



Southern California Edison Company

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IRVINE, CALIFORNIA 92718

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MANAGER OF
NUCLEAR REGULATORY AFFAIRS

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May 27, 1992

U.S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, D. C. 20555

Gentlemen:

Subject: **Docket Nos. 50-206, 50-361, and 50-362**
San Onofre Nuclear Generating Station
Units 1, 2 and 3

In accordance with the requirements of 10 CFR part 50, Section 50.71(b), enclosed are copies of the Annual Reports for: the Southern California Edison Company (for calendar year 1991); the San Diego Gas and Electric Company (for calendar year 1991); the City of Anaheim (for fiscal year ending June 30, 1991); and the City of Riverside (for fiscal year ending June 30, 1991). Each report includes the appropriate certified financial statement required by Section 50.71(b).

If you have any questions, please contact me.

Very truly yours,

Enclosures

cc: J. B. Martin, Regional Administrator, NRC Region V
C. W. Caldwell, NRC Senior Resident Inspector, San Onofre Units 1, 2 & 3
George Kalman, NRC Senior Project Manager, San Onofre Unit 1
J. O. Bradfute, NRC Project Manager, San Onofre Unit 1
M. B. Fields, NRC Project Manager, San Onofre Units 2 & 3

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City of Anaheim

Public Utilities

Department

Years Ended June 30, 1991 and 1990

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Electric Utility Fund

Audited

Financial Statements

City of Anaheim Electric Utility Fund Balance Sheets

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	<u>June 30</u>	
	<u>1991</u>	<u>1990</u>
	(In thousands)	
Assets		
Utility plant:		
Production	\$209,797	\$175,529
Transmission	15,357	12,370
Distribution	106,286	103,685
General	12,198	11,581
	<u>343,638</u>	<u>303,165</u>
Less — accumulated depreciation	(84,136)	(74,441)
	259,502	228,724
Construction work in progress	21,239	27,919
Nuclear fuel, at amortized cost	7,519	8,543
	<u>288,260</u>	<u>265,186</u>
Restricted assets:		
Cash and investments	112,286	81,840
Other	1,168	446
	<u>113,454</u>	<u>82,286</u>
Current assets:		
Cash and investments	35,138	29,289
Customer and other accounts receivable, net	21,364	32,695
Prepaid purchased power	2,719	2,107
Accrued interest receivable	1,867	1,684
Materials and supplies, at average cost	3,243	3,492
	<u>64,331</u>	<u>69,267</u>
Other assets:		
Unamortized bond refunding costs	20,839	23,026
Unamortized project costs	6,344	5,760
Unamortized debt issuance costs	2,387	1,961
	<u>29,570</u>	<u>30,747</u>
Total assets	<u>\$495,615</u>	<u>\$447,486</u>

	June 30	
	<u>1991</u>	<u>1990</u>
	(In thousands)	
Equity, liabilities and other credits		
Equity:		
Beginning fund balance contributed by the City	\$ 14,629	\$ 14,629
Retained earnings	<u>111,921</u>	<u>92,261</u>
Total equity	126,550	106,890
Long-term debt, less current portion	<u>289,765</u>	<u>252,692</u>
Total capitalization	<u>416,315</u>	<u>359,582</u>
Current liabilities (payable from restricted assets):		
Current portion of long-term debt	5,465	5,586
Accrued interest	3,514	3,681
Accounts payable	4,033	159
Tax-exempt commercial paper	<u>20,450</u>	<u>20,450</u>
	<u>33,462</u>	<u>29,876</u>
Current liabilities (payable from current assets):		
Current portion of long-term debt	1,792	1,837
Accounts payable and accrued expenses	5,686	9,100
Customer deposits	978	1,070
Power cost adjustment balancing account		
Rate stabilization account	1,034	
Test energy billings		3,635
Surplus energy billing reserve		
Intermountain Power Agency refund account	<u>7,603</u>	<u>16,458</u>
	<u>17,093</u>	<u>32,100</u>
Total current liabilities	<u>50,555</u>	<u>61,976</u>
Other liabilities and deferred credits:		
Contributions in aid of construction	22,734	21,087
Decommissioning reserve	6,011	4,841
Commitments and contingencies		
Total equity, liabilities and other credits	<u>\$495,615</u>	<u>\$447,486</u>

See accompanying Notes to Financial Statements.

City of Anaheim Electric Utility Fund Statements of Income

	<u>June 30</u>	
	<u>1991</u>	<u>1990</u>
	(In thousands)	
Operating revenues:		
Sale of electricity	\$206,144	\$195,869
Provision for power cost adjustment		(9,090)
Provision for rate stabilization	5,115	4,952
Other operating revenues	871	798
Total operating revenues	<u>212,130</u>	<u>192,529</u>
Operating expenses:		
Cost of purchased power	127,730	124,439
Fuel used for generation	3,941	3,549
Other operations	22,094	20,673
Maintenance	12,175	11,534
Depreciation	10,028	9,113
Amortization of cancelled project costs		208
Total operating expenses	<u>175,968</u>	<u>169,516</u>
Operating income	<u>36,162</u>	<u>23,013</u>
Other income (expense):		
Interest income	7,741	7,565
Interest expense	(16,494)	(17,072)
	<u>(8,753)</u>	<u>(9,507)</u>
Net income	<u>\$ 27,409</u>	<u>\$ 13,506</u>

See accompanying Notes to Financial Statements.

Statements of Changes in Retained Earnings

	<u>June 30</u>	
	<u>1991</u>	<u>1990</u>
	(In thousands)	
Balance at beginning of year	\$ 92,261	\$ 86,692
Net income for the year	27,409	13,506
Transfer to the General Fund of the City	(7,749)	(7,937)
Balance at end of year	<u>\$ 111,921</u>	<u>\$ 92,261</u>

See accompanying Notes to Financial Statements.

City of Anaheim Electric Utility Fund Statements of Cash Flows

	June 30	
	<u>1991</u>	<u>1990</u>
	(In thousands)	
Operating activities:		
Operating income	\$ 36,162	\$ 23,013
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation	10,028	9,113
Amortization of nuclear fuel	3,459	3,115
Amortization of cancelled project costs		208
Amortization of debt costs	3,336	3,265
Increase in decommissioning reserve	1,170	1,044
Changes in current assets and liabilities:		
Customer and other accounts receivable, net	10,691	(12,956)
Prepaid purchased power	(612)	(639)
Materials and supplies	249	(675)
Accounts payable and accrued expenses	460	1,179
Customer deposits	(92)	(70)
Power cost adjustment balancing account		8,869
Rate stabilization account	1,034	(4,869)
Intermountain Power Agency refund account	(8,855)	(8,460)
Test energy billings	(3,635)	320
Surplus energy billing reserve		(2,159)
Total adjustments	<u>17,233</u>	<u>(2,715)</u>
Net cash provided by operations	<u>53,395</u>	<u>20,298</u>
Capital and related financing activities:		
New debt	45,039	42,557
Reduction of long-term debt	(7,422)	(7,280)
Interest paid	(16,661)	(17,147)
Payments to the General Fund of the City	(7,749)	(7,937)
Contributions in aid of construction	476	1,031
Debt issuance and discount costs	(2,285)	(596)
Net cash provided by (used in) financing activities	<u>11,398</u>	<u>10,628</u>
Investing activities:		
Capital expenditures	(32,955)	(31,385)
Interest received	7,476	7,914
Nuclear fuel expenditures	(2,435)	(2,445)
Project costs	(584)	(30)
Net cash used in investing activities	<u>(28,498)</u>	<u>(25,946)</u>
Increase in cash and investments	36,295	4,980
Cash and investments at beginning of year	<u>111,129</u>	<u>106,149</u>
Cash and investments at end of year	<u>\$147,424</u>	<u>\$111,129</u>
Schedule of noncash financing and investing activities:		
Contributions in aid of construction	\$ <u>1,620</u>	\$ <u>995</u>

See accompanying Notes to Financial Statements.

City of Anaheim Electric Utility Fund Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

Basis of accounting

The Electric Utility Fund (the Electric Utility) of the City of Anaheim (the City) was established June 30, 1971, at which time the portion of the City's General Fund equity relating to electric system operations was transferred to Electric Utility equity. The financial statements of the Electric Utility are presented in conformity with generally accepted accounting principles and accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC). The Electric Utility is not subject to the regulations of the FERC.

Utility plant and depreciation

The cost of additions to utility plant and of replacement of retired units is capitalized. Utility plant is recorded at cost, or in the case of contributed plant, at fair market value at the date of the contribution, except that assets acquired prior to July 1, 1977 are recorded at appraised historical cost. Cost includes labor; materials; allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits; and certain administrative and general expenses. The cost of relatively minor replacements is included in maintenance expense. The net book value of assets retired or disposed of, net of proceeds, is recorded in accumulated depreciation.

Depreciation of utility plant is provided by the straight-line method based on the following estimated service lives of the properties:

Production	30 years
Transmission and distribution plant	20 to 75 years
Other plant and equipment	5 to 50 years

Depreciation on contributed assets is charged directly to Contributions in aid of construction.

Cash and investments

The City pools idle cash from all funds for the purpose of increasing income through investment activities. Investments are carried at cost, which approximates market value. Interest income on investments is allocated to the various funds of the City on the basis of average daily cash and investment balances.

For purposes of the Statements of Cash Flows, the Electric Utility considers cash and investments, including restricted amounts, to be cash equivalents. Cash equivalents are cash and highly liquid investments which are included in the Electric Utility's share of the City's pool and in accounts held by the fiscal agents.

Revenue recognition

To provide a better matching of costs and revenues, effective with the fiscal year ended June 30, 1987, the Electric Utility changed its accounting policy of recognizing revenue to a method which provides for the accrual of estimated unbilled revenues for energy sold but not billed at the end of a fiscal period; previously, revenues were recognized when billed to customers. Residential and smaller commercial accounts are billed bimonthly and all others are billed monthly.

The Electric Utility's Rates, Rules and Regulations provide for the use of a Power Cost Adjustment (PCA) billing formula which, when in use, would be included in customer billings to reflect variations in the cost of power to the Electric Utility. The PCA provides for adjustments to revenues from the sale of electricity for over collection or under collection of revenues resulting from differences between the Electric Utility's actual cost of power and the amount billed to customers through the billing formula. These over or under collections would be recorded in the PCA balancing account until they are refunded to, or recovered from, utility customers.

Effective October 1, 1989, the Electric Utility elected to recover all power costs in base rates and set the PCA at a zero balance. Should substantial changes in power costs occur, the Electric Utility may seek City Council approval to activate the PCA.

On January 28, 1986, a wholesale rate refund policy (Policy) which included establishing a Rate Stabilization Account (RSA) was adopted as part of the Electric Utility's Rates, Rules and Regulations. The Policy provides for establishment of a rate, in cents per kilowatt-hour of sales, by which funds are transferred from the RSA to the Electric Utility Revenue Fund. This transfer is made on a monthly basis.

Nuclear fuel

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged a fee for the disposal of nuclear fuel at the rate of one mill per kwh on the Electric Utility's share of electricity generated by the San Onofre Nuclear Generating Station, Units 2 and 3 (SONGS). The Electric Utility pays the fee quarterly to the Southern California Edison Company (Edison) which is acting as the agent for SONGS participants. Federal regulations also require the Electric Utility to provide for the future costs of decommissioning SONGS. Decommissioning costs are charged to other operating expenses and are provided for over the remaining life of the plant.

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Note 1 Summary of Significant Accounting Policies (continued)

Debt issuance costs

Debt issuance costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method.

Bond refunding costs

Bond refunding costs are deferred and amortized over the lives of the related bond issues on a basis which approximates the effective interest method.

Pension plan

All full-time City employees are members of the State of California Public Employees' Retirement System (PERS). The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the PERS' actuary.

Vacation and sick pay

Vacation and sick pay for all City employees is paid by the General Benefits and Insurance Fund of the City. The General Benefits and Insurance Fund is reimbursed through payroll charges to the Electric Utility based on estimates of benefits to be earned during the year. Vested vacation and sick pay benefits are accrued in the General Benefits and Insurance Fund and amounted to \$978,000 and \$860,000 for the Electric Utility at June 30, 1991 and 1990, respectively.

Transfers to the General Fund of the City

Article XII of the City Charter provides that transfers to the General Fund of the City shall not exceed 4% of the gross revenue of the prior year. Such transfers are not in lieu of taxes and are recorded as distributions of retained earnings.

Reclassifications

Certain reclassifications have been made to the 1990 financial statements to conform to the 1991 presentation.

Note 2 Operating Expenses

Operating expenses shared with the Water Utility amounted to \$18,013,000 and \$16,520,000 for the years ended June 30, 1991 and 1990, respectively, of which \$14,410,000 and \$13,217,000 were allocated to the Electric Utility.

The shared expenses are allocated to each Utility based upon estimates of the benefits each Utility derives from those common expenses.

Note 3 Unamortized Project Costs

The City plans to participate in various power generation projects with other agencies. Unamortized project costs represent advance payments to participating agencies for preliminary engineering and environmental impact studies for the related projects.

Note 4 Short-Term Debt

The Electric Utility has outstanding Revenue Anticipation Notes in the form of short-term tax-exempt commercial paper for the purpose of financing nuclear fuel purchases related to the ownership interest in SONGS. The balance outstanding at June 30, 1991 and 1990 totaled \$20,450,000. The interest rates on this debt at June 30, 1991 ranged between 3.75% and 4.15% with maturities ranging from 29 to 54 days. The Electric Utility has obtained a \$21 million revolving credit agreement, which can be used in the event that the commercial paper cannot be refinanced as it matures.

Note 5 Jointly-Owned Utility Project

The Electric Utility owns a 3.16% interest as a tenant in common in SONGS. The other participants in Units 2 and 3 are Edison, 75.05%; San Diego Gas & Electric Company, 20%; and the City of Riverside, 1.79%. Units 2 and 3 became operational on October 9, 1983 and April 1, 1984, respectively. The Electric Utility's cumulative share of construction costs, which amounted to \$178,421,000 at June 30, 1991, was included in Utility plant at June 30, 1991. The Electric Utility recorded depreciation related to SONGS of \$6,563,000 and \$5,822,000 for the years ended June 30, 1991 and 1990, respectively. The Electric Utility made provisions during fiscal year 1991 for disposal costs of spent nuclear fuel and for future decommissioning costs (see Note 1) of \$482,000 and \$1,169,000, respectively. These costs along with the Electric Utility's share of SONGS operating and maintenance costs have been included in Operating expenses for fiscal year 1991.

Note 6 Long-Term Debt

The Electric Utility is indebted as follows:

	June 30	
	1991	1990
Electric Revenue Bonds, Issue of 1972, TIC 4.9263%, dated April 1, 1972, sold March 28, 1972 in the amount of \$8,000,000 at rates ranging from 2.0% to 7.0%, maturing serially to July 1, 1992 in annual principal installments ranging from \$625,000 to \$675,000; total debt service of \$1,337,000 to maturity	\$ 1,300,000	\$ 1,900,000
Electric Revenue Bonds, Issue of 1976, TIC 6.07%, dated May 1, 1976, sold April 27, 1976 in the amount of \$6,000,000 at rates ranging from 5.0% to 8.0%, maturing serially to May 1, 2006 in annual principal installments ranging from \$150,000 to \$400,000; total debt service of \$6,794,000 to maturity	4,325,000	4,475,000
Electric Revenue Bonds, Issue of 1980, TIC 9.173%, dated October 1, 1980, sold October 10, 1980 in the amount of \$84,000,000 at rates of 8.0%, of which (1) \$19,250,000 maturing serially from October 1, 1991 through October 1, 1997, (2) \$16,650,000 of term bonds maturing October 1, 2001, and (3) \$36,875,000 of term bonds maturing October 1, 2007, were advance refunded on November 25, 1986; the remaining bonds matured October 1, 1990.		2,000,000
Electric Revenue Bonds, Issue A of 1983, TIC 9.3051%, dated April 1, 1983, sold April 27, 1983 in the amount of \$10,000,000 at rates ranging from 8.0% to 9.0%, of which \$900,000 maturing serially October 1, 1995 through 1998 and \$8,460,000 of term bonds maturing October 1, 2007 were advance refunded on March 31, 1986; the remaining bonds mature on October 1, 1993 and October 1, 1994 in annual principal installments of \$300,000 and \$340,000, respectively; total debt service of \$797,000 to maturity	640,000	640,000
Electric Revenue Bonds, Issue B of 1983, TIC 9.3051%, dated April 1, 1983, sold April 27, 1983 in the amount of \$40,000,000 at rates ranging from 8.0% to 9.0%, of which \$3,600,000 maturing serially October 1, 1995 through 1998 and \$33,840,000 of term bonds maturing October 1, 2007 were advance refunded on March 31, 1986; the remaining bonds mature on October 1, 1993 and October 1, 1994 in annual principal installments of \$1,200,000 and \$1,360,000, respectively; total debt service of \$3,188,000 to maturity	2,560,000	2,560,000
Electric Revenue Bonds, Issue C of 1983, TIC 9.1023%, dated April 1, 1983, sold April 27, 1983 in the amount of \$80,400,000 at rates ranging from 5.25% to 9.0%, of which \$5,650,000 maturing serially October 1, 1995 through 1998 and \$52,500,000 of term bonds maturing October 1, 2007 were advance refunded on March 31, 1986; the remaining bonds mature serially through October 1, 1994 in annual principal installments ranging from \$2,600,000 to \$2,850,000; total debt service of \$11,539,000 to maturity	10,000,000	12,400,000
Electric Revenue Bonds, Issue of 1986, TIC 7.006%, dated March 1, 1986, sold March 4, 1986 in the amount of \$129,275,000, of which (1) \$59,740,000 at rates of 5.25% to 6.9% mature serially through October 1, 2001 in annual principal installments ranging from \$1,145,000 to \$8,955,000, (2) \$30,665,000 at rates of 5.75% are term bonds maturing October 1, 2004, subject to mandatory redemption from October 1, 2002 to October 1, 2004 in annual principal installments ranging from \$9,590,000 to \$10,875,000, and (3) \$37,885,000 at rates of 5.75% are term bonds maturing October 1, 2007, subject to mandatory redemption from October 1, 2005 to October 1, 2007 in annual principal installments ranging from \$11,550,000 to \$13,600,000; total debt service of \$208,536,000 to maturity	125,030,000	126,175,000
Electric Revenue Bonds, Second Issue of 1986, TIC 6.7737% dated October 15, 1986, sold November 25, 1986 in the amount of \$77,780,000, of which (1) \$46,700,000 at rates of 4.3% to 6.5% mature serially through October 1, 2002 in annual principal installments ranging from \$2,610,000 to \$4,960,000, and (2) \$30,150,000 at rates of 6.75% are term bonds maturing October 1, 2007, subject to mandatory redemption from October 1, 2003 to October 1, 2007 in annual principal installments ranging from \$5,275,000 to \$6,815,000; total debt service of \$122,145,000 to maturity	73,790,000	74,860,000

Note 6 Long-Term Debt (continued)

	June 30	
	1991	1990
Electric Revenue Bonds, Issue of 1991, dated and sold May 29, 1991 in the amount of \$3,434,000, at rates of 6.50% maturing serially from October 1, 1999 to October 1, 2004 in annual principal installments ranging from \$140,500 to \$735,000; total debt service of \$5,753,000 to maturity	3,434,000	
Total revenue bond debt	<u>\$221,079,000</u>	<u>\$225,010,000</u>
Note Payable to Internal Service Fund of the City, 8.95%, issued October 13, 1984, in the amount of \$1,342,000, semi-annual principal and interest payments ranging from \$55,000 to \$106,000 through October 31, 2003; total debt service of \$1,753,000 to maturity	1,110,000	1,169,000
Electric System Certificates of Participation (Combustion Turbine Peaking Plant), TIC 7.313%, dated September 15, 1989, sold October 12, 1989 in the amount of \$44,336,145.10 at rates ranging from 6.20% to 7.20% of which (1) \$18,730,000 mature serially from October 1, 1992 through October 1, 2000, (2) \$5,356,145.10 Capital Appreciation Certificates mature serially from October 1, 2001 through October 1, 2005, (3) \$6,000,000 at rates of 7.20% are term certificates maturing October 1, 2009, subject to mandatory redemption from October 1, 2006 to October 1, 2009, in annual principal installments ranging from \$1,350,000 to \$1,660,000, and (4) \$14,250,000 at rates of 6.50% are term certificates maturing October 1, 2011, subject to mandatory redemption from October 1, 2006 to October 1, 2111 in annual principal installments ranging from \$1,495,000 to \$3,950,000; total debt service of \$85,352,000 to maturity	44,336,000	44,336,000
Electric System Certificates of Participation (Public Utilities Building), TIC 7.15%, dated November 1, 1990, sold November 12, 1990 in the amount of \$41,605,000 at rates ranging from 5.85% to 6.75% of which (1) \$4,600,000 mature serially from October 1, 1994 through October 1, 2005, (2) \$5,870,000 at rates of 6.75% are term certificates maturing October 1, 2010, subject to mandatory prepayment from October 1, 2006 to October 1, 2010 in annual principal installments ranging from \$940,000 to \$1,425,000 and (3) \$31,135,000 at rates of 6.75% are term certificates maturing October 1, 2022, subject to mandatory prepayment from October 1, 2011 to October 1, 2022 in annual principal installments ranging from \$30,000 to \$3,860,000; total debt service of \$108,717,000 to maturity	41,605,000	
Total other long-term debt	<u>87,051,000</u>	<u>45,505,000</u>
Total long-term debt	<u>308,130,000</u>	<u>270,515,000</u>
Less: current portion	7,257,000	7,423,000
bond discounts	<u>11,108,000</u>	<u>10,400,000</u>
	<u>\$289,765,000</u>	<u>\$252,692,000</u>

Annual debt service requirements at June 30, 1991 to maturity are as follows:

Fiscal Year	Revenue Bond Debt			Other Long-Term Debt			Total All Long-Term Debt
	Principal	Interest	Total	Principal	Interest	Total	
1992	\$ 7,195,000	\$ 13,735,000	\$ 20,930,000	\$ 62,000	\$ 5,492,000	\$ 5,554,000	\$ 26,484,000
1993	7,705,000	13,315,000	21,020,000	1,670,000	5,437,000	7,107,000	28,127,000
1994	7,145,000	12,806,000	20,951,000	1,789,000	5,328,000	7,117,000	28,068,000
1995	8,765,000	12,226,000	20,991,000	1,899,000	5,209,000	7,108,000	28,099,000
1996	9,385,000	11,629,000	21,014,000	2,056,000	5,081,000	7,137,000	28,151,000
Thereafter	<u>179,884,000</u>	<u>75,299,000</u>	<u>255,183,000</u>	<u>79,573,000</u>	<u>82,226,000</u>	<u>161,799,000</u>	<u>416,982,000</u>
	<u>\$221,079,000</u>	<u>\$139,010,000</u>	<u>\$360,089,000</u>	<u>\$87,049,000</u>	<u>\$108,773,000</u>	<u>\$195,822,000</u>	<u>\$555,911,000</u>

Note 6 Long-Term Debt (continued)

Current interest costs of \$996,000 and \$749,000 have been included in Construction work in progress for fiscal years ended June 30, 1991 and 1990, respectively.

In accordance with the bond resolutions, a reserve for maximum annual debt service has been established and a reserve for renewal and replacement is being accumulated equal to a maximum of 2% of the depreciated book value of the utility plant in service.

The bond issues outstanding at June 30, 1991 require the establishment of a Bond Service Account by accumulating monthly one-sixth of the interest which will become due and payable on the outstanding bonds within the next six months and one-twelfth of the principal amount which will mature and be payable on the outstanding bonds within the next twelve months.

On June 1, 1983, the Electric Utility defeased Electric Revenue Bonds, Issue A of 1982, in the aggregate principal amount of \$18,000,000 at rates of 8.0%, and Issue B of 1982, in the principal amount of \$52,000,000 at rates ranging from 7.5% to 11.5%, with a portion of the proceeds from the sale of \$80,400,000 Electric Revenue Bonds, Issue C of 1983 at rates ranging from 5.25% to 9.0%. The excess of the amount required to advance refund the 1982 Bonds over the carrying value of those bonds at the refunding date amounted to \$7,567,000. In accordance with industry practices, this amount is being deferred and amortized over the life of the Issue C of 1983 Bonds using the effective interest method. At June 30, 1991, outstanding principal of the refunded 1982 Bonds totaled \$52,150,000. Over the life of the Issue C of 1983 Bonds, the Electric Utility expects to save approximately \$12,297,000 in debt service as compared to the refunded 1982 Bonds.

On March 31, 1986, the Electric Utility defeased a portion of the Electric Revenue Bonds, Issues A, B and C of 1983, in the principal amounts of \$9,360,000, \$37,440,000 and \$58,150,000, respectively, at rates ranging from 8.3% to 9.0%, with a portion of the proceeds from the sale of \$129,275,000 of Electric Revenue Bonds, Issue of 1986 at rates ranging from 5.0% to 6.9%. The excess of the amount required to advance refund the 1983 Bonds over the carrying value of those bonds at the refunding date amounted to \$21,476,000. This amount is being deferred and amortized over the life of the 1986 Bonds using the effective interest method. At June 30, 1991, outstanding principal of the refunded 1983 bonds totaled \$104,950,000. Over the life of the 1986 Bonds, the Electric Utility expects to save approximately \$10,849,000 in debt service as compared to the refunded 1983 Bonds.

On November 25, 1986, the Electric Utility defeased a portion of the Electric Revenue Bonds, Issue of 1980, in the principal amount of \$72,775,000, at rates of 8.0%, with a portion of the proceeds from the sale of \$77,780,000 of Electric Revenue Bonds, Second Issue of 1986 at rates ranging from 3.8% to 6.75%. The excess of the amount required to advance refund the 1980 Bonds over the carrying value of those bonds at the refunding date amounted to \$9,693,000. This amount is being deferred and amortized over the life of the Second Issue of 1986 Bonds using the effective interest method. At June 30, 1991, outstanding principal of the refunded 1980 bonds totaled \$72,775,000. Over the life of the Second Issue of 1986 Bonds, the Electric Utility expects to save approximately \$10,818,000 in debt service as compared to the refunded 1980 Bonds.

Included in Restricted assets are Restricted cash and investments which include reserved amounts, as well as undisbursed bond proceeds, as follows:

	June 30	
	1991	1990
Held by Fiscal Agent:		
Bond Reserve Fund	\$22,344,000	\$22,117,000
Bond Service Fund	662,000	653,000
Certificates of Participation Proceeds	48,119,000	26,123,000
Held by City Treasurer:		
Bond Service Account	8,274,000	8,509,000
Renewal and Replacement Account	8,987,000	8,371,000
Decommissioning and fuel reserves	19,867,000	15,127,000
Restricted bond proceeds	3,596,000	941,000
Restricted rebate	437,000	
Other restricted assets	1,168,000	446,000
	<u>\$113,454,000</u>	<u>\$82,287,000</u>

The Electric Utility cash expenditures for interest expense for the years ended June 30, 1991 and 1990 were \$15,196,000 and \$15,723,000, respectively.

Note 7 Pension Plan

The City has a contributory pension plan for full-time employees under the State of California Public Employees' Retirement System. Information is not available separately for the Electric Utility as to the cost of benefits funded, the actuarially computed present value of vested and non-vested accumulated plan benefits, the related assumed rates of return used and the actuarially computed value of vested benefits over the related pension fund assets.

Note 8 Self-Insurance Program

The Electric Utility is part of the City's self-insured workers' compensation and general liability program. The liability for such claims is transferred to the City in consideration of self-insurance premiums paid by the Electric Utility. Effective July 1, 1986, the City became self-insured. Costs relating to the litigation of claims are charged to expense as incurred.

Note 9 Refunds

Since fiscal year 1986 the Electric Utility has received refunds from Edison totaling \$41,766,000. These refunds have been placed in the RSA. The City received refunds from Edison during the 1991 fiscal year of \$6,061,000. At June 30, 1991 and 1990, total principal and interest amounted to \$1,034,000 and zero, respectively. The City intends to refund any future refunds to Electric Utility customers in the form of reductions to future rate increases through the Rate Stabilization Policy (see Note 1).

These refunds have been reflected in the Electric Utility's Financial Statements as part of the RSA.

Note 10 Cash and Investments

At June 30, 1991, the carrying amount of the Electric Utility's share of the City's pooled deposits was \$15,664,000. Of this amount, \$13,108,000 is insured or collateralized with securities held by the City or its agent in the City's name. The remaining \$2,556,000 is collateralized with securities held by the pledging financial institution's trust department in the City's name.

At June 30, 1991, all of the City's pooled investments were insured or registered with the exception of amounts invested by fiscal agents. A summary of the Electric Utility's participation in the City's pooled investments is allocated based on the overall percentage participation as follows:

U.S. government securities	\$ 22,891,000
Reverse repurchase agreements	(1,567,000)
Commercial paper	27,317,000
Orange County Pool	6,353,000
Local agency investment fund (state pool)	<u>5,640,000</u>
Controlled by City Treasurer	60,634,000
Amounts invested by fiscal agents	<u>71,125,000</u>
Total investments	<u>\$131,759,000</u>

Fiscal agents on behalf of the City hold and invest funds from long-term debt issuances. Fiscal agents are mandated by bond indenture as to the types of investments in which proceeds can be invested. Investments by fiscal agents predominantly consist of U.S. Government securities held in book entry form.

Amounts invested by fiscal agents include investments that are insured or registered or for which the securities are held by the City's agents in the City's name.

Note 11 Commitments and Contingencies

Take or pay contracts

The City has entered into agreements with the Intermountain Power Agency (IPA), a political subdivision of the State of Utah, Utah Power & Light (UP&L) and the Southern California Public Power Authority (SCPPA), a public entity organized under the laws of the State of California. The City has agreed with IPA and UP&L, pursuant to power sales contracts, to purchase 13.225% of the generation output of IPA's 1,600 megawatt two unit coal-fueled generating station (the Station) in central Utah. Unit 1 of the Station became available for commercial operation June 10, 1986. Unit 2 was commercially available May 1, 1987. Cost of construction of the Station and related transmission lines, including the Southern Transmission System (STS) from Utah to Southern California, was financed principally through sales of IPA's power supply revenue bonds and payments in aid of construction by SCPPA. The City has agreed with SCPPA to purchase rights to 17.6% of the transmission capacity in the STS.

The contracts constitute an obligation of the City to make payments solely from the revenues of the Electric Utility. These payments, which are based upon the City's share of IPA's debt service requirements and production costs and SCPPA's debt service requirements, began in July 1986, the month in which Unit 1 of the Station and the STS began commercial operation. These payments will be considered a Cost of purchased power. As of June 30, 1991, IPA has issued \$5.3 billion in revenue bonds and revenue bond anticipation notes to finance construction of the Station and SCPPA has issued \$1.1 billion in revenue bonds and revenue bond anticipation notes to finance payments in aid of construction.

The Electric Utility's projected minimum payments for purchased power due under these take or pay contracts for the next five years are as follows:

Fiscal Year	
1992	\$65,540,000
1993	67,194,000
1994	67,359,000
1995	67,440,000
1996	66,356,000

Note 11 *Commitments and Contingencies*
(continued)

The City does not expect these payments to have an adverse impact on the Electric Utility's rate structure in that such payments are in lieu of payments which would have been made to purchase power from Edison. The City projects that there will be substantial long-term power supply cost savings from the take or pay contracts compared to purchase from Edison.

On July 1, 1988, the Certificate of Completion of the initial facilities of the Intermountain Power Project was executed and as a result the surplus in IPA's Construction Fund was transferred to IPA's General Reserve Fund and will be allocated to the various participants based upon the Plan for the Disposition of Surplus Funds. The Electric Utility's share of these surplus funds was approximately \$35.8 million which the Electric Utility is using to reduce future IPP purchased power costs.

At June 30, 1991, the Electric Utility's remaining share of these surplus funds was approximately \$7.6 million, which the Electric Utility will use to reduce IPP purchased power costs over the next 2 to 3 years.

Litigation

A number of claims and suits are pending against the City for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the electric system of the City. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position of the Electric Utility as of June 30, 1991.

Rate challenges and other actions

The City has filed several complaints against Edison challenging various rate increases and a suit alleging that Edison has violated certain anti-trust laws. These actions could potentially result in refunds or payment of damages to the Electric Utility; however, no opinion can be rendered at this time as to the probable outcome of these actions.

Capital expenditures

The Electric Utility's budget for the fiscal year 1991-92 provides for capital expenditures of approximately \$26,000,000, of which \$8,918,000 is expected to be funded from electric revenue bond and certificate of participation proceeds.

Independent Auditors' Report

To the Honorable City Council
City of Anaheim, California

We have audited the accompanying balance sheets of the Electric Utility Fund of the City of Anaheim, California as of June 30, 1991 and 1990, and the related statements of income, changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility Fund of the City of Anaheim, California as of June 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick
October 11, 1991
Orange County, California