid gas, the long-term portion of advance capacity payments, investment and hedging derivative instruments maturing within one year, unamortized debt issuance costs, and energy efficiency loans – net.

LIABILITIES

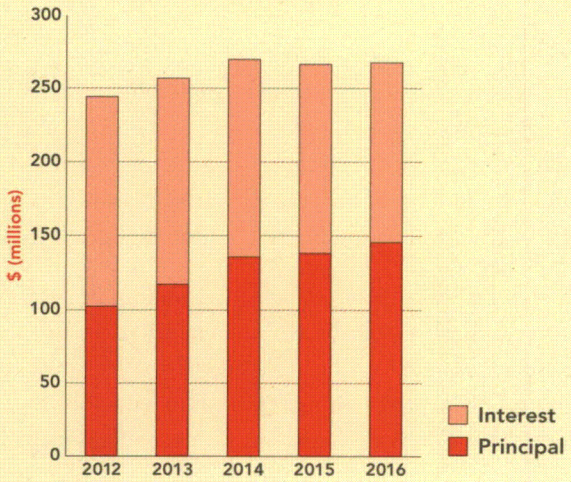
Long-term debt – net

2011 compared to 2010 In October 2011, SMUD issued $325.6 million of 2011 Series X Electric Revenue Refunding Bonds and in August 2011 redeemed $17.6 million of SMUD 2001 Series O & P Bonds.

2010 compared to 2009 In July 2010, SMUD issued $250 million of fixed-rate 2010 Series W Electric Revenue Bonds. These bonds qualify under the federal program as "Build America Bonds" and SMUD expects to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable. The interest payments on these bonds are fully taxable.

The following table shows SMUD's future debt service requirements through 2016 as of December 31, 2011:

Debt Service Requirements



As of December 31, 2011, SMUD had an underlying rating of "A+" from Standard & Poor's, "A+" from Fitch, and "A1" from Moody's. Most of SMUD's bonds are insured and are rated by the rating agencies at the higher of the insurer's rating or SMUD's underlying rating.

Current Liabilities and Deferred Credits

2011 compared to 2010 Current liabilities and deferred credits increased by approximately $19.7 million during 2011.

The increase is primarily due to a $65.6 million increase in accounts payable, which includes a deposit of $28.0 million for the sale of Solano Wind Phase 3 (see Note 2), offset by a $31.6 million decrease in purchase power payables and a $13.6 million decrease in investment derivative instruments maturing within one year.

2010 compared to 2009 Current liabilities and deferred credits increased by approximately $28 million during 2010. Investment and hedging derivative instruments maturing within one year increased by $53 million and customer deposits and other increased by $6 million and higher accrued salaries and compensated balances. These increases were partially offset by lower purchased power payable, lower long-term debt due within one year, lower accrued decommissioning, and no securities lending collateral obligation at year-end.

Noncurrent Liabilities and Deferred Credits

2011 compared to 2010 Noncurrent liabilities and deferred credits increased by $112.5 million during 2011. Regulatory credits increased by $90.8 million, reflecting the deferral of grant revenues related to capital projects and an increase in the HRSF and the RSF due to higher precipitation and higher energy deliveries from Western. There was a $14.2 million increase in self insurance, deferred credits, and other primarily due to deferred grant revenue. Accrued decommissioning increased by $6.6 million, reflecting a higher estimate for the cost of completing decommissioning at the Rancho Seco nuclear plant site.

2010 compared to 2009 Noncurrent liabilities and deferred credits increased by $62 million during 2010. Accrued decommissioning increased by $7 million reflecting a higher estimate for the cost of completing decommissioning at the Rancho Seco nuclear plant site. Also, the value of the liability for investment and hedging derivative instruments increased by approximately $46 million due to price changes in the power and gas markets. Regulatory credits also increased by $10 million reflecting the deferral of grant revenues related to capital projects.

Condensed Statement of Consolidated Revenues, Expenses and Changes in Net Assets

	December 31, 2011	2010	2009
		(millions of dollars)	
Operating revenues	$ 1,360	$ 1,323	$ 1,293
Operating expenses	(1,162)	(1,156)	(1,178)
Operating income	198	167	115
Other revenues	13	4	(16)
Interest charges	(141)	(140)	(111)
Net increase/ (decrease) in net assets before extraordinary income	70	31	(12)
Extraordinary income	-0-	-0-	17
Increase/ (decrease) in net assets	70	31	5
Net assets – beginning of year	547	516	511
Net assets – end of year	$ 617	$ 547	$ 516

CHANGES IN NET ASSETS

Operating Revenues

2011 compared to 2010 Operating revenues were $1,360.0 million in 2011, an increase of $36.7 million from 2010. Sales to retail customers were $1,237.5 million in 2011, an increase of $53.6 million as compared to 2010 sales. SMUD sold about 1 percent more energy to its retail customers, which grew from 597,097 customers in 2010 to 599,826 customers at the end of 2011, at an average revenue per kilowatt hour that rose by 3.6 percent.

SMUD transferred $10.1 million to the RSF in 2011 as compared to a transfer from the RSF of $2.1 million in 2010. SMUD also transferred $40.4 million to the HRSF during 2011 as compared to a $4.1 million transfer from the fund in 2010.

Additionally, SMUD deferred approximately $0.5 million of Senate Bill 1 revenue to be matched against expense in future years.

Wholesale revenues are composed of both surplus gas and energy sales. In 2011, surplus gas sales were $88.2 million as compared to $60.0 million in 2010. The amount of surplus gas sold was 54 percent higher, but at lower average prices.

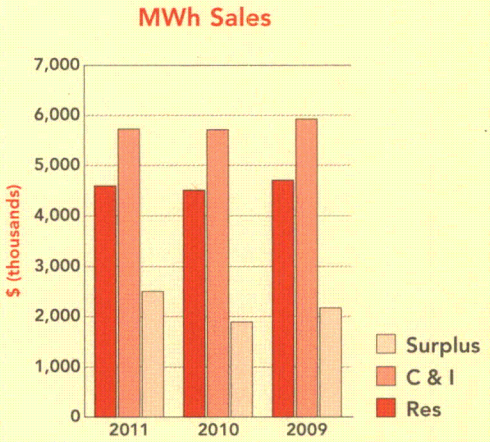
Surplus energy sales in 2011 were $10.9 million higher than in 2010 due to higher volume, offset by lower prices.

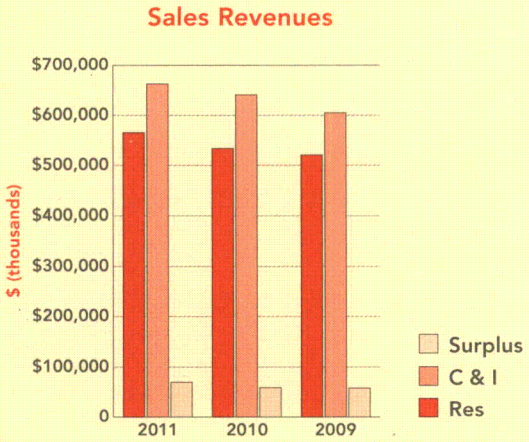
2010 compared to 2009 Operating revenues were $1,323 million in 2010, an increase of $30 million from 2009. Sales to retail customers were $1,184 million in 2010, an increase of $50 million as compared to 2009 sales. SMUD sold about 3.8 percent less energy to its retail customers, which grew from 595,076 customers in 2009 to 597,097 customers at the end of 2010, at an average revenue per kilowatt hour that increased by 8.5 percent.

SMUD transferred $2 million from the rate stabilization fund in 2010 as compared to a transfer from the rate stabilization fund of $16 million in 2009. SMUD also transferred $4 million from the hydro rate stabilization fund during 2010 as compared to a transfer of $11 million in 2009. Additionally, SMUD recognized approximately $1 million of previously deferred Senate Bill 1 revenues to match them against expenditures in the current year.

Wholesale revenues are comprised of both surplus energy and gas sales. In 2010, surplus gas sales were $60 million as compared to $61 million in 2009. The amount of surplus gas sold was 16 percent lower, but at higher average prices. Surplus energy sales in 2010 were $1 million higher than in 2009. The increase is due to significantly higher average prices (20 percent), although a lower volume was sold (15 percent) as compared to 2009.

The following charts show the megawatt hour (MWh) sales, and sales revenue in 2011, 2010, and 2009, by surplus energy sales (Surplus), commercial and industrial (C&I) and residential (Res) customers.





Operating Expenses

2011 compared to 2010 Operating expenses were $1,161.8 million in 2011, an increase of $5.5 million from 2010. Purchased power expense was $18.2 million lower in 2011, mainly due to lower average prices as compared to 2010, even though more energy was purchased than in 2010. Approximately 12 percent more energy was purchased in 2011 at prices that averaged 17 percent lower than in 2010.

In 2011, net fuel costs for generation, a component of production costs, were approximately $281.0 million (inclusive of ineffective hedges reported as investment expense), or $14.3 million lower than 2010. Less fuel was used in 2011 (4.8 million decatherms), primarily due to lower production at the component unit generation plants (13 percent). Average net fuel prices were higher by 7 percent in 2011 as compared to 2010.

In 2011, power supply costs made up approximately 56 percent of total operating expenses as compared to 59 percent for 2010.

Depreciation expense increased by $7.3 million due to a decrease in the remaining service life for meters as SMUD transitions to advanced metering technology, and due to software, hardware, and other normal capital plant additions.

Regulatory deferrals collected in rates increased $6.0 million due to amortization of remediation obligations related to the North City substation.

Administrative, general and customer expenses, were $4.5 million higher in 2011 than in 2010, mainly due to higher Home Performance Program expense offset by a decrease in uncollectible energy efficiency loans.

2010 compared to 2009 Operating expenses were $1,156 million in 2010, approximately $22 million lower than in 2009. Purchased power expense was $84 million lower in 2010 mainly due to less energy purchased and slightly lower average prices as compared to 2009. Approximately 24 percent less energy was purchased in 2010 at average prices that were one percent lower than in 2009. Purchased power expense increased by $4 million for precipitation hedges and insurance.

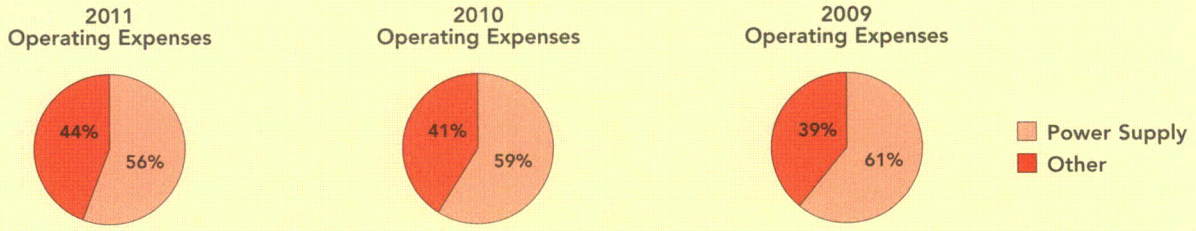
In 2010, net fuel costs for generation, a component of production costs, were approximately $295 million (inclusive of ineffective hedges reported as investment expense), or $24 million higher than 2009. More fuel was used in 2010 (1.2 million decatherms), primarily due to higher production at the component unit generation plants (6 percent). Average net fuel prices were higher by 6 percent in 2010 as compared to 2009.

Administrative, general and customer expenses were $3 million lower in 2010 than in 2009 reflecting lower Cosumnes Power Plant litigation costs and efforts to reduce expenses.

Depreciation expense increased by $12 million due to a change in the remaining service life for meters as SMUD transitions to advanced metering technology and due to normal capital plant additions.

In 2010, power supply costs made up approximately 59 percent of total operating expenses as compared to 61 percent for 2009.

The following charts compare the relative cost of purchased power, production expenses, and depletion of the Rosa gas field (power supply costs) to all other operating expenses in 2011, 2010, and 2009:



Other Revenues (Expenses)

2011 compared to 2010 Other revenues were $9.0 million higher in 2011 as compared to 2010. Interest income was $7.8 million higher due to interest received from settlement wholesale power settlement (see Note 18). Grant revenue and pass through expenditures increased $8.9 million. These increases were partially offset by an $8.5 million increase in investment expense related to ineffective hedges.

2010 compared to 2009 Other revenues were $20 million higher in 2010 as compared to 2009. Interest income was $2 million lower due to significantly lower interest rates. Other income – net was $7 million higher due to higher Build America Bond interest subsidies. Investment expense related to ineffective hedges was lower by $14 million.

Interest Charges

2011 compared to 2010 Total interest charges were $0.8 million higher in 2011 compared to 2010.

2010 compared to 2009 Interest charges in 2010 were $30 million higher than in 2009, due mainly to a 2009 gain on the extinguishment of a portion of the Northern California Gas Authority long-term debt.

Extraordinary Income SMUD recognized extraordinary income of $0.1 million in 2011 for power settlements.

CONSOLIDATED BALANCE SHEETS

Assets	December 31, 2011	2010
	(thousands of dollars)	
Electric Utility Plant		
Plant in service	$ 4,747,914	$ 4,505,686
Less accumulated depreciation and depletion	(1,917,439)	(1,755,534)
Plant in service – net	2,830,475	2,750,152
Construction work in progress	417,819	254,064
Total electric utility plant – net	3,248,294	3,004,216
Restricted and Designated Assets		
Revenue bond, debt service and construction reserves	201,941	239,533
Nuclear decommissioning trust fund	30,890	30,335
Rate stabilization fund	91,964	41,471
Other funds	654	750
Less current portion	(85,172)	(107,649)
Total restricted and designated assets	240,277	204,440
Current Assets		
Unrestricted cash and cash equivalents	261,709	371,090
Restricted and designated cash and cash equivalents	39,846	39,056
Restricted and designated investments	45,326	68,593
Receivables – net:		
Retail customers	153,612	154,489
Wholesale	9,624	47,594
Energy efficiency loans due within one year, interest receivable, grants receivable and other	52,521	33,524
Regulatory costs to be recovered within one year	20,856	52,626
Deferred outflow resources to be recovered within one year	113,730	104,556
Investment derivative instruments maturing within one year	758	905
Hedging derivative instruments maturing within one year	4,031	13,232
Materials and supplies	48,145	44,518
Prepaid gas to be delivered within one year	21,194	21,309
Credit support collateral deposits	24,835	22,761
Prepayments	11,844	14,676
Total current assets	808,031	988,929
Noncurrent Assets and Deferred Charges		
Regulatory costs for future recovery	202,427	205,052
Deferred outflow resources for future recovery	101,994	113,064
Prepaid Gas	384,851	406,046
Advance capacity payments	11,877	16,795
Hedging derivative instruments	38,410	27,654
Unamortized debt issuance costs	26,895	31,459
Energy efficiency loans – net	48,778	57,959
Credit support collateral deposits	29,215	27,139
Preliminary project studies and other	11,698	11,081
Total noncurrent assets and deferred charges	856,145	896,249
Total Assets	**$ 5,152,747**	**$ 5,093,834**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Liabilities	December 31, 2011	2010
	(thousands of dollars)	
Long-Term Debt – net	$ 3,012,935	$ 3,156,447
Current Liabilities and Deferred Credits		
Commercial paper notes	200,000	200,000
Accounts payable	143,011	77,422
Purchased power payable	20,475	52,104
Credit support collateral obligation	360	6,050
Long-term debt due within one year	102,520	99,935
Accrued decommissioning	4,935	1,893
Interest payable	41,808	47,119
Accrued salaries and compensated absences	36,612	37,747
Investment derivative instruments maturing within one year	15,480	29,076
Hedging derivative instruments maturing within one year	117,761	117,787
Regulatory credits to be recognized within one year	18,474	11,941
Customer deposits and other	35,531	36,207
Total current liabilities and deferred credits	736,967	717,281
Noncurrent Liabilities and Deferred Credits		
Accrued decommissioning	172,245	165,603
Investment derivative instruments	44,873	43,703
Hedging derivative instruments	140,404	140,717
Regulatory credits	372,584	281,740
Due to affiliated entity	9,497	9,448
Due to U.S. Bureau of Reclamation	6,179	6,300
Self insurance, deferred credits and other	40,114	25,908
Total noncurrent liabilities and deferred credits	785,896	673,419
Total Liabilities	4,535,798	4,547,147
Net Assets		
Invested in capital assets, net of related debt	413,845	96,871
Restricted	109,831	100,889
Unrestricted	93,273	348,927
Total Net Assets	616,949	546,687
Commitments and Contingencies (Notes 17 and 18)		
Total Liabilities and Net Assets	**$ 5,152,747**	**$ 5,093,834**

The accompanying note[illegible]egral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended December 31, 2011	2010
	(thousands of dollars)	
Operating Revenues		
Residential	$ 559,424	$ 526,860
Commercial and industrial	662,267	640,727
Street lighting and other	30,692	28,762
Wholesale	158,572	119,490
Senate Bill – 1 revenue (deferral)	(454)	1,232
Rate stabilization fund transfers	(50,493)	6,217
Total operating revenues	1,360,008	1,323,288
Operating Expenses		
Operations:		
Purchased power	237,360	255,523
Production	404,770	404,845
Transmission and distribution	50,878	49,879
Administrative, general and customer	144,547	140,025
Public good	58,063	53,236
Maintenance	74,688	74,498
Depreciation	169,987	162,708
Depletion	11,500	10,894
Decommissioning	4,047	4,704
Regulatory deferrals collected in rates	6,000	-0-
Total operating expenses	1,161,840	1,156,312
Operating Income	198,168	166,976
Non-Operating Revenues And Expenses		
Other revenues and (expenses)		
Interest income	17,877	10,123
Investment expense	(38,682)	(30,175)
Revenue – Grants	17,882	6,354
Pass through expenditures – Grants	(2,971)	(365)
Other income – net	18,691	17,906
Total other revenues and (expenses)	12,797	3,843
Interest charges		
Interest on debt	146,685	145,148
Loss on debt extinguishment and refundings	59	-0-
Allowance for funds used during construction	(5,907)	(5,079)
Total interest charges	140,837	140,069
Increase (Decrease) In Net Assets Before Extraordinary Income	70,128	30,750
Extraordinary Income		
Natural gas and power settlement proceeds	134	3
Increase in Net Assets	70,262	30,753
Net Assets – Beginning of Year	546,687	515,934
Net Assets – End Of Year	$ 616,949	$ 546,687

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2011	2010
	(thousands of dollars)	
Cash Flows From Operating Activities		
Receipts from retail customers	$ 1,245,166	$ 1,184,802
Receipts from surplus power sales	128,194	56,696
Receipts from surplus gas sales	90,657	55,745
Receipts from steam sales	7,885	8,565
Natural gas and power settlement proceeds	134	3
Other receipts	7,336	11,753
Payments for credit support collateral, net	(9,840)	(38,900)
Issuance/repayment of energy efficiency loans, net	8,904	(778)
Payments to employees – payroll and other	(210,527)	(226,522)
Payments for wholesale power	(270,551)	(261,617)
Payments for gas purchases	(319,783)	(313,559)
Payments to vendors/others	(184,643)	(149,455)
Payments for weather hedge/insurance	(630)	(3,462)
Payments for decommissioning	(3,406)	(4,801)
Net cash provided by operating activities	488,896	318,470
Cash Flows From Noncapital Financing Activities		
Repayment of debt	(22,370)	(23,465)
Receipts from federal and state grants	74,124	20,432
Interest on debt	(18,159)	(19,335)
Net cash provided by (used in) noncapital financing activities	33,595	(22,368)
Cash Flows From Capital Financing Activities		
Sale of Solano Wind Phase 3 deposit	28,000	-0-
Construction expenditures	(389,759)	(194,207)
Contributions in aid of construction	9,654	6,566
Net proceeds from bond issues	367,876	247,777
Repayments and refundings of debt	(483,417)	(83,310)
Interest on debt	(132,692)	(123,440)
Net cash used in capital financing activities	(600,338)	(146,614)
Cash Flows From Investing Activities		
Sales and maturities of securities	236,239	116,368
Purchases of securities	(234,735)	(173,586)
Interest and dividends received	20,356	10,306
Investment revenue/expenses, net	(38,682)	(30,176)
Securities lending collateral – net	-0-	(5,247)
Net cash used in investing activities	(16,822)	(82,335)
Net increase (decrease) in cash and cash equivalents	(94,669)	67,153
Cash and cash equivalents at the beginning of the year	537,992	470,839
Cash and cash equivalents at the end of the year	$443,323	$537,992
Cash and cash equivalents included in:		
Unrestricted cash and cash equivalents	$ 261,709	$ 371,090
Restricted and designated cash and cash equivalents	39,846	39,056
Revenue bond, debt service and construction reserves (a component of the total of $201,941 and $239,533 at December 31, 2011 and 2010, respectively)	141,768	127,846
Cash and cash equivalents at the end of the year	$ 443,323	$ 537,992

The accompanying notes are an integral part of these consolidated financial statements.

SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of the consolidated statements of cash flows operating activities to operating income is as follows:

	Year Ended December 31, 2011	2010
	(thousands of dollars)	
Operating income	$ 198,168	$ 166,976
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	169,987	162,708
Depletion	11,500	10,894
Decommissioning	10,047	4,704
Amortization of advance capacity & other	5,505	5,464
Amortization of prepaid gas supply	21,310	22,113
Revenue (recognized from) deferred to regulatory credits, net	50,674	(7,466)
Natural gas and power settlement proceeds	134	3
Payments for credit support collateral, net	(9,840)	(38,900)
Other receipts/payments	861	5,525
Changes in operating assets and liabilities:		
Customer and wholesale receivables	60,868	(10,727)
Energy efficiency loans	8,904	(778)
Other assets	(1,610)	6,808
Payables and accruals	(34,206)	(4,053)
Decommissioning	(3,406)	(4,801)
Net cash provided by operating activities	$ 488,896	$ 318,470

The supplemental disclosure of noncash financing and investing activities is as follows:

	Year Ended December 31, 2011	2010
	(thousands of dollars)	
Gain or (Loss) on debt extinguishment and refundings	(59)	-0-
Amortization of debt related costs	(1,287)	(1,546)
Unrealized holding gain or (loss)	152	(92)
Change in valuation of derivative financial instruments	14,174	(115,690)
Amortization of revenue for assets contributed in aid of construction	11,251	9,133
Allowance for funds used during construction	5,907	5,079
Construction costs included in accounts payable	66,627	31,189

The accompanying notes are an integral part of these consolidated financial statements.